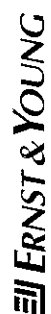
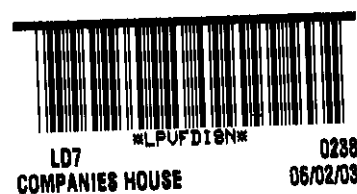


TIME WARNER ENTERTAINMENT LIMITED

Report and Financial Statements

30 November 2001

 ERNST & YOUNG



Time Warner Entertainment Limited

Registered No. 2713676

DIRECTORS

P J Hosemann

S Mertz

M A Smith

SECRETARY

B E S Jones

AUDITORS

Ernst & Young LLP

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

Interpark House

7 Down Street

London W1Y 7DS

 **ERNST & YOUNG**

Time Warner Entertainment Limited

DIRECTORS' REPORT

The directors present their report and group financial statements for the year ended 30 November 2001.

RESULTS AND DIVIDENDS

The group profit for the year, after taxation and minority interests, amounted to £5,967,000 (2000 – profit of £22,939,000).

The directors recommend a final dividend for the year of £17,700,000 (2000 – £nil).

PRINCIPAL ACTIVITIES

The group's principal activities during the year were the production, distribution and exhibition of filmed entertainment and the exploitation of other related activities.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The directors were satisfied with the result achieved and expect growth in the future.

FIXED ASSETS

The movement on fixed assets during the year is detailed in notes 12 and 13 to the financial statements.

DISABLED EMPLOYEES

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

EMPLOYEE INVOLVEMENT

During the year, the policy of providing employees with information about the group has been continued and employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year ended 30 November 2001 were as follows:

S Mertz	(appointed 31 January 2001)
E H Senat	(resigned 31 January 2001)
M A Smith	
P J Hosemann	

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

Time Warner Entertainment Limited

DIRECTORS' REPORT (continued)

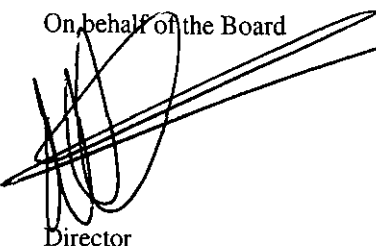
CHARITABLE CONTRIBUTIONS

During the year, the group made charitable contributions totalling £250 (2000 – £503).

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 Companies Act 1985.

On behalf of the Board



Director

31/2/03

 ERNST & YOUNG

Time Warner Entertainment Limited

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 group and of the profit or loss of the company and group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TIME WARNER ENTERTAINMENT LIMITED

We have audited the group's financial statements for the year ended 30 November 2001 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 32. 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 group 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 group 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TIME WARNER
ENTERTAINMENT LIMITED (continued)**

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 November 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

St A Y LLP

Ernst & Young LLP
Registered Auditor
London

312103

Time Warner Entertainment Limited

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 November 2001

	Notes	2001 £000	2000 £000
TURNOVER			
Turnover: group and share of joint ventures' turnover		453,931	415,978
Less: share of joint ventures' turnover		(22,896)	(17,203)
GROUP TURNOVER	2	431,035	398,775
Cost of sales		(331,235)	(286,573)
Gross profit		99,800	112,202
Distribution costs		9,619	8,291
Administrative expenses		94,934	86,158
Other operating charges		946	—
		105,499	94,449
		(5,699)	17,753
Other operating income		21,994	20,804
GROUP OPERATING PROFIT	3	16,295	38,557
Profit/(loss) from interests in associated undertakings	2	2,670	(396)
Loss from interests in joint ventures	2	(2,077)	(1,946)
TOTAL OPERATING PROFIT: GROUP AND SHARE OF JOINT VENTURES AND ASSOCIATES		16,888	36,215
Loss on disposal of associates		(433)	—
Provision against investment		(4,278)	(755)
Income from investments	6	4	5
Interest receivable	7	2,934	3,206
Interest payable	8	(2,142)	(2,342)
		(3,915)	114
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	12,973	36,329
Tax on profit on ordinary activities	10	(6,074)	(12,139)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,899	24,190
Minority interests		(932)	(1,251)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING	24	5,967	22,939
Dividends	9	(17,700)	—
RETAINED (LOSS)/PROFIT FOR THE YEAR		(11,733)	22,939

Time Warner Entertainment Limited

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 30 November 2001

	2001 £000	2000 £000
Profit for the year excluding share of profits/(losses) of joint ventures and associates	7,311	26,769
Share of joint ventures losses for the year	(3,956)	(3,744)
Share of associates' profit/(loss) for the year	2,612	(86)
Profit for the financial year	5,967	22,939
Currency translation difference on foreign currency net investments	4	(6)
Total recognised gains relating to the year	5,971	22,933

RECONCILIATION OF SHAREHOLDERS' FUNDS for the year ended 30 November 2001

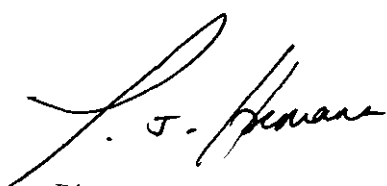
	2001 £000	2000 £000
Total recognised gains	5,971	22,933
Dividends	(17,700)	—
Total movements during the year	(11,729)	22,933
Shareholders' funds at 1 December	146,743	123,810
Shareholders' funds at 30 November — equity	107,865	119,594
— non-equity	27,149	27,149
	135,014	146,743

Time Warner Entertainment Limited

GROUP BALANCE SHEET

at 30 November 2001

	Notes	2001 £000	2000 £000
FIXED ASSETS			
Tangible assets	12	70,598	80,793
Investments	13	4,088	5,973
		<u>74,686</u>	<u>86,766</u>
CURRENT ASSETS			
Film inventories	14	31,714	44,281
Stocks	15	6,560	8,320
Debtors: amounts falling due within one year	16	242,798	156,038
Debtors: amounts falling due after more than one year	17	—	4,366
Cash at bank and in hand		16,617	40,709
		<u>297,689</u>	<u>253,714</u>
CREDITORS: amounts falling due within one year	18	(183,466)	(140,107)
NET CURRENT ASSETS		<u>114,223</u>	<u>113,607</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>188,909</u>	<u>200,373</u>
CREDITORS: amounts falling due after more than one year	19	1,742	1,880
PROVISIONS FOR LIABILITIES AND CHARGES	22	26,369	24,636
		<u>28,111</u>	<u>26,516</u>
		<u>160,798</u>	<u>173,857</u>
MINORITY INTERESTS		(25,784)	(27,114)
		<u>135,014</u>	<u>146,743</u>
CAPITAL AND RESERVES			
Called up share capital	23	27,150	27,150
Other reserves	24	37,111	37,111
Profit and loss account	24	70,753	82,482
		<u>135,014</u>	<u>146,743</u>
Shareholders' funds		<u>135,014</u>	<u>146,743</u>



Director

312103

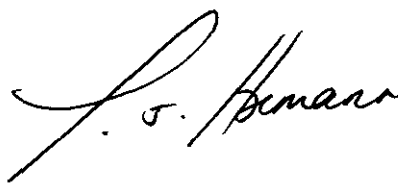
Time Warner Entertainment Limited

COMPANY BALANCE SHEET

at 30 November 2001

	Notes	2001 £000	2000 £000
FIXED ASSETS			
Investments	13	110,423	119,772
CURRENT ASSETS			
Debtors: amounts falling due within one year	16	45,470	1,686
Debtors: amounts falling due after more than one year	17	76,532	76,532
Cash at bank and in hand		-	1,316
		122,002	79,534
CREDITORS: amounts falling due within one year	18	(148,711)	(117,207)
NET CURRENT LIABILITIES		(26,709)	(37,673)
TOTAL ASSETS LESS CURRENT LIABILITIES		83,714	82,099
CREDITORS: amounts falling due after more than one year	19	(21,000)	(21,000)
		62,714	61,099
CAPITAL AND RESERVES			
Called up share capital	23	27,150	27,150
Other reserves	24	28,470	28,470
Profit and loss account	24	7,094	5,479
Shareholders' funds		62,714	61,099

ERNST & YOUNG



Director

3/2/03

Time Warner Entertainment Limited

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 November 2001

	Notes	2001 £000	2000 £000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	25	(13,771)	72,226
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1,987	2,297
Interest paid		(200)	(262)
Income received on other investments		4	5
		1,791	2,040
TAXATION			
Corporation and overseas tax paid		(20,577)	(5,010)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,427)	(5,356)
Disposal of tangible fixed assets		-	2
Repayment of loan stock by associated undertaking		206	516
Repayment of funding to minority interest		(4,120)	(7,518)
Disposal of associated undertakings		12,029	-
		6,688	(12,356)
EQUITY DIVIDENDS PAID		-	(21,200)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(25,869)	35,700
FINANCING			
Repayment of finance leases		-	(77)
Capital provided to minority interest		(81)	305
Drawdown of capital element of finance lease		1,858	-
		1,777	228
INCREASE IN CASH	27	(24,092)	35,928

Time Warner Entertainment Limited

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS for the year ended 30 November 2001

	<i>Notes</i>	<i>2001</i> £000	<i>2000</i> £000
(Decrease)/increase in cash		(24,092)	35,928
Repayment of long-term loans		—	—
Change in net (debt)/funds arising from cash flows	26	(24,092)	35,928
NET FUNDS AT 1 DECEMBER	26	40,709	4,781
NET FUNDS AT 30 NOVEMBER	26	16,617	40,709

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The group financial statements consolidate the financial statements of Time Warner Entertainment Limited and all its subsidiary undertakings drawn up to 30 November each year. No profit and loss account is presented for Time Warner Entertainment Limited as permitted by section 230 of the Companies Act 1985.

Advantage has been taken of the merger relief offered by section 131 of the Companies Act 1985 in respect of the fair value of the net assets acquired in excess of the nominal value of the shares issued in connection with the acquisition of the various subsidiaries in 1992. This combination was accounted for as an acquisition.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method. The comparative numbers for investments have been restated accordingly.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence, are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Other investments are stated at cost less any provision for permanent diminution in value.

Acquisitions and disposals of all investments are accounted for on the date of completion.

Goodwill

Depending on the circumstances of each acquisition, purchased and consolidated goodwill prior to 30 November 1998 was either set off directly against reserves or amortised through the profit and loss account over periods of up to 20 years using the straight line method.

Positive goodwill arising on acquisitions since 1 December 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years.

Depreciation

Depreciation is provided on all tangible fixed assets, excluding freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	–	over 25 to 50 years
Leasehold land and buildings	–	over the lease term or 25 years, if appropriate
Plant and machinery	–	over 3 to 15 years
Film master negatives and film finance leases	–	the percentage represented by the net income received as a proportion to the total estimate of net income which will accrue to the company from the film; any deficit of estimated future revenues is recognised immediately.

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Film revenues and costs

Revenue from the theatrical distribution of films is recognised as the films are exhibited. Revenue from theatrical films exhibited on television is recognised when the films are first available for telecasting by the licensee, provided certain conditions of sale have been met. Home video revenue, less a provision for returns, is recognised when the home videos are sold.

Film inventories are stated at the lower of unamortised cost or estimated realisable value, using the individual film forecast method. The cost of a film includes the direct costs to produce or purchase the film, an allocation of studio production overhead, and interest capitalised during the production period.

Under the individual film forecast method, the cost of each film is allocated to the theatrical and various other markets in which the film is to be exhibited based on the proportion that the revenues expected to be earned from each market bear to management's estimate of the total revenues to be earned. Similarly, the cost of each film is amortised, and the related participations and residuals are accrued, based on the proportion that revenues earned in the accounting period bear to management's estimate of the total revenue to be earned. Such estimates are revised periodically and losses, if any, are provided for in full.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling 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 differences are taken to the profit and loss account.

Assets, liabilities and transactions relating to distinct operations denominated in foreign currencies are translated into sterling at year end rates of exchange and the exchange differences arising on the retranslation of opening net assets taken directly to reserves. All other differences are taken to the profit and loss account.

Film finance leases

Film master negatives subject to finance lease arrangements are included in tangible fixed assets at the amount of the cash purchase of such assets. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the periods of the leases based on the average capital amount outstanding and the interest rate implicit in the leasing arrangements.

Other leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2001

1. ACCOUNTING POLICIES (continued)

Pensions

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

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax. The group operates in three principal areas of activity: that of cinema operators; home video; film production and distribution and other activities. It also operates within three geographical areas: the United Kingdom and Eire, the United States of America, Europe and the rest of the world.

	Cinema operation		Home video		Film production and distribution, and other		Total	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
TURNOVER								
Total sales	92,473	86,418	145,006	143,296	419,879	369,747	657,358	599,461
Intra-segment sales	-	-	-	-	(189,596)	(169,986)	(189,596)	(169,986)
Inter-segment sales	-	-	-	-	(13,831)	(13,497)	(13,831)	(13,497)
Less: share of joint ventures turnover	(22,896)	(17,203)	-	-	-	-	(22,896)	(17,203)
Sales to third parties	69,577	69,215	145,006	143,296	216,452	186,264	431,035	398,775
PROFIT								
Segment profit	4,073	6,193	9,986	10,980	2,236	21,384	16,295	38,557
1. (Loss)/profit before tax of joint venture and associated undertakings	(2,077)	(1,946)	-	-	2,670	(396)	593	(2,342)
Loss on disposal of associates							(433)	-
Net interest and income from investments							796	869
Provision against investments							(4,278)	(755)
Profit on ordinary activities before taxation							12,973	36,329

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2001

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

	Cinema operation		Home video		Film production and distribution, and other		Total	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
NET ASSETS								
Net assets by segment:	97,425	110,777	22,507	15,217	47,358	52,792	167,290	178,786
Net assets of joint ventures and associated undertakings	(10,522)	(6,566)	-	-	4,030	1,637	(6,492)	(4,929)
Minority interests							160,798	173,857
Total net assets							(25,784)	(27,114)
							135,014	146,743

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2001

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

TURNOVER

Turnover by destination:									
Sales to third parties:									
Continuing operations									
Less: share of joint ventures' turnover									
	2001	2000	2001	2000	2001	2000	2001	2000	Total
	£000	£000	£000	£000	£000	£000	£000	£000	2001
									2000
									£000
	281,556	251,866	1,857	2,445	170,518	161,667	453,931	415,978	
	(22,896)	(17,203)	-	-	-	-	(22,896)	(17,203)	
	258,660	234,663	1,857	2,445	170,518	161,667	431,035	398,775	
Turnover by origin:									
Continuing operations:									
Total sales									
Intra-segment sales	656,746	598,862	612	599	-	-	657,358	599,461	
Inter-segment sales	(189,596)	(169,986)	-	-	-	-	(189,596)	(169,986)	
Less: share of joint ventures' turnover	(13,831)	(13,497)	-	-	-	-	(13,831)	(13,497)	
	(22,896)	(17,203)	-	-	-	-	(22,896)	(17,203)	
	430,423	398,176	612	599	-	-	431,035	398,775	
Sales to third parties									

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

	<i>United Kingdom and Eire</i>		<i>Europe and rest of the world</i>		<i>Total</i>	<i>Total</i>
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
PROFIT						
Segment profit	16,238	38,508	57	49	16,295	38,557
Profit/(loss) before tax of joint venture and associated undertakings	593	(2,342)	—	—	593	(2,342)
Group operating profit					16,888	36,215
Loss on disposal of associates					(433)	—
Net interest and income from investments					796	869
Provision against investments					(4,278)	(755)
Profit on ordinary activities before taxation					12,973	36,329
NET ASSETS						
Net assets by segment	167,079	178,595	211	191	167,290	178,786
Net assets of joint ventures and associated undertakings	(6,492)	(4,929)	—	—	(6,492)	(4,929)
Minority interests					160,798 (25,784)	173,857 (27,114)
					135,014	146,743

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

3. GROUP OPERATING PROFIT

This is stated after charging:

	2001 £000	2000 £000
Auditors' remuneration – audit services	160	123
– non-audit services	44	44
Depreciation of owned fixed assets	11,540	10,476
Depreciation of leased assets	60	59
Amortisation of completed films	15,437	8,384
Operating lease rentals – land and buildings	9,284	9,295
– plant and machinery	307	389
	<u> </u>	<u> </u>

The depreciation charge for the year of £11,600,000 includes an impairment charge of £2,495,000 relating to a cinema.

4. DIRECTORS' REMUNERATION

	2001 £000	2000 £000
Emoluments	204	451
	<u> </u>	<u> </u>
Company contributions paid to defined benefit pension scheme	3	31
	<u> </u>	<u> </u>
	No.	No.
Members of defined benefit pension scheme	1	1
	<u> </u>	<u> </u>

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

	£000	£000
Emoluments	204	451
	<u> </u>	<u> </u>
Company contributions paid to defined benefit pension scheme	3	31
	<u> </u>	<u> </u>

The accrued pension entitlement of the highest paid director at 30 November 2001, based on qualifying service, amounted to £10,237 (2000 – £102,864). The highest paid director did not exercise any share options in the year.

No directors exercised share options in the group's ultimate parent undertaking, AOL Time Warner Inc. (formerly Time Warner Inc.), during the year (2000 – 3).

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

5. STAFF COSTS

	2001 £000	2000 £000
Wages and salaries	36,494	31,313
Social security costs	2,869	2,552
Other pension costs	1,898	1,876
	<u>41,261</u>	<u>35,741</u>

The average weekly number of employees during the year was as follows:

	No.	No.
Office and management	252	234
Selling, marketing and distribution	219	236
Theatre operations	998	786
	<u>1,469</u>	<u>1,256</u>

6. INCOME FROM INVESTMENTS

	2001 £000	2000 £000
Listed	<u>4</u>	<u>5</u>

7. INTEREST RECEIVABLE

	2001 £000	2000 £000
Bank and other interest	1,451	1,468
Receivable from group undertakings	1,366	1,659
	<u>2,817</u>	<u>3,127</u>
Share of joint venture interest	117	79
	<u>2,934</u>	<u>3,206</u>

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

8. INTEREST PAYABLE

	2001 £000	2000 £000
Bank loans and overdrafts	200	241
Payable to parent and group undertakings	–	4
Finance charges payable under finance leases	–	17
Group interest payable and similar charges	200	262
Share of joint venture interest	1,942	2,080
	<u>2,142</u>	<u>2,342</u>

9. DIVIDENDS

	2001 £000	2000 £000
Equity dividends on ordinary shares:		
Final proposed	17,700	–
	<u>17,700</u>	<u>–</u>

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £000	2000 £000
Based on the profit for the year:		
Corporation tax	8,275	10,499
Deferred taxation	(2,461)	968
Double taxation relief	(104)	(208)
Consortium relief	53	376
	<u>5,763</u>	<u>11,635</u>
Overseas taxation	104	208
Associated undertakings	58	(310)
Joint venture	54	(203)
	<u>5,979</u>	<u>11,330</u>
Adjustments in respect of prior years:		
– corporation tax	(143)	172
– deferred tax	238	582
– consortium relief	–	55
	<u>6,074</u>	<u>12,139</u>

11. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The retained profit dealt with in the financial statements of the parent undertaking was £1,615,000 (2000 – loss of £1,330,000).

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

12. TANGIBLE FIXED ASSETS

Group

	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Film finance leases</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 30 November 2000	86,056	44,007	2,402	132,465
Additions	863	564	–	1,427
Disposals	–	(22)	–	(22)
At 30 November 2001	86,919	44,549	2,402	133,870
Depreciation:				
At 30 November 2000	22,093	27,177	2,402	51,672
Provided during the year	6,262	5,338	–	11,600
Disposals	–	–	–	–
At 30 November 2001	28,355	32,515	2,402	63,272
Net book value:				
At 30 November 2001	58,564	12,034	–	70,598
At 30 November 2000	63,963	16,830	–	80,793

Included within plant and machinery are assets under finance leases with a cost of £237,000 and net book value of £107,600.

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

12. TANGIBLE FIXED ASSETS (continued)

Group

The net book value of land and buildings comprise:

	<i>Freehold land and buildings £000</i>	<i>Long leasehold land and buildings £000</i>	<i>Short leasehold land and buildings £000</i>	<i>Total £000</i>
Cost:				
At 30 November 2000	18,055	30,166	37,835	86,056
Additions	15	356	492	863
At 30 November 2001	18,070	30,522	38,327	86,919
Depreciation:				
At 30 November 2000	3,945	8,225	9,923	22,093
Provided during the year	512	1,291	4,459	6,262
At 30 November 2001	4,457	9,516	14,382	28,355
Net book value:				
At 30 November 2001	13,613	21,006	23,945	58,564
At 30 November 2000	14,110	21,941	27,912	63,963

The group has adopted FRS 11, Impairment of Fixed Assets and Goodwill. Included within the accumulated depreciation charge for short leasehold land and buildings and equipment is a cumulative impairment charge of £7,930,000 relating to cinemas. A pre-tax discount rate of 10% has been applied in the calculation of the value in use of these assets.

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

13. INVESTMENTS

Group

	2001 £000	2000 £000
Joint ventures (a)	-	-
Associated undertakings (b)	4,030	1,637
Other fixed asset investments (c)	58	4,336
	<u>4,088</u>	<u>5,973</u>

(a) Joint ventures:

	<i>Share of net tangible assets £000</i>
Share of net liabilities at 30 November 2000	(6,566)
Share of losses of joint ventures	(3,956)
Share of net liabilities at 30 November 2001	<u>(10,522)</u>
Provision for losses at 30 November 2000	6,566
Increase in provision for the year	3,956
Provision for losses at 30 November 2001	<u>10,522</u>
Net book value at 30 November 2001	-
Net book value at 30 November 2000	-

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

13. INVESTMENTS (continued)

Additional disclosures for joint ventures which, in aggregate, exceed the 25% threshold.

	2001 £000	2000 £000
Share of assets:		
Share of fixed assets	30,446	28,754
Share of current assets	2,831	2,747
	<u>33,277</u>	<u>31,501</u>
Share of liabilities:		
Liabilities due within one year or less	(8,415)	(7,067)
Liabilities due after more than one year	(35,384)	(31,000)
	<u>(43,799)</u>	<u>(38,067)</u>
Share of net liabilities	<u>(10,522)</u>	<u>(6,566)</u>
	2001 £000	2000 £000
Share of turnover:	22,896	17,204
	<u>22,896</u>	<u>17,204</u>
Share of loss before taxation	(3,902)	(3,947)
Share of taxation	(54)	203
Share of loss after taxation	<u>(3,956)</u>	<u>(3,744)</u>

(b) Associated undertakings:

	Share of net tangible assets £000
At 30 November 2000	1,637
Repayment of loan stock	(206)
Share of losses of associated undertakings, after tax	2,612
Exchange profit on retranslation	(13)
At 30 November 2001	<u>4,030</u>

The group's share of retained losses of associated undertakings at 30 November 2000 is £21,349,000 (2000 - £39,164,000).

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

13. INVESTMENTS (continued)

(c) Other fixed asset investments:

	<i>Listed on the London Stock Exchange £000</i>
Cost:	
At 30 November 2000	13,666
At 30 November 2001	13,666
Amounts written off	
At 30 November 2000	9,330
Provision	4,278
At 30 November 2001	13,608
Net book value:	
At 30 November 2001	58
At 30 November 2000	4,336

The market value of the investments listed on the London Stock Exchange at 30 November 2001 was £1,151,000 (2000 – £5,814,000); if they had been sold at this value there would have been no liability to corporation tax on any capital gain arising from the sale.

The group has an 8% interest in two partnerships set up to produce and distribute films (see note 28).

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

13. INVESTMENTS (continued)

Company

	<i>Subsidiary undertakings</i>	<i>Associated undertakings</i>	<i>Other investments</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 30 November 2000	106,342	15,057	13,637	135,036
Exchange gain	–	340	–	340
Disposal	–	–	(5,234)	(5,234)
At 30 November 2001	106,342	15,397	8,403	130,142
Amounts written off:				
At 30 November 2000	–	11,169	4,095	15,264
Provided for during the year	–	176	4,279	4,455
At 30 November 2001	–	11,345	8,374	19,719
Net book value:				
At 30 November 2001	106,342	4,052	29	110,423
At 30 November 2000	106,342	3,888	9,542	119,772

Other investments represent investments listed on the London Stock Exchange. The market value of these investments at 30 November 2001 was £1,146,000 (2000 – £5,809,000); if they had been sold at this value there would have been no liability to corporation tax on the capital gain arising from the sale.

Details of investments in which the group or the company holds more than 20% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Time Warner Entertainment UK Limited	England and Wales	Ordinary shares	100%	Dormant
Warner Bros. Distributors Limited	England and Wales	Ordinary shares	100%	Film Distribution
Warner Bros. Productions Limited	England and Wales	Ordinary shares	100%	Film Production
Warner Home Video (UK) Limited	England and Wales	Ordinary shares	100%	Film Distribution Pre-recorded Video Cassettes
Warner Bros. Theatres (Holdings) Limited*	England and Wales	Ordinary shares	100%	Management Services
Warner Village Properties Limited*	England and Wales	Ordinary shares	50.01%	Property Holding
Warner Village Exhibition Limited*	England and Wales	Ordinary shares	50.01%	Film Exhibition

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

13. INVESTMENTS (continued)

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
<i>Subsidiary undertakings</i>				
Warner Village (D&B) Limited*	England and Wales	Ordinary shares	50.01%	Construction
Warner Village Trustees Limited*	England and Wales	Ordinary shares	50.01%	Trustee Company
Warner Bros. Cinemas (Holdings) Limited*	England and Wales	Ordinary shares	100%	Holding Company
Warner Bros. Investment (Holdings) Limited	England and Wales	Ordinary shares	100%	Holding Company
Warner Bros. Theatres (UK) Limited	England and Wales	Ordinary shares	100%	Management Services
Warner Bros. Theatres Limited	England and Wales	Ordinary shares	100%	Investment Company
Warner Bros. Theatres Advertising Agency Limited*	England and Wales	Ordinary shares	100%	Dormant
Warner Bros. Consumer Products (UK) Limited	England and Wales	Ordinary shares	100%	Licensing
Warner Bros. Feature Animation (UK) Limited	England and Wales	Ordinary shares	100%	Film Production
Lorimar-Telepictures International Limited*	England and Wales	Ordinary shares	100%	Television Programming Distribution
TWE Finance Limited	England and Wales	Ordinary shares	100%	Finance
TWE Mayfair Limited	England and Wales	Ordinary shares	100%	Investment
HBO UK Limited	England and Wales	Ordinary shares	100%	Finance and Investment
HBO Enterprises UK Limited	England and Wales	Ordinary shares	100%	Finance and Investment
Warner-Bros. Investments (Pilsworth) Limited*	England and Wales	Ordinary shares	100%	Dormant
Warner Bros. International Television Italia s.r.l.	Italy	Ordinary shares	100%	Film Distributors
Warner Bros. Channel Limited	England and Wales	Ordinary shares	100%	Dormant
Nabland Limited*	England and Wales	Ordinary shares	100%	Film Partner
Rainbowcheer Limited*	England and Wales	Ordinary shares	100%	Film Partner
Hobby Films Limited*	England and Wales	Ordinary shares	100%	Film Production
Warner Home Video Limited	England and Wales	Ordinary shares	100%	Dormant

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

13. INVESTMENTS (continued)

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Warner Bros. Movie World (UK) Limited	England and Wales	Ordinary shares	100%	Dormant
Deep Blue Productions Limited*	England and Wales	Ordinary shares	100%	Film Production
Hillingdon Films Limited	England and Wales	Ordinary shares	100%	Dormant
Harry Potter Limited*	England and Wales	Ordinary shares	100%	Dormant
Bridge Productions Limited*	England and Wales	Ordinary shares	100%	Dormant
Frightmares Productions Limited*	England and Wales	Ordinary shares	100%	Dormant
Frightmares Productions (IOM) Limited*	England and Wales	Ordinary shares	100%	Dormant

The group, through a subsidiary undertaking, has an interest in the capital of the following partnerships and joint venture undertakings:

<i>Name of undertaking</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
Warner Village Exhibition Properties Joint Venture	50.01%	Property Venture
Warner Village Exhibition Operating Assets Joint Venture	50.01%	Asset Rental
Warner Village Exhibition Management Partnership	50.01%	Management Venture
Warner Village Investments Limited Partnership	50%	Finance Venture

The registered office of the Warner Village Exhibition Management Partnership, Warner Village Exhibition Properties Joint Venture and Warner Village Exhibition Operating Assets Joint Venture is Warner House, 98 Theobald's Road, London WC1X 8WB. The group exercises a dominant influence over the partnerships as it holds 50.01% of the voting rights of the partnership. Furthermore the alternate vote of all of the members of the subsidiary undertaking, which holds the investment, present and entitled to vote, is required in order to approve any matter. Therefore the partnership is included as a subsidiary undertaking.

The registered office of the Warner Village Investments Limited Partnership is PO Box 3340, Dawson Road, Roadtown, Tortola, British Virgin Islands. Time Warner Entertainment Limited exercises a dominant influence over the partnership and it is, therefore, included as a subsidiary undertaking.

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

13. INVESTMENTS (continued)

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Associated undertakings				
The Bountiful Company Limited	England and Wales	Ordinary and 'A' Ordinary shares	50%	Film Production
Channel Five Holdings Limited*	England and Wales	Ordinary shares	50%	Dormant
Cosgrove Hall Films Limited*	England and Wales	Ordinary shares	37.5%	Television Production
Filmbank Distributors Limited*	England and Wales	Ordinary shares	50%	Film Distributors
Filmbank Limited*	England and Wales	Ordinary shares	50%	Dormant
Warner Bros. Studio Stores Limited	England and Wales	Ordinary shares	20%	Retail Outlets
Joint ventures				
Warner Village (Design & Build) Limited*	England and Wales	Ordinary shares	50%	Construction
Warner Village Cinemas Limited*	England and Wales	Ordinary shares	50%	Film Exhibition
Warner Village Cinema Management Partnership*			50%	Management Venture
Warner Village Cinemas Properties Joint Venture*			50%	Property Venture
Warner Village Cinemas Operating Assets Joint Venture*			50%	Asset Rental Venture

The registered office of the Warner Village Cinema Management Partnership, Warner Village Cinemas Properties Joint Venture and Warner Village Cinemas Operating Assets Joint Venture is Warner House, 98 Theobald's Road, London WC1X 8WB.

*Held by a subsidiary undertaking.

14. FILM INVENTORIES

<i>Group</i>	<i>2001 £000</i>	<i>2000 £000</i>
Completed films – cost	494,691	493,348
– less amortisation	(464,504)	(449,067)
	30,187	44,281
Films under production	1,527	–
	31,714	44,281

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

15. STOCKS

<i>Group</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>
Finished goods and goods for resale	6,560	8,320

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

16. DEBTORS: amounts falling due within one year

	<i>2001</i>	<i>Group</i>	<i>2001</i>	<i>Company</i>
	<i>£000</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	78,978	60,929	125	45
Other debtors	6,440	7,364	163	195
Prepayments and accrued income	10,583	1,759	-	-
Group relief receivable	-	-	731	1,380
Corporation tax	10,711	2,587	-	-
Due from subsidiary undertakings	-	-	8,838	-
Due from associated undertakings	6,343	21,258	35,592	-
Due from group undertakings	113,177	60,837	21	66
Due from related undertakings	16,566	1,304	-	-
	<u>242,798</u>	<u>156,038</u>	<u>45,470</u>	<u>1,686</u>

17. DEBTORS: amounts falling due after more than one year

	<i>2001</i>	<i>Group</i>	<i>2001</i>	<i>Company</i>
	<i>£000</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	-	4,366	-	-
Due from subsidiary undertakings	-	-	76,532	76,532
Due from associated undertakings	-	-	-	-
	<u>-</u>	<u>4,366</u>	<u>76,532</u>	<u>76,532</u>

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

18. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdrafts	–	–	13,862	–
Trade creditors	101,512	73,228	–	–
Due to group undertakings	6,038	7,030	116,995	116,974
Due to associated undertakings	176	796	–	–
Corporation tax payable	4,016	8,284	–	–
Other taxes and social security costs	8,841	7,990	–	–
Other creditors	2,651	2,097	11	90
Accruals	41,983	38,260	143	143
Deferred income	469	2,342	–	–
Obligations under finance leases (note 21)	80	80	–	–
Dividends	17,700	–	17,700	–
	<u>183,466</u>	<u>140,107</u>	<u>148,711</u>	<u>117,207</u>

19. CREDITORS: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Loans (note 20)	–	–	21,000	21,000
Deferred contribution	1,742	1,799	–	–
Obligations under finance leases (note 21)	–	81	–	–
	<u>1,742</u>	<u>1,880</u>	<u>21,000</u>	<u>21,000</u>

The deferred contribution relates to the development of a multiplex theatre to which developers have made a contribution. This amount is being amortised over the period of the lease and commenced on the opening of the theatre.

20. LOANS

	<i>Company</i>	
	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>
Wholly repayable within five years:		
Amounts owed to subsidiary undertakings	<u>21,000</u>	<u>21,000</u>

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

21. LEASES

Obligations under finance leases:

<i>Group</i>	<i>2001</i> <i>£000</i>	<i>2000</i> <i>£000</i>
Amounts payable:		
Within one year	83	90
In two to five years	–	83
	<u>83</u>	<u>173</u>
Less finance charge allocated to future periods	(3)	(12)
	<u>80</u>	<u>161</u>

Finance leases are analysed as follows:

Current obligations (note 18)	80	80
Non-current obligations (note 19)	–	81
	<u>80</u>	<u>161</u>

Annual commitments under non-cancellable operating leases are as follows:

<i>Group</i>	<i>Land and buildings</i>		<i>Other</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	–	–	102	22
Between two and five years	–	–	137	228
After more than five years	4,280	8,893	–	–
	<u>4,280</u>	<u>8,893</u>	<u>239</u>	<u>250</u>

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

22. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Losses from joint ventures £000</i>	<i>Deferred tax £000</i>	<i>Group Total £000</i>
At 30 November 2000	6,566	18,070	24,636
Transfer to profit and loss account	3,956	(2,223)	1,733
At 30 November 2001	10,522	15,847	26,369

Deferred taxation

Deferred taxation provided in the financial statements, which represents the full potential liability, is as follows:

	<i>Group Provided</i>		<i>Company Provided</i>	
	<i>2001 £000</i>	<i>2000 £000</i>	<i>2001 £000</i>	<i>2000 £000</i>
Capital allowances in advance of depreciation	9,721	9,390	—	—
Other differences in recognising revenue and expense items in other periods for taxation purposes	6,120	8,680	—	—
	15,841	18,070	—	—

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

23. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	50,000	50,000	1	1
Redeemable preference shares of £1 each	50,000	50,000	27,149	27,149
	<u>100,000</u>	<u>100,000</u>	<u>27,150</u>	<u>27,150</u>

The Preference shares are convertible to ordinary shares at the shareholders option at any time, and are redeemable at the company's option at any time after 6 May 1996, but before 6 May 2991, at the nominal value per share.

The preference shares carry the right of one vote for each preference share held and the Ordinary shares 100,000 votes for each Ordinary share held. Each Preference share is entitled to receive by way of a dividend, £1 for every £100,000 received on an ordinary share and the same proportion on a winding-up of the company.

24. RESERVES

<i>Group</i>	<i>Other reserves</i>	<i>Profit and loss account</i>
	<i>£000</i>	<i>£000</i>
At 30 November 2000	37,111	82,482
Profit for the year	—	5,967
Dividends	—	(17,700)
Exchange differences on retranslation of net investment in subsidiary and associated undertakings	—	4
At 30 November 2001	<u>37,111</u>	<u>70,753</u>
<i>Company</i>	<i>Other reserves</i>	<i>Profit and loss account</i>
	<i>£000</i>	<i>£000</i>
At 30 November 2000	28,470	5,479
Profit for the year	—	19,315
Dividend paid	—	(17,700)
At 30 November 2001	<u>28,470</u>	<u>7,094</u>

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Group

	2001	2000
	£000	£000
Operating profit	16,888	36,215
Depreciation	11,600	10,535
Amortisation of film inventories	15,437	8,384
Loss on sale of tangible fixed assets	22	-
(Decrease)/increase in deferred income, less amount released in year	(1,873)	1,021
Share of loss after tax of joint ventures and associated undertakings	(593)	2,342
(Increase)/decrease in debtors	(70,640)	31,697
(Increase) in film inventories	(2,870)	(4,500)
Decrease in stocks	1,760	1,235
Increase/(decrease) in creditors	16,481	(14,319)
Foreign exchange	17	(384)
Net cash (outflow)/inflow from operating activities	(13,771)	72,226

26. ANALYSIS OF NET FUNDS

Group

	At 30 November 2000 £000	Cash flow 30 November 2001 £000	At 30 November 2001 £000
Cash at bank and in hand	40,709	(24,092)	16,617

27. CASH

Analysis of balances as shown in the Group Balance Sheet and changes during the current and previous year:

Group	2001 £000	Change in year £000	2000 £000	Change in year £000	1998 £000
Cash at bank and in hand	16,617	(24,092)	40,709	35,928	4,781

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

28. CONTINGENT LIABILITIES

The group and company have entered into a group composite accounting agreement with their 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 group and company into the system, and potentially at risk to cover liabilities elsewhere in the group, amounted to £48,856,000 (2000 – £46,032,000) for the group and £nil (2000 – £1,325,000) for the company. The company has provided a further guarantee in respect of the above agreement. This guarantee covers borrowings drawn down under the terms of the above agreement by all the parties to the agreement, less any funds deposited by the same parties under the terms of the agreement. At the balance sheet date the liability under this guarantee was £nil (2000 – £nil).

The company has also acted as guarantor to leases of property occupied by subsidiary undertakings, the minimum annual rental payments of which amount to £8,249,000 (2000 – £6,332,000). Since May the company has been indemnified against minimum annual rental payments of £2,562,000 (2000 – £2,562,000) by the purchasers of a subsidiary undertaking.

The group is an unlimited partner of two film ventures, WV Film Partners LP and WV Film Partners II LP (note 13) and is accordingly jointly and severally liable for the liabilities of both partnerships. At 31 December 2001, based on the unaudited financial statements of the partnerships, the total liabilities for both partnerships totalled £233,668,020 (2000 – £126,334,470).

29. PENSIONS

The group are some of the sponsoring employers of the Time Warner UK Pension Plan, which is a defined benefit final salary scheme. The scheme is self-administered and funded to cover past and future pension liabilities, including expected future earnings and pension increases, in respect of service up to the balance sheet date. The scheme is subject to independent valuations at least every three years, on the basis of which a qualified actuary certifies the rate of the employers' contributions which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are sufficient to fund the benefits payable under the scheme. The assets of the scheme are held in separately-administered funds.

The last full actuarial valuation for the Time Warner UK Pension Plan was prepared as at 6 April 1999, and the valuation was updated for 30 November 2001.

The valuation showed that the assets at 6 April 1999 were adequate to secure 101% of the benefits payable to pensioners, members who had left service with deferred benefits and the benefits which contributing members had earned in respect of pensionable service to and pensionable salary at that date. As a result of this valuation, contributions from employees remain unchanged and employers' contributions were set at rates between 12.3% and 20.8% of pensionable salary, depending on the division of the group the pension scheme member is employed by.

The next actuarial valuation of the Time Warner UK Pension Plan took place as at 6 April 2002, the outcome of which, when available, will indicate the level of contributions to be paid by the employing companies with effect from that date onwards.

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 November 2001

29. PENSIONS (continued)

The additional disclosures required by FRS 17 are set out below:

The major assumptions used by the actuary were:

	At 30 November 2001
Rate of increase of salaries:	
Staff	3.4%
Executives	4.4%
Rate of increase in pensions in payment	2.4%
Discount rate	5.8%
Inflation assumption	2.4%

The assets in the scheme and the expected rate of return were:

	Long- term rate of return expected at 30 November 2001	Value at 30 November 2001 £000	Long- term rate of return expected at 30 November 2000	Value at 30 November 2000 £000
Equities	6.8%pa	13,757	6.5%pa	15,669
Bonds	5.3%pa	2,208	5.0%pa	2,052
Cash	4.0%pa	1,019	5.0%pa	933
Total market value of assets		16,984		18,654
Present value of scheme liabilities		(22,056)		(19,349)
Deficit in scheme		(5,072)		(695)
Related deferred tax asset		1,521		209
Net pension liability		(3,551)		(486)

Analysis of amount charged to operating profit

	2001 £000
Current service cost	1,563
Past service cost	-
Total operating charge	1,563

Time Warner Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2001

29. PENSIONS (continued)

Movements in deficit during the period

	2001 £000
Deficit in scheme at beginning of the period	(695)
Movement in period:	
Current service cost	(1,563)
Contributions	1,777
Past service cost	-
Other finance income	126
Actuarial loss	(4,716)
Deficit in scheme at the end of the period	(5,071)

Balance sheet presentation

	2001 £000
Net assets excluding pension liability	134,808
Pension liability	(3,551)
Net assets including pension liability	131,257

Reserves note

	2001 £000
Profit and loss reserve excluding pension liability	70,547
Pension liability	(3,551)
Profit and loss reserve including pension liability	66,996

30. CAPITAL COMMITMENTS

Group

	2001 £000	2000 £000
Contracted for but not provided in the financial statements	-	790

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2001

31. RELATED PARTY TRANSACTIONS

Village Roadshow Theatres Europe Limited ("VRTE"), a company which has an interest in some of the subsidiary and joint ventures details in note 13, and Warner Bros. Theatres (UK) Limited ("WBTUK"), provided Warner Village Exhibition Management Partnership, Warner Village Exhibition Limited ("WVE") and Warner Village (D&B) Limited with consultancy and other services during the period.

On 29 August WVE entered into loan agreements to lend £2.0 million to Warner Bros. Theatres Holding Limited ("WBTH") and £2.0 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum. On 23 August 2001 WBTH and VRTE both repaid the remaining amount due of £1,250,000 of the loans.

On 29 May 2001 WVE entered into loan agreements to lend £1.5 million to WBTH and £1.5 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum.

On 14 August 2001 WVE entered into loan agreements to lend £2.25 million to WBTH and £2.25 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum.

A licence fee of £1.9 million each was payable to Time Warner Entertainment Company L.P. and Village Roadshow Hungary Rt., a VRTE related company (2000 – £1.9 million).

At the balance sheet date amounts of £3.1 million each were owed to both Time Warner Entertainment Company L.P. and Village Roadshow Hungary Rt. (2000 – £3.1 million each) in respect of licence fees.

On 28 February 2001 WVE entered into loan agreements to lend £1.75 million to WBTH and £1.75 million to Village Roadshow Theatres Europe Limited ("VRTE"). Interest was charged on the loans at base rate plus 1% annum.

In the normal course of conducting their businesses the Time Warner Entertainment group has had various transactions with members of the AOL Time Warner Inc., group of undertakings, generally on terms resulting from the negotiations between the affected businesses. In the opinion of the directors such transactions are not material.

32. ULTIMATE PARENT UNDERTAKING

The largest group in whose financial statements the company is consolidated is Time Warner Entertainment Company, L.P., a limited partnership incorporated in the United States of America.

At 30 November 2001, AOL Time Warner Inc., a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company is a member and for which group financial statements are drawn up. Copies of AOL Time Warner Inc.'s financial statements can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.