

WARNER HOME VIDEO (U.K.) LIMITED

Report and Accounts

24 November 2000

 ERNST & YOUNG



Warner Home Video (U.K.) Limited

Registered No. 1907094

DIRECTORS

E J Byrnes
W N Lieberfarb
N P McEwan
S Mertz
R J Sanders
C J Young

SECRETARY

T C Lima

AUDITORS

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

REGISTERED OFFICE

Warner House
98 Theobalds Road
London WC1X 8WB

Warner Home Video (U.K.) Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 24 November 2000.

RESULTS AND DIVIDENDS

The profit on ordinary activities, after taxation, amounted to £8,379,000 (1999 – £6,640,000).

The directors recommend the payment of a final dividend for the period of £nil (1999 – £5,000,000). This leaves retained earnings of £15,217,000 to be carried forward.

PRINCIPAL ACTIVITY

The company's principal activity during the period continued to be the sale of pre-recorded video cassettes and Digital Versatile Discs (DVDs). The directors will continue to exploit this business to its full potential.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Warner Home Video's revenues were up on 1999 by 18%. The growth was predominantly driven by the expansion in DVD. This growth is in line with DVD hardware growth, increased number of titles being released on the DVD format, and retailer initiatives to drive sales in the DVD format.

POST BALANCE SHEET EVENTS

The ultimate parent undertaking changed to AOL Time Warner Inc. on 11 January 2001.

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the period ended 24 November 2000 were as listed on page 1.

On 31 January 2001, E H Senat resigned as a director of the company, and S Mertz was appointed.

There are no directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 Companies Act 1985.

By order of the board



Secretary

02 OCT 2001

Warner Home Video (U.K.) 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; 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 Warner Home Video (U.K.) Limited

We have audited the accounts on pages 5 to 13, which have been prepared under the historical cost convention and 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.

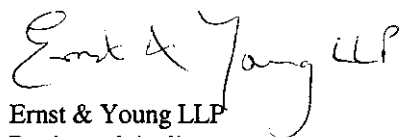
Basis of opinion

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 24 November 2000 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

Ernst & Young LLP
Registered Auditor
London

02 OCT 2001

Warner Home Video (U.K.) Limited

PROFIT AND LOSS ACCOUNT

for the period ended 24 November 2000

		<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
	<i>Notes</i>		
TURNOVER	2	143,296	120,655
Cost of sales		92,704	82,151
		<u>50,592</u>	<u>38,504</u>
Distribution costs		8,291	6,315
Administrative expenses		31,321	22,706
		<u>39,612</u>	<u>29,021</u>
OPERATING PROFIT	3	<u>10,980</u>	<u>9,483</u>
Interest receivable	6	484	305
Interest payable	7	(59)	(54)
		<u>425</u>	<u>251</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>11,405</u>	<u>9,734</u>
Tax on profit on ordinary activities	8	3,026	3,094
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>8,379</u>	<u>6,640</u>
Dividends – final proposed		–	(5,000)
		<u>8,379</u>	<u>1,640</u>
RETAINED PROFIT BROUGHT FORWARD		<u>6,838</u>	<u>5,198</u>
RETAINED PROFIT CARRIED FORWARD		<u>15,217</u>	<u>6,838</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £8,379,000 for the period ended 24 November 2000 and the profit of £6,640,000 for the period ended 26 November 1999.

Warner Home Video (U.K.) Limited

BALANCE SHEET

at 24 November 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	9	96	109
CURRENT ASSETS			
Debtors	10	57,088	60,168
Stocks	11	8,091	9,285
Cash at bank and in hand		61	—
		65,240	69,453
CREDITORS: amounts falling due within one year	12	50,119	62,724
NET CURRENT ASSETS		15,121	6,729
TOTAL ASSETS LESS CURRENT LIABILITIES		15,217	6,838
CAPITAL AND RESERVES			
Called up share capital (£100)	14	—	—
Profit and loss account	16	15,217	6,838
Shareholder's funds	16	15,217	6,838

Director

02 OCT 2001

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 2000

1. ACCOUNTING POLICIES

Accounting convention

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

Accounting period

The company prepares accounts for either 52 or 53 week periods ending within one week of 30 November 2000.

Depreciation

The company provides depreciation at rates which are calculated to write off the cost of the assets by equal annual instalments as follows:

Furniture and fittings	-	25% on cost
Office equipment	-	25% on cost
Computer equipment	-	33% on cost

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.

Stocks

Stocks are stated at the lower of cost, being invoiced purchase price, and net realisable value.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Foreign currencies

Transactions in foreign currencies have been translated at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

The company is a member of the Time Warner UK Pension Plan which requires contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. Variations in pension costs which are identified as a result of actuarial valuations are amortised over the average expected working lives of employees in proportion to their expected payroll costs.

Leasing commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Related parties

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

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 2000

2. TURNOVER

Turnover, which arose in the United Kingdom and Republic of Ireland and is from continuing activities, is stated net of value added tax and represents income receivable from the sale of pre-recorded video cassettes and DVDs.

3. OPERATING PROFIT

This is stated after charging:

	<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
Auditors' remuneration	16	20
Depreciation	74	60
Operating lease rentals	129	118
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

	<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
Emoluments	198	401
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	—	10
	<u> </u>	<u> </u>
Company contributions paid to defined benefit pension schemes	8	10
	<u> </u>	<u> </u>
	<i>No.</i>	<i>No.</i>
Members of defined contribution pension schemes	—	1
Members of defined benefit pension schemes	1	1
	<u> </u>	<u> </u>
	<i>£000</i>	<i>£000</i>

The amounts in respect of the highest paid director are as follows:

Emoluments	166	274
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	—	—
	<u> </u>	<u> </u>

Two directors exercised share options in the ultimate parent company, Time Warner Inc. during the period (1999 – 2).

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS at 24 November 2000

5. STAFF COSTS

	<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
Wages and salaries	2,514	2,451
Social security costs	264	256
Other pension costs	180	110
	<u>2,958</u>	<u>2,817</u>

The average weekly number of employees during the period was made up as follows:

	<i>Period to 24 November 2000 No.</i>	<i>Period to 26 November 1999 No.</i>
Office and management	34	27
Selling, marketing and distribution	40	36
	<u>74</u>	<u>63</u>

6. INTEREST RECEIVABLE

	<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
Interest receivable from group undertaking	416	305
Other interest receivable	68	—
	<u>484</u>	<u>305</u>

7. INTEREST PAYABLE

	<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
Interest payable to group undertaking	59	54

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS at 24 November 2000

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Period to 24 November 2000 £000</i>	<i>Period to 26 November 1999 £000</i>
Based on the profit for the period:		
Corporation tax	1,761	2,266
Group relief payable	1,295	815
Double taxation relief	(32)	(31)
	<u>3,024</u>	<u>3,050</u>
Overseas taxation	32	31
Under provision for corporation tax in prior periods	(30)	13
	<u>3,026</u>	<u>3,094</u>

There was no potential liability to deferred taxation at either 24 November 2000 or 26 November 1999.

9. FIXED ASSETS

	<i>Furniture and fittings £000</i>	<i>Office equipment £000</i>	<i>Computer equipment £000</i>	<i>Total £000</i>
Cost or valuation:				
At 26 November 1999	193	80	544	817
Additions	20	1	40	61
At 24 November 2000	<u>213</u>	<u>81</u>	<u>584</u>	<u>878</u>
Depreciation:				
At 26 November 1999	193	67	448	708
Provided during the period	4	13	57	74
At 24 November 2000	<u>197</u>	<u>80</u>	<u>505</u>	<u>782</u>
Net book value:				
At 24 November 2000	<u>16</u>	<u>1</u>	<u>79</u>	<u>96</u>
At 26 November 1999	<u>-</u>	<u>13</u>	<u>96</u>	<u>109</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 2000

10. DEBTORS

	2000	1999
	£000	£000
Trade debtors	44,910	46,963
Amount due from group undertakings	7,733	9,131
Prepayments and accrued income	326	384
Other debtors	3,818	1,752
Corporation tax receivable	301	1,938
	<u>57,088</u>	<u>60,168</u>

11. STOCKS

	2000	1999
	£000	£000
Finished goods held for resale	8,091	9,285
	<u>8,091</u>	<u>9,285</u>

12. CREDITORS: amounts falling due within one year

	2000	1999
	£000	£000
Bank overdraft	1,889	13,561
Trade creditors	6,632	8,415
Amounts due to group undertakings	13,103	9,289
Accruals	19,903	16,176
Other taxes and social security costs	6,181	8,304
Corporation tax payable	986	777
Group relief payable	1,295	1,092
Consortium relief payable	130	110
Dividend payable	—	5,000
	<u>50,119</u>	<u>62,724</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 2000

13. OTHER FINANCIAL COMMITMENTS

At 24 November 2000 the company had annual commitments under non cancellable operating leases as set out below:

	2000	1999
	£000	£000
Operating leases which expire:		
Within one year	3	16
Within two to five years	111	59
In over five years	-	-
	<u>114</u>	<u>75</u>

14. SHARE CAPITAL

	2000	1999
	£	£
Authorised, allotted, called up and fully paid:		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

15. STATEMENT OF CASH FLOWS

A statement of cash flows has not been prepared as the company is a wholly owned subsidiary of another company registered in England and Wales (see note 19).

16. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENT ON RESERVES

	Share capital	Profit and loss account	Total
	£000	£000	£000
At 27 November 1998	-	5,198	5,198
Profit for the period	-	6,640	6,640
Dividends	-	(5,000)	(5,000)
	<u>-</u>	<u>6,838</u>	<u>6,838</u>
At 26 November 1999	-	8,379	8,379
Profit for the period	-	8,379	8,379
	<u>-</u>	<u>15,217</u>	<u>15,217</u>
At 24 November 2000	-	15,217	15,217

NOTES TO THE ACCOUNTS
at 24 November 2000

17. CONTINGENT LIABILITY

The company has entered into a group composite accounting agreement with its bankers. The terms of the agreement permit the bankers, without notice, to draw down funds deposited into the system, to offset borrowings drawn down from the system by other group members who are also parties to these arrangements. At the balance sheet date, funds deposited by the company into the system and potentially at risk to cover liabilities elsewhere in the group, amounted to £nil (1999 – £nil).

18. PENSIONS

The company is one of the sponsoring employers of the Time Warner UK Pension Plan which is a defined benefit scheme. The assets of the scheme are held in a separately administered fund.

The pension costs relating to the plan are assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial assessment of the plan was at 6 April 1996 and details of this actuarial valuation are disclosed in the accounts of Time Warner Entertainment Limited.

19. ULTIMATE PARENT UNDERTAKING

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

The ultimate parent undertaking is Time Warner Inc., a company incorporated in the United States of America. The ultimate parent undertaking changed to AOL Time Warner Inc. on 11 January 2001.