

Warner Bros. Entertainment UK Limited
Report and Financial Statements
31 December 2009



Warner Bros. Entertainment UK Limited

Company registration no 259661

Directors

E A Romano
R J Fox
M Emanuele
S W Mertz
J Rogovin

Secretary

S R Shine

Bankers

Barclays Bank PLC
Barclays Business Centre
8/9 Hanover Square
London
W1A 4ZW

Auditors

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

Registered Office

Warner House
98 Theobald's Road
London
WC1X 8WB

Warner Bros. Entertainment UK Limited

Directors' report

Company registration no: 259661

The directors present their annual report on the affairs of Warner Bros Entertainment UK Limited ("the company") together with the financial statements for the year ended 31 December 2009

Results and dividends

The profit for the year, after taxation, amounted to £3,093,000 (2008 - £4,734,000) No dividends were paid during the year (2008 - £nil) and the directors do not recommend the payment of a final dividend (2008 - £nil)

Principal activity and review of the business

Throughout the year, the company has been engaged in the distribution of cinematography films, the sale of pre-recorded digital versatile and blu-ray discs and the selling of character merchandising licences

Principal risks and uncertainties

The media industry in the UK is subject to substantial competitive and economic pressures and rapid technological change, and this is a continuing risk for the company, and could result in loss of sales and increased costs The company manages this risk by monitoring market trends, and developing new methods of media distribution

Sales and expenditure are made in various different currencies and the company is therefore exposed to exchange rate movements Time Warner's treasury function takes out contracts to manage this risk at group level

Time Warner risks are discussed in the group's Annual Report which does not form part of this report

Going concern

No material uncertainties that cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors The company's business activities, together with any factors likely to affect its future development and position, are set out in the Review of the Business section above The company is expected to continue to generate positive cash flows on its own account for the foreseeable future The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries The directors, having assessed the responses of the directors of the company's parent Time Warner Entertainment Limited to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group to continue as a going concern or its ability to continue with the current banking arrangements

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Time Warner Entertainment Limited, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Future developments

The directors will continue to exploit the activities from continuing operations having regards to the principal risks and uncertainties described above

Directors

The directors of the company who served during the year ended 31 December 2009 are

J Rogovin (appointed 1 January 2009)
E A Romano
R J Fox
S W Mertz
M Emanuele

Except as noted above, all directors served throughout the year and are still directors at the date of this report

The Articles of Association do not require directors to retire either by rotation or in the year of appointment

Directors qualifying third party indemnity provisions

The company may indemnify one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 and the company may purchase insurance for this purpose Time Warner Inc has purchased a Directors and Officers liability insurance policy for the benefit of the company and its directors and such policy was in force during the year and is in force as at the date of approving the Directors' Report

Warner Bros. Entertainment UK Limited

Directors' report (continued)

Political and charitable donations

The company has made charitable contributions during the period of £95,891 (2008 – £147,799) The company has made no political contributions during the period (2008 – £nil)

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities adequately meet the requirements of the job Opportunities are available to disabled employees for training, career development and promotion

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim

Employee involvement

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004 During the year, the policy of providing employees with information about the company has been continued through direct 'Employee Communications' emails, emails from local management and through the intranet site 'The Loop' Regular meetings are held between local management and employees to allow a free flow of information and ideas, such as the Employee Liaison Group meetings, and employees are encouraged to present their suggestions and views on issues pertaining to them within the company Regular questionnaires are also distributed to all employees and the results and action points are communicated back on a timely basis Employees are encouraged to get involved with various Corporate Social Responsibility initiatives such as recycling and volunteering Certain employees may share in the financial success of the group by being granted Time Warner stock options or restricted stock units

Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Auditors

In accordance with s386 of the Companies Act 1985, a resolution to dispense with the requirement to appoint auditors annually was passed on 3 December 1993 This resolution remains in force under the Companies Act 2006 and accordingly Ernst & Young LLP will be deemed to be reappointed as auditors

By order of the Board



S R Shine
Secretary

26/8/10

Warner Bros. Entertainment UK Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that 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). Under company law, the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Warner Bros. Entertainment UK Limited

Independent auditor's report

to the members of Warner Bros Entertainment UK Limited

We have audited the financial statements of Warner Bros Entertainment UK Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Neil Cullum (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 August 2010

Warner Bros. Entertainment UK Limited

Profit and loss account for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Gross income	1, 2	367,625	499,394
Gross payments	1, 2	<u>(95,447)</u>	<u>(244,296)</u>
Turnover	2	272,178	255,098
Cost of sales		<u>(247,875)</u>	<u>(216,696)</u>
Gross profit		24,303	38,402
Administrative expenses		<u>(78,456)</u>	<u>(91,513)</u>
		<u>(54,153)</u>	<u>(53,111)</u>
Other operating income	3	60,985	59,539
Operating profit	3	<u>6,832</u>	<u>6,428</u>
Interest receivable	6	108	1,755
Interest payable	7	<u>(2,113)</u>	-
Profit on ordinary activities before taxation		<u>4,827</u>	<u>8,183</u>
Taxation on profit on ordinary activities	8	<u>(1,734)</u>	<u>(3,449)</u>
Profit for the financial year	16	<u><u>3,093</u></u>	<u><u>4,734</u></u>

The above relates to continuing operations

There are no recognised gains or losses since the last annual report other than those presented above, and accordingly no separate statement of recognised gains and losses has been presented

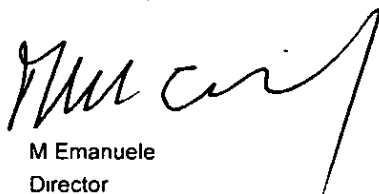
All profits and losses have been accounted for on a historical cost basis

Warner Bros. Entertainment UK Limited

Balance sheet at 31 December 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Tangible fixed assets	9	4,472	5,220
Investments	10	<u>3,214</u>	<u>3,206</u>
		<u>7,686</u>	<u>8,426</u>
Current assets			
Stock	11	16,602	16,266
Debtors	12	105,199	140,973
Cash at bank and in hand		<u>40,353</u>	<u>49,965</u>
		162,154	207,204
Creditors amounts falling due within one year	13	<u>(100,278)</u>	<u>(150,053)</u>
Net current assets		<u>61,876</u>	<u>57,151</u>
Total assets less current liabilities		69,562	65,577
Provisions for liabilities and charges	14	<u>(3,779)</u>	<u>(3,570)</u>
Net assets		<u>65,783</u>	<u>62,007</u>
Capital and reserves			
Called up share capital	15	1	1
Capital reserve	16	2,863	2,863
Equity-settled share-based payments reserve	16	4,264	3,581
Profit and loss account	16	<u>58,655</u>	<u>55,562</u>
Total shareholders' funds		<u>65,783</u>	<u>62,007</u>

Approved by the Board on ^{24/08/2010} and signed on its behalf by


M Emanuele
Director

Warner Bros. Entertainment UK Limited

Notes to the financial statements

at 31 December 2009

1 Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost convention and in accordance with the Companies Act 2006 and with applicable United Kingdom accounting standards

Group financial statements have not been prepared as the company is a wholly owned subsidiary undertaking of another company registered in England and Wales which itself prepares consolidated accounts (see note 23). Consequently, these financial statements present information about the company as an individual undertaking and not about its group

Going concern

No material uncertainties that cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors. The company's business activities, together with any factors likely to affect its future development and position, are set out in the Review of the Business section above. The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors, having assessed the responses of the directors of the company's parent Time Warner Entertainment Limited to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of Time Warner Entertainment Limited, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of cash flows

The company has taken advantage of the exemption in FRS 1 (Revised) "Cash Flow Statements". A statement of cash flows has not been prepared as the company is a wholly owned subsidiary undertaking of Time Warner Inc., a company incorporated in the United States of America, which prepares a statement of cash flows (see note 23).

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 of Time Warner Inc., a company incorporated in the United States of America, which prepares publicly available consolidated financial statements.

Leasing commitments

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

Film participation turnover and costs

The company earns income through participating in the distribution of filmed entertainment across several territories. The company's Turnover includes revenue earned from its distribution of filmed entertainment in the UK and Ireland, together with the net fee it earns from distribution outside of the UK and Ireland. On the face of the profit and loss account 'gross income' refers to all monies received under the distribution agreements, including that received both from its own distribution activity in the UK and Ireland and from entities distributing outside of the UK and Ireland, while 'gross payments' represents the payments made for the distribution outside of the UK and Ireland.

The company's cost of sales includes the costs of distributing filmed entertainment in the UK and Ireland.

Turnover

Turnover is stated net of value added tax.

Turnover represents the fees and royalties earned for the granting of distribution rights outside of the UK and Ireland, gross film rental income earned, film licence income, revenue receivable from the sale of pre-recorded digital versatile and blu-ray discs and from the sale of character merchandising licences.

Film licence income

Non-returnable advances receivable under film licence agreements are recognised evenly over the period of the licence.

Digital versatile and blu-ray discs income

Income related to the sale of digital versatile and blu-ray discs is recognised when the product is delivered to the customer.

Royalty income

Royalty income includes all royalty income to which the company is contractually entitled. Income is deferred if the film to which it relates is still in production.

Warner Bros. Entertainment UK Limited

Notes to the financial statements

at 31 December 2009

1 Accounting policies (continued)

Share based payments

Certain employees of the company have been granted options to purchase shares in the company's ultimate parent undertaking, 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 date of grant using the Black-Scholes option pricing model. Adjustments are made to the fair values to reflect the likelihood that options will not be exercised due to non-market conditions such as employees leaving the company. These estimates are reviewed annually and the original charge revised when appropriate.

Certain employees of the company have been granted restricted stock units ("RSUs") in Time Warner Inc. The RSUs vest 50% 3 years after the date of grant and 50% 4 years after the date of grant. When the RSUs vest the employee receives shares in Time Warner Inc. at no cost to themselves. For the purposes of applying FRS 20 the fair value of each RSU is the Time Warner Inc. share price on the date of grant. Adjustments are made to the fair values to reflect the likelihood that options will not be exercised due to non-market conditions such as employees leaving the company. These estimates are reviewed annually and the original charge revised when appropriate.

Tangible fixed assets

Tangible fixed assets are recorded at cost, less accumulated depreciation and provision for impairment.

The company provides depreciation in equal annual instalments over the estimated lives of the assets at the following rates:

Leasehold improvements	- over 10 years
Furniture, fittings and equipment	- over 3 to 10 years

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange 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.

Deferred taxation

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet dates. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Investments

Investments are stated at cost less impairments.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material the provisions are discounted to their present value at the balance sheet date.

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 Plan are held in a separately administered fund.

The contribution rate for each employer does not reflect the individual experience of the company's members in isolation, as it is not possible to identify accurately or consistently from year to year the share of pension assets relating to the company. Consequently the company has accounted for its contributions to the plan as if it were a defined contribution scheme. Contributions to the fund of the defined benefit scheme are charged to the profit and loss account as they become payable.

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.

Interest receivable and payable

Interest income and expense is recognised on an accruals basis.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

2 Turnover

An analysis of turnover by geographical market is given below

	2009 £'000	2009 %	2008 £'000	2008 %
United Kingdom and Ireland	260,956	95.9%	242,573	95.1%
United States of America and Canada	2,200	0.8%	2,471	1.0%
Other territories	9,022	3.3%	10,054	3.9%
Total	272,178	100%	255,098	100%

Turnover by geographical destination/origin is not materially different

An analysis of turnover by class of business is given below

	2009 £'000	2009 %	2008 £'000	2008 %
Distribution of cinematography films	53,825	19.8%	48,612	19.0%
Sale of pre-recorded DVD and Blu-Ray	211,205	77.6%	200,688	78.7%
Sale of character merchandising licences	7,148	2.6%	5,798	2.3%
Total	272,178	100%	255,098	100%

3 Operating profit

(a) This is stated after charging

	2009 £'000	2008 £'000
Operating lease rentals		
- plant and machinery	317	571
- land and buildings	4,543	4,452
Auditor's remuneration	207	88
- audit services		
Depreciation of owned assets	321	2,473
Release of participation accruals (see below)	-	(5,797)
Operational restructuring costs	4,326	-
	4,326	-

Included within depreciation of owned assets is a credit of £1,429,000 (2008 - charge of £465,293) related to the dilapidations provision and resultant fixed asset

Included within operating profit is other operating income of £60,985,000 (2008 - £59,539,000) which is mainly management fee income generated from within the Time Warner Group

During the previous year, the company reassessed the level of its participation accruals to ensure that they remain the best estimate of amounts due to third parties under certain film distribution agreements. The result of this reassessment was to release £5,797,000 of accruals in respect of items for which the company no longer expects an economic outflow to occur to the cost of sales and to reclassify £1,762,000 to amounts due to related undertakings

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

4 Directors' remuneration

	2009 £'000	2008 £'000
Emoluments	<u>693</u>	<u>764</u>
Company contributions paid to defined benefit pension schemes	<u>37</u>	<u>55</u>
	No	No
Members of defined benefit pension schemes	<u>2</u>	<u>2</u>
<i>The amounts in respect of the highest paid director are as follows</i>	£'000	£'000
Emoluments	<u>457</u>	<u>421</u>
Company contributions paid to defined benefit pension schemes	<u>18</u>	<u>17</u>

No directors exercised share options during the year (2008 - 1)

Details of transactions between the company and directors are disclosed in Note 22

5 Staff costs

	2009 £'000	2008 £'000
Wages and salaries	41,801	39,155
Social security costs	2,847	4,060
Other pension costs (see note 21)	<u>3,599</u>	<u>3,488</u>
	<u>48,247</u>	<u>46,703</u>

The average monthly number of employees during the year was 511 (2008 - 525), all of whom were engaged in administration and sales

6 Interest receivable

	2009 £'000	2008 £'000
Interest receivable from group undertakings	62	1,479
Other	<u>46</u>	<u>276</u>
	<u>108</u>	<u>1,755</u>

7 Interest payable

	2009 £'000	2008 £'000
Unwinding of the discount of the dilapidation provision	1,893	-
Other	<u>220</u>	<u>-</u>
	<u>2,113</u>	<u>-</u>

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

8 Taxation on profit on ordinary activities

	2009 £'000	2008 £'000
a) The charge based on the profit for the year is as follows		
<i>Taxation based on the profit for the year</i>		
<i>Current tax</i>		
Corporation tax payable at 28% (2008 - 28.5%)	1,994	3,617
Under provision for prior periods	75	557
Double tax relief	(79)	(166)
Overseas tax suffered	114	166
Total current tax charge (see 8 (b) below)	<u>2,104</u>	<u>4,174</u>
<i>Deferred tax</i>		
Timing differences, origination and reversal	(370)	(725)
Total deferred tax	<u>(370)</u>	<u>(725)</u>
Total tax charge on profit on ordinary activities	<u>1,734</u>	<u>3,449</u>

b) Circumstances affecting the current tax charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 28% (2008 - 28.5%).
The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	<u>4,827</u>	<u>8,183</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 - 28.5%)	1,352	2,332
Factors affecting the tax charge		
Disallowable expenses	661	507
Capital allowances in excess of depreciation	(189)	417
Other timing differences	171	361
Higher taxes on overseas income	34	-
Tax overprovided in previous years	75	557
Total current tax charge (see note (a) above)	<u>2,104</u>	<u>4,174</u>

c) Factors affecting future tax charges

The following changes were announced in the UK Budget on 22 June 2010

(i) the full rate of corporation tax will reduce to 27% with effect from 1 April 2011, and will decrease by a further 1% each 1 April thereafter until reaching 24% with effect from 1 April 2014,

(ii) the rate of annual writing down allowances on qualifying plant and machinery will reduce by 2%, to 18% for the general capital allowance pool and to 8% for the integral features pool, with effect from 1 April 2012

As this legislation was not substantively enacted by the balance sheet date, the figures within these accounts are calculated in accordance with existing rates

We estimate the impact upon deferred tax to be a reduction in the balance of approximately £225,000 over the forthcoming four years. It is not yet possible to quantify the impact of these rate changes upon current tax

Warner Bros. Entertainment UK Limited

Notes to the financial statements

at 31 December 2009

8 Taxation on profit on ordinary activities (continued)

d) Deferred tax

Deferred tax is included in the balance sheet as follows

	2009 £'000	2008 £'000
Included in debtors	1,572	1,202
Analysed as		
Accelerated capital allowances	244	45
Short term timing differences	1,328	1,157
	1,572	1,202

Analysis of movement in deferred tax

	Total £'000
At 31 December 2008	1,202
Credit to the profit and loss account	370
At 31 December 2009	1,572

9 Tangible fixed assets

	Leasehold land and buildings £'000	Furniture fittings and equipment £'000	Total £'000
Cost or valuation			
At 31 December 2008	18,612	6,118	24,730
Additions	-	1,121	1,121
Disposals	(1,548)	-	(1,548)
At 31 December 2009	17,064	7,239	24,303
Depreciation			
At 31 December 2008	14,862	4,648	19,510
Charged during the year	(226)	547	321
At 31 December 2009	14,636	5,195	19,831
Net book value			
At 31 December 2009	2,428	2,044	4,472
At 31 December 2008	3,750	1,470	5,220

Included within furniture, fittings and equipment is £8,000 of cost relating to assets in the course of construction. This will be depreciated once the asset is complete and ready for use.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

10 Investments

	Investments in subsidiary undertakings £'000	Investments in associated undertakings £'000	Other £'000	Total £'000
Cost and net book value				
At 31 December 2008	3,206	-	-	3,206
Additions	-	-	8	8
At 31 December 2009	<u>3,206</u>	<u>-</u>	<u>8</u>	<u>3,214</u>

The investments in subsidiary undertakings at 31 December 2009 comprise 100% of the ordinary share capital of Lorimar-Telepictures International Limited, a company registered in England and Wales, 100% of the ordinary share capital of Warner Bros Investment Limited, a company registered in England and Wales and 100% of the ordinary share WB UK Services Limited, a company registered in England and Wales

The investment in associated undertaking comprises an investment in Filmbank Distributors Limited and represents 50% of the ordinary share capital. Filmbank Distributors Limited is engaged in the distribution of filmed entertainment in non-theatrical markets

Other investments represent a 16.5% interest in WB Communications II LLC, a company registered in the State of Delaware, United States of America

11 Stocks

	2009 £'000	2008 £'000
Finished goods held for resale	<u>16,602</u>	<u>16,266</u>

12 Debtors

	2009 £'000	2008 £'000
Trade debtors	43,212	35,151
Other debtors	2,794	6,447
Prepayments and accrued income	5,606	3,895
Amounts owed by group undertakings	50,142	93,998
Amounts owed by associated undertakings	535	52
Corporation tax recoverable	1,338	228
Deferred tax asset (see note 8 (d))	<u>1,572</u>	<u>1,202</u>
	<u>105,199</u>	<u>140,973</u>

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

13 Creditors amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	21,508	18,060
Other creditors	10,176	14,901
Other taxes and social security costs	1,474	3,455
Corporation tax payable	1,915	4,999
Accruals and deferred income	24,700	37,366
Amounts owed to group undertakings	40,360	71,272
Amounts owed by associated undertakings	145	-
	<u>100,278</u>	<u>150,053</u>

14 Provisions for liabilities and charges

	Dilapidation provision £'000	National Insurance on share options £'000	Total £'000
At 31 December 2008	3,431	139	3,570
Arising during the year	248	(39)	209
At 31 December 2009	<u>3,679</u>	<u>100</u>	<u>3,779</u>

Provision has been made for National Insurance contributions on share options awarded under unapproved share option schemes, which are expected to be exercised. The provision has been calculated based on the difference between the year end share price of \$29.14 and the weighted average exercise price of outstanding shares of \$37.40, and for restricted stock units based on the difference between the year end share price of \$29.14 and the weighted average exercise price of outstanding restricted stock units of \$29.49 and is being allocated over the period from the date of award to the date the employee will become unconditionally entitled to the options.

Provision has been made for dilapidation which relates to costs associated with the company's obligation to reinstate leased buildings to their original state. The provision has been discounted to its present value at the balance sheet date, and the movement in the year is the unwinding of that discount.

15 Called up share capital

	2009 £	2008 £
<i>Issued, allotted, called up and fully paid</i>		
1,100 ordinary shares of £1 each	<u>1,100</u>	<u>1,100</u>

Warner Bros. Entertainment UK Limited

Notes to the financial statements

at 31 December 2009

16 Reconciliation of shareholders' funds and movement in reserves

	Share capital £'000	Capital reserve £'000	Equity share based payments £'000	Profit and loss account £'000	Total £'000
At 31 December 2008	1	2,863	3,581	55,562	62,007
Profit for the financial year	-	-	-	3,093	3,093
Charge for share based payments (see note 17)	-	-	683	-	683
At 31 December 2009	1	2,863	4,264	58,655	65,783

17 Share-based payments

Certain employees of the company have been granted options to purchase shares in the company's ultimate parent undertaking, 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 over a four-year period.

In addition certain employees have been awarded restricted stock units in Time Warner Inc. denominated in US\$ which vest over a four-year period. Holders of awards are generally entitled to receive cash dividends or dividend equivalents during the period of time that the awards are unvested.

On March 12, 2009, Time Warner Inc. completed the separation of Time Warner Cable Inc. through a spin-off (the "TWC Separation"). On December 9, 2009, Time Warner Inc. completed the spin-off of AOL Inc. (the "AOL Separation").

In connection with the TWC Separation and the AOL Separation (collectively, the "Separations"), and as provided for in the company's equity plans, the number of stock options and RSUs outstanding at each of the Distribution Date and Distribution Record Date, respectively, and the exercise prices of such stock options were adjusted to maintain the fair value of those awards (collectively, the "Adjustments"). The Adjustments were determined by comparing the fair value of such awards immediately prior to each of the Separations ("pre-Separation") to the fair value of such awards immediately after each of the Separations. In performing these analyses, the only assumptions that changed were related to the Time Warner stock price and the stock option's exercise price.

Accordingly, each equity award outstanding as of the Distribution Date relating to the TWC Separation was increased by multiplying the size of such award by 1.35, while the per share exercise price of each stock option was decreased by dividing by 1.35. Each equity award outstanding as of the Distribution Record Date relating to the AOL Separation was increased by multiplying the size of such award by 1.07, while the per share exercise price of each stock option was decreased by dividing by 1.07. The modifications to the outstanding equity awards were made pursuant to existing antidilution provisions in the company's equity plans and did not result in any additional compensation expense.

In addition, in connection with the 1-for-3 reverse stock split Time Warner Inc. implemented on March 27, 2009, the number of outstanding equity awards was proportionately adjusted to reflect the reverse stock split. As a result, and after giving effect to the adjustment for the TWC Separation, the number of outstanding equity awards was determined by dividing the number of outstanding equity awards by three. The per share exercise price of stock options, after giving effect to the adjustment for the TWC Separation, was determined by multiplying the exercise price by three.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

17 Share-based payments (continued)

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

	2009	2009	2008	2008
	Number of options	Weighted average exercise price US \$	Number of options	Weighted average exercise price US \$
Share options				
Outstanding at 1 January	2,102,230	19.48	1,832,493	20.40
Adjustment for Time Warner Cable spin off	727,957	-	-	-
Adjustment for reverse stock split	(1,934,836)	-	-	-
Adjustment for AOL Inc spin off	69,415	-	-	-
Transferred in	-	-	181,422	19.35
Transferred out	(23,861)	37.27	(112,118)	20.49
Granted	129,275	16.67	279,692	14.91
Forfeited	(95,224)	45.35	(68,109)	24.71
Exercised	(14,027)	21.49	(11,000)	10.44
Expired	-	-	-	-
Outstanding at 31 December	960,928	37.40	2,102,380	19.48
Exercisable at 31 December	692,836	41.46	1,396,427	20.68

Weighted average share price for options exercised in the year

2009 US\$	2008 US\$
28.44	16.19

	2009 Number of RSUs	2008 Number of RSUs
Restricted stock (RSUs)		
Outstanding at 1 January	404,213	244,771
Adjustment for Time Warner Cable spin off	140,035	-
Adjustment for reverse stock split	(372,933)	-
Adjustment for AOL Inc spin off	13,349	-
Transferred in	-	18,733
Transferred out	(5,768)	(8,821)
Granted	90,058	162,019
Forfeited	(23,775)	(7,906)
Exercised	(5,066)	(4,583)
Expired	-	-
Outstanding at 31 December	240,113	404,213

Details of the outstanding options at 31 December 2009 is as follows

Year of Grant	Number of options	Weighted average exercise price US \$	Exercise Period	
			From	To
2000	1,446	115.38	04/10/2001	03/10/2010
2001	60,580	94.80	18/01/2002	19/12/2011
2002	64,392	53.04	06/02/2003	09/12/2012
2003	97,505	22.53	14/02/2004	14/12/2013
2004	130,047	35.91	13/02/2005	14/04/2014
2005	133,203	37.33	18/02/2006	14/12/2015
2006	163,509	36.30	17/01/2007	15/10/2016
2007	87,657	41.49	02/03/2008	15/07/2017
2008	103,423	31.00	07/03/2009	14/09/2018
2009	119,165	16.78	20/02/2010	14/10/2019

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2009

17 Share-based payments (continued)

Details of the outstanding restricted stock units at 31 December 2009 are as follows

Year of grant	Number of RSUs
2006	2,311
2007	95,583
2008	58,965
2009	83,254

The restricted stock units vest 50% 3 years after the grant date and 50% 4 years after the grant date

For the purpose of applying FRS 20, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions used

Year of grant	Dividend yield %	Expected volatility %	Risk free interest rates %	Expected term (years)
2006	1.1	22.2	4.6	4.90
2007	1.1	22.1	4.4	5.35
2008	1.7	28.7	3.2	5.95
2009	4.4	35.2	2.5	6.11

The weighted average fair value of those options granted in 2009 was \$3.85 (2008 - \$4.04). The expected volatility has been calculated using implied volatilities based primarily on traded Time Inc. options.

The weighted average fair value of those restricted stock units granted in 2009 was \$16.65 (2008 - \$14.91).

The total charge to the profit and loss account in respect of share-based payments included within wages and salaries (see note 5) is

	2009 £'000	2008 £'000
Equity settled share options	191	264
Restricted stock units	492	972
	<u>683</u>	<u>1,236</u>

18 Capital commitments

There were no capital commitments contracted for and not provided in the financial statements at either 31 December 2009 or 31 December 2008.

19 Other financial commitments

The company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Operating leases which expire				
Within one year	-	-	91	146
In the second to fifth years inclusive	4,671	-	144	168
In over five years	-	4,671	-	-
	<u>4,671</u>	<u>4,671</u>	<u>235</u>	<u>314</u>

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Notes to the financial statements at 31 December 2009

20 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, and 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 £39,873,575 (2008 - £50,086,155).

21 Pensions

The Time Warner UK Pension Plan is a multi-employer defined benefit plan. The total overall combined contribution rate from employers to the plan will vary depending on the experience of the plan and hence any surplus or deficit in the plan will be revealed when actuarial valuations are completed from time to time. Following the actuarial valuation as at 5 April 2008, the contributions rate payable by the company has been set based on discussions among the participating companies, so that the total contributions from all employers equal the required funding rate. The plan was closed to new entrants with effect from 1 April 2010. Eligible new employees will be able to contribute to The Time Warner Money Purchase Pension Plan, a new defined contribution scheme, after this date.

The assets of the plan are invested as a whole and are not segregated by participating employer. Consequently information concerning that part of the plan's assets attribution to the company is not available.

The company has discussed the position with the plan's actuaries and, in accordance with FRS 17 has taken their advice that the company treat its participation in the plan as if it were a defined contribution scheme. The surplus on the whole plan under FRS 17 at 31 December 2009 is £7,842,000 (2008 - £21,870,000).

Further information concerning the scheme as a whole can be found in the report and financial statements of Time Warner Holdings Limited, which are available from the company secretary, Time Warner House, 44 Great Marlborough Street, London W1F 7JL.

The total pension cost to the company for the year ended 31 December 2009 amounted to £3,598,673 (2008 - £3,488,065).

22 Related parties

During the year, turnover of £2,543,620 (2008 - £3,064,274) was invoiced to Filmbank Distributors Limited, which is 50% owned by the company. During the year, £465,524 (2008 - £457,200) of expenses were invoiced to Filmbank Distributors Limited. The year-end debtor balance is £534,604 (2008 - £325,296).

During the year, the company was invoiced £684,647 (2008 - £377,096) by Filmbank Distributors Limited for the company's share of expenses. The year-end creditor balance is £145,146 (2008 - £nil).

A director was advanced €23,291 by the company during the year to pay a double taxation liability. The advance is repayable upon the earlier of the tax being refunded or the director leaving the company.

23 Ultimate parent undertaking

The company's immediate parent undertaking is Time Warner Entertainment Limited, a company registered in England & Wales.

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

At 31 December 2009, 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 Time Warner Inc.'s financial statements can be obtained from One Time Warner Center, New York, NY 10019, USA.