

Company registration number: 0259661

Warner Bros. Entertainment UK Limited

Report and Financial Statements

31 December 2016



Warner Bros. Entertainment UK Limited

Company registration number: 0259661

Directors

J A Berger
T H Creighton
S W Mertz

Registered Office

Warner House
98 Theobald's Road
London
WC1X 8WB

Auditor

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

Banker

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

Warner Bros. Entertainment UK Limited

Strategic report

The directors present their Strategic Report for the year ended 31 December 2016. In preparing this Strategic Report, the directors have complied with section 414c of the Companies Act 2006.

Principal activity

Throughout the year, the company has engaged in the distribution of films and television content, the sale of home entertainment product and the selling of character merchandising licences.

Results

The profit for the year after taxation amounted to £20,629,000 (2015 - £23,518,000).

Review of the business and KPIs

A summary of key performance indicators is as follows:

	2016 £'000	2015 £'000	Change %
Turnover	486,460	415,349	17%
Gross profit	41,946	45,698	-8%
Operating profit	24,312	25,267	-4%
Operating margin	5%	6%	
Number of employees	454	464	-2%

The company's turnover increased year on year by 17% owing to the strong performance of the TV distribution business in 2016.

Timing of certain operating expenses and TV business stream income have contributed to a decrease in operating profit of 4%, it's expected that this will unwind in future years. The average number of employees fell by 2% year on year.

Principal risks and uncertainties

An analysis of the risks and uncertainties of the Time Warner Inc. group are discussed in the group's Annual Report which is publically available.

The principal risks and uncertainties facing the company are detailed below.

The popularity of content is difficult to predict and can change rapidly, and low public acceptance of the company's content will adversely affect its results. The revenues derived from the sale, distribution and licensing of television programming, feature films, videogames and other content depend primarily on widespread public acceptance of that content, which is difficult to predict and can change rapidly. The company must invest substantial amounts in the marketing of its content before it learns whether such content will reach anticipated levels of popularity with consumers. The popularity of the company's content depends on many factors, only some of which are within the company's control.

The company's results could be adversely affected if the company's efforts to increase digital sales of its film and television content and make digital ownership of content more compelling to consumers are not successful. Several factors have contributed to an industry-wide decline in sales of home entertainment product in physical formats in recent years, including consumers shifting to SVOD and other OTT services and electronic purchases and rentals; consumers electing to rent films, which generates significantly less profit per transaction for the company than sale of physical formats; changing retailer strategies and initiatives (eg reduction in floor space devoted to home entertainment product in physical formats); retail store closures; weak economic conditions; increasing competition for consumer discretionary time and spending; and piracy.

Warner Bros. Entertainment UK Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

If the company fails to compete successfully against alternative sources of entertainment, there may be an adverse effect on the company's results. The company competes with other sources of entertainment, including television, premium pay television services, SVOD, and other OTT services, feature films, the Internet, home entertainment products, videogames, social networking and pirated content, for consumers' leisure and entertainment time and discretionary spending. The increased number of media and entertainment choices available to consumers has made it much more difficult to attract and obtain their attention and time.

Service disruptions or failures in information systems and networks as a result of computer viruses or misappropriation of data may disrupt the company's business, damage its reputation or have a negative impact on its results or operations. Although the company develops and maintains information security practices and systems designed to prevent these events occurring, development and maintenance of these systems is costly and is likely to increase as the threats become more sophisticated.

The company is subject to a variety of laws and regulations. The company could incur significant costs to comply with new laws or regulations or substantial penalties or other liabilities if it fails to comply with them. Compliance with new laws or regulations could also cause the company to change or limit its business practices in a manner that is adverse to its business.

On behalf of the Board



T H Creighton
Director

Date: 28 SEP 2017

Warner Bros. Entertainment UK Limited

Directors' report

Company registration number: 0259661

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 2016.

Dividends

Interim dividends of £nil (2015 - £nil) were paid during the year. The directors do not recommend the payment of a final dividend (2015 - £nil).

Future developments

The directors will continue to exploit the activities from continuing operations having regards to the principal risks and uncertainties described in the Strategic Report.

Foreign branches

The financial statements include transactions relating to a branch based in the Republic of Ireland.

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. On the basis of their assessment of the company's financial position, 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.

Directors

Except as noted below, the following were directors of the company who served throughout the year and who are still directors at the date of this report:

J A Berger (appointed 10 February 2016)

T H Creighton

S W Mertz

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)

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 'Behind the Shield'. 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 auditor

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

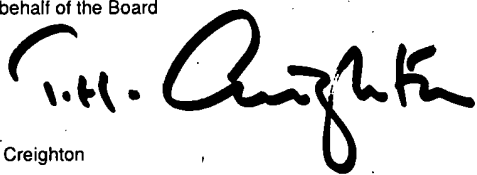
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will continue in office.

On behalf of the Board



T H Creighton
Director

Date:

28 SEP 2017

Warner Bros. Entertainment UK Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic Report, 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate 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 2016 which comprise the Income statement, the Statement of changes in equity, the Statement of financial position 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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 record 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.



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

29/1/2017

Warner Bros. Entertainment UK Limited

Income statement for the year ended 31 December 2016

	Notes	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Gross income	1	492,003	418,991
Gross payments	1	(5,543)	(3,642)
Turnover	2	486,460	415,349
Cost of sales		(444,514)	(369,651)
Gross profit		41,946	45,698
Distribution and administrative expenses		(79,479)	(76,365)
		(37,533)	(30,667)
Other operating income	3	61,845	55,934
Operating profit	3	24,312	25,267
Income from investments	6	116	644
Interest receivable and similar income	7	64	76
Interest payable and similar charges	8	(4,650)	(696)
Other income/ (costs)	9	488	(502)
Profit on ordinary activities before taxation		20,330	24,789
Taxation on profit on ordinary activities	10	299	(1,271)
Profit for the financial year		20,629	23,518

All amounts relate to continuing operations.

There is no difference between profit for the financial year and total comprehensive income for the year, and accordingly no separate statement of comprehensive income has been presented.

Warner Bros. Entertainment UK Limited

Statement of changes in equity for the year ended 31 December 2016

	Share capital £'000	Capital reserve £'000	Equity share based payments £'000	Profit and loss account £'000	Total shareholder's funds £'000
At 1 January 2015	1	2,863	(6,595)	33,354	29,623
Profit for the financial year	-	-	-	23,518	23,518
Charge for equity share based payments	-	-	1,082	-	1,082
Stock options and RSU's exercised	-	-	(7,536)	-	(7,536)
At 31 December 2015	1	2,863	(13,049)	56,872	46,687
At 1 January 2016	1	2,863	(13,049)	56,872	46,687
Profit for the financial year	-	-	-	20,629	20,629
Shares issued	125,000	-	-	-	125,000
Charge for equity share based payments	-	-	1,770	-	1,770
Stock options and RSU's exercised	-	-	(5,956)	-	(5,956)
At 31 December 2016	125,001	2,863	(17,235)	77,501	188,130

Equity-settled share-based payments reserve

This reserve records all current and prior period employee related equity settled share based payment transactions.

Warner Bros. Entertainment UK Limited

Statement of financial position at 31 December 2016

	Notes	31 December 2016 £'000	31 December 2015 £'000
Fixed assets			
Tangible assets	11	6,514	7,129
Investments	12	6,706	6,706
		<u>13,220</u>	<u>13,835</u>
Current assets			
Stock	13	15,112	14,536
Debtors: amounts falling due within one year	14	224,936	117,575
Debtors: amounts falling due after more than one year	14	85,727	38,455
Cash at bank and in hand		35,934	15,805
		<u>361,709</u>	<u>186,371</u>
Creditors: amounts falling due within one year	15	<u>(169,328)</u>	<u>(91,893)</u>
Net current assets		<u>192,381</u>	<u>94,478</u>
Total assets less current liabilities		<u>205,601</u>	<u>108,313</u>
Creditors: amounts falling due after more than one year	16	<u>(13,934)</u>	<u>(58,580)</u>
Provisions for liabilities	18	<u>(3,537)</u>	<u>(3,046)</u>
Net assets		<u>188,130</u>	<u>46,687</u>
Capital and reserves			
Called up share capital	19	125,001	1
Capital reserve		2,863	2,863
Equity-settled share-based payments reserve		(17,235)	(13,049)
Profit and loss account		77,501	56,872
Total shareholder's funds		<u>188,130</u>	<u>46,687</u>

Approved by the Board and signed on its behalf by:



T H Creighton
Director

Date:

28 SEP 2017

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

1 Accounting policies

a) Statement of compliance

Warner Bros. Entertainment UK Limited is a limited liability company incorporated in England. The Registered Office is 98 Theobald's Road, London, WC1X 8WB.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 December 2016.

b) Basis of preparation

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

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

The company has taken advantage of the exemption from the requirement to prepare consolidated financial statements available under s401 of the Companies Act 2006, as it is a wholly-owned subsidiary undertaking of Time Warner Inc., a company incorporated in the United States of America, which prepares publicly available consolidated financial statements (see note 23).

Statement of cash flows

The company has taken advantage of the exemption in FRS 102.1.12(b) Reduced disclosures for subsidiaries. A statement of cashflows has not been prepared as the company is a member of a group where the parent, Time Warner Inc., prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 23).

Related parties

The company has taken advantage of the exemption in FRS 102.1.12(e) Reduced disclosures for subsidiaries. Key management remuneration has not been disclosed as the company is a member of a group where the parent, Time Warner Inc., prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 23).

The company has taken advantage of the exemption in FRS 102.33.1A not to disclose related party transactions with fellow wholly-owned subsidiary undertakings of Time Warner Inc., which prepares publicly available consolidated financial statements (see note 23).

Share based payments

The company has taken advantage of the exemption in FRS 102.1.12(d) Reduced disclosures for subsidiaries. Certain share based payment transactions have not been presented as the company is a member of a group where the parent, Time Warner Inc., prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 23).

c) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the region. In the judgment of the directors, the company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for as a defined contribution scheme. See note 20 for further details.

Operating lease commitments

The company has entered into leases as a lessee. The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

1 Accounting Policies (continued)

c) Judgements and key sources of estimation uncertainty (continued)

Taxation

The company recognises liabilities for anticipated uncertain corporation tax positions based on reasonable estimates of whether additional taxes will be due and the timing of those additional taxes. Further details are contained in Note 10.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits.

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property, plant and equipment, and below for the useful economic lives for each class of assets.

Inventory and sales provisions

The sale of home entertainment product is subject to changing consumer demands and rapid technological change. When calculating the various sales and inventory provisions, management considers the nature and condition of the inventory, market conditions and assumptions around anticipated sales of finished goods. See note 13 for the net carrying amount of the company's inventory and current year charge.

Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

d) Significant accounting policies

Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.

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, television rights income, revenue receivable from the sale of pre-recorded digital versatile and blu-ray discs and from the sale of character merchandising licences.

Theatrical distribution income

Theatrical distribution revenue is recognised on an accruals basis from the theatrical release date.

Home entertainment product

Income related to the sale of home entertainment product is recognised when the product is delivered to the customer.

Television content

Income in respect of distribution of television content is recognised when the film becomes available for its first showing on television.

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 income statement '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.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

1 Accounting Policies (continued)

d) Significant accounting policies (continued)

Pensions

The company operates a defined contribution scheme. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate.

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 income statement as they become payable.

The Time Warner UK Pension Plan was closed to new entrants with effect from 1 April 2010 from which time membership of The Time Warner Money Purchase Pension Plan, a defined contribution plan, is available. Contributions to the defined contribution plan are recognised in the income statement in the period in which they become payable. With effect from 1 April 2011, the Time Warner UK Pension Plan closed to future benefits accruals.

Interest receivable and payable

Interest income and expense are recognised on an accruals basis.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Deferred taxation

Deferred tax is recognised without discounting in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entities functional currency by applying the spot 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 statement of financial position date. All differences are taken to the income statement.

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. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The cost of the option is measured by reference to this fair value and is recognised as an expense over the vesting period. 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. The fair value of each RSU is the Time Warner Inc. share price on the date of grant. The cost of the RSU is measured by reference to this fair value and is recognised as an expense over the vesting period. Adjustments are made to the fair values to reflect the likelihood that RSUs 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.

Investments

Investments are stated at cost less provision for impairments.

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 down to their estimated residual value, at the following rates:

Leasehold improvements	- over the shorter of the lease term and 10 years
Furniture, fittings and equipment	- over 3 to 10 years

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

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

1 Accounting Policies (continued)

d) Significant accounting policies (continued)

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.

Provisions for liabilities

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 statement of financial position date.

Leasing commitments

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Net gain/loss on financial assets/liabilities designated at fair value through profit or loss are recognised in the income statement as other costs.

The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

2 Turnover

An analysis of turnover by geographical market is given below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2016 %	Year ended 31 December 2015 £'000	Year ended 31 December 2015 %
United Kingdom and Ireland	473,072	97.3%	394,839	95.1%
United States of America and Canada	146	0.0%	106	0.0%
Rest of the World	13,242	2.7%	20,404	4.9%
Total	486,460	100.0%	415,349	100.0%

An analysis of turnover by class of business is given below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2016 %	Year ended 31 December 2015 £'000	Year ended 31 December 2015 %
Distribution of cinematography films	79,632	16.4%	38,601	9.2%
Sale of home entertainment product	153,612	31.6%	223,520	53.9%
Distribution of television content	237,359	48.8%	142,835	34.4%
Sale of character merchandising licences	15,857	3.2%	10,393	2.5%
Total	486,460	100.0%	415,349	100.0%

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.

The company operates within three geographical markets; the United Kingdom and Ireland, the United States of America and Canada and the Rest of the World.

The company operates in four principal areas of activity; distribution of cinematography films, distribution of television content, sale of home entertainment product and sale of character merchandising licences.

3 Operating profit

This is stated after charging/(crediting):

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Auditor's remuneration		
- audit of the financial statements	274	320
- under / (over) accrual of prior year audit fees	5	(29)
- other non-audit services	47	3
Depreciation of tangible fixed assets	1,354	1,126
Operating lease rentals - land and buildings	2,979	3,074
Operational restructuring costs	597	307

Included within operating profit is other operating income of £61,845,000 (2015 - £55,934,000) which is mainly service fee income generated from within the Time Warner Group.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

4 Directors' remuneration

Certain directors of the company were paid by the company and certain directors of the company were paid by fellow group undertakings.

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Aggregate remuneration in respect of qualifying services	2,025	963
Aggregate company contributions paid to defined contribution pension scheme	8	41
	No.	No.
Members of defined contribution pension scheme	3	2
<i>The amounts in respect of the highest paid director are as follows:</i>	£'000	£'000
Remuneration in respect of qualifying services	1,051	614

5 Staff costs

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Wages and salaries	39,386	38,001
Equity-settled share based payments	2,134	(308)
Social security costs	4,055	5,621
Other pension costs (see note 20)	2,523	2,922
	48,098	46,236

The average monthly number of employees during the year was 454 (2015 - 464), all of whom were engaged in administration and sales.

6 Income from investments

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Dividends received from group undertakings	116	644
	116	644

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

7 Interest receivable and similar income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest receivable from group undertakings	57	76
Other	7	-
	<u>64</u>	<u>76</u>

8 Interest payable and similar charges

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Unwinding of the discount of the dilapidation provision	126	118
Interest payable to group undertakings	4,524	578
	<u>4,650</u>	<u>696</u>

9 Other income/ costs

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
(Gains)/Losses on realised foreign exchange hedged contracts	(488)	502
	<u>(488)</u>	<u>502</u>

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

10 Taxation on profit on ordinary activities

a) The charge/(credit) based on the profit for the year is as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<i>Current tax:</i>		
UK corporation tax		
Current tax at 20% (2015 - 20.25%)	7	37
Over provision for prior years	-	(122)
	7	(85)
Double tax relief	(7)	(37)
	-	(122)
Foreign tax		
Current tax on income for the year	7	37
Total current tax charge/(credit)	7	(85)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(453)	589
Charge due to change in tax rate	144	155
Under provision for prior years	3	612
Total deferred tax (credit)/charge	(306)	1,356
Total tax charge on profit on ordinary activities	(299)	1,271

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

10 Taxation on profit on ordinary activities (continued)

b) Factors affecting the total tax charge:

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 20% (2015 - 20.25%):

The tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit on ordinary activities before taxation	20,330	24,788
Taxation on profit on ordinary activities at standard rate	4,066	5,019
Factors affecting the tax (credit)/charge:		
Disallowable expenses	236	185
Non qualifying depreciation	44	41
Other differences	(856)	(1,067)
Group relief received for nil consideration	(3,913)	(3,415)
Non taxable items	(23)	(130)
Tax under provided in previous years	3	490
Impact of change of rate of tax	144	148
Total tax (credit)/charge (see note 10(a) above)	(299)	1,271

c) Deferred tax

Deferred tax is provided at 17% (2015 - 18%) in the statement of financial position as follows:

	31 December 2016 £'000	31 December 2015 £'000
Included in debtors (see note 14)	1,700	1,394
Analysed as:		
Accelerated capital allowances	731	465
Pension costs	(58)	(56)
Share-based payment	780	789
Short term timing differences	247	196
Deferred tax asset	1,700	1,394
Analysis of movement in deferred tax:		
		Total £'000
At 31 December 2015		1,394
Credited to income statement (see note 10(a) above)		306
At 31 December 2016		1,700

The net reversal of deferred tax expected to occur in the following year is £61,000. This is due to depreciation in excess of capital allowances.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

10 Taxation on profit on ordinary activities (continued)

d) Factors affecting future tax charges

The Finance (No. 2) Act 2015, enacted on 18 November 2015, included two changes to the future mainstream corporation tax rate. From 1 April 2017 the rate will reduce from 20% to 19% and from 1 April 2020 the rate will reduce further to 18%.

The Finance Act 2016, enacted on 15 September 2016, included a further rate change. The 18% rate enacted in the Finance (No. 2) Act 2015 will reduce by 1%, so that from 1 April 2020, the mainstream corporation tax will become 17%. The effect of these changes on the deferred tax balance is reflected in these accounts.

It is not yet possible to quantify the impact of this rate change upon current tax.

11 Tangible fixed assets

	Leasehold land and buildings £'000	Furniture fittings and equipment £'000	Total £'000
Cost:			
At 31 December 2015	18,713	12,361	31,074
Additions	-	739	739
Disposals	-	(20)	(20)
At 31 December 2016	18,713	13,080	31,793
Depreciation:			
At 31 December 2015	15,444	8,501	23,945
Charged during the year	428	926	1,354
Disposals	-	(20)	(20)
At 31 December 2016	15,872	9,407	25,279
Net book value:			
At 31 December 2016	2,841	3,673	6,514
At 31 December 2015	3,269	3,860	7,129

Included within furniture, fittings and equipment is £23,000 (2015 - £1,711,000) of costs relating to assets in the course of construction. These will be depreciated once the assets are complete and ready for use.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

12 Investments

	Investments in subsidiary undertakings £'000	Investments in associated undertakings £'000	Total £'000
Cost:			
At 31 December 2015	6,706	-	6,706
Additions	-	-	-
Disposals	-	-	-
At 31 December 2016	6,706	-	6,706
Net book value:			
At 31 December 2016	6,706	-	6,706
At 31 December 2015	6,706	-	6,706

The investments in subsidiary undertakings at 31 December 2016 comprise 100% of the ordinary share capital of Thompson Place Productions Limited a company registered in England and Wales.

During the year the company acquired 10% of the share capital of Warner Bros. Entertainment Limited Liability Company for a consideration of 1000 Russian Rubles.

The investment in Warner Bros. UK Services Limited, a company registered in England and Wales was written off on 15 December 2015 when the company was dissolved.

The investment in Lorimar-Telepictures International Limited was written off on 29 March 2016 when the company was dissolved.

The investment in associated undertaking comprises an investment in Filmbank Distributors Limited and represents 33.3% of the ordinary share capital. This investment is held at cost of £50. Filmbank Distributors Limited is engaged in the distribution of filmed entertainment in non-theatrical markets.

13 Stocks

	31 December 2016 £'000	31 December 2015 £'000
Finished goods held for resale	15,112	14,536

Stock recognised in cost of sales during the year as an expense was £54,371,000 (2015 - £64,692,000).

An impairment loss of £391,000 (2015 reversal of - £1,572,000) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

14 Debtors

	31 December 2016 £'000	31 December 2015 £'000
Trade debtors	83,402	46,307
Other debtors	306	2,240
Prepayments and accrued income	213,567	99,070
Amounts owed by group undertakings	10,853	6,769
Amounts owed by associated undertakings	835	250
Deferred tax asset (see note 10(c))	1,700	1,394
	310,663	156,030

Prepayments and accrued income includes £85,727,000 (2015 - £38,455,000) due after more than one year.

All amounts owed by fellow group undertakings are unsecured, interest free and repayable on demand.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

15 Creditors: amounts falling due within one year

	31 December 2016 £'000	31 December 2015 £'000
Trade creditors	18,455	16,757
Other creditors	454	6
Other taxes and social security costs	16,541	13,199
Corporation tax payable	-	2,291
Accruals and deferred income	28,159	24,285
Amounts owed to associated undertakings	10	3
Amounts owed to group undertakings	105,709	35,352
	<u>169,328</u>	<u>91,893</u>

16 Creditors: amounts falling due after more than one year

	31 December 2016 £'000	31 December 2015 £'000
Deferred rent liability	1,327	5,002
Amounts owed to group undertakings	12,607	53,578
	<u>13,934</u>	<u>58,580</u>

Included within amounts owed to group undertakings is an amount of £12,607,000 (2015 - £53,578,000) in respect of an intercompany loan with Time Warner International Finance Limited. The loan is interest bearing at market rate being Time Warner cost of funds which is Barclays base rate plus 1.25% plus an applicable margin; the margin being 2.5% up to 30 September 2016 and then 0.55% thereafter. The loan is unsecured and has a maturity date of 2 October 2025. All other amounts owed to fellow group undertakings are unsecured, interest free and repayable on demand.

17 Obligations under leases and hire purchase contracts

Future minimum rentals payments under non-cancellable operating leases are as follows:

	2016 £'000	2015 £'000
Payments due:		
Not later than one year	6,627	6,258
Later than one year and not later than five years	14,215	19,661
Later than five years	108,334	4,426
	<u>129,176</u>	<u>30,345</u>

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

18 Provisions for liabilities

	Dilapidation provision £'000	National Insurance on share options £'000	Total £'000
At 31 December 2015	1,959	1,087	3,046
Unwinding of discount (see note 8)	126	-	126
Arising during the year	-	365	365
At 31 December 2016	2,085	1,452	3,537

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 for share options based on the difference between the year end share price of \$96.53 and the weighted average exercise price of outstanding shares of \$39.51, and for restricted stock units based on the difference between the year end share price of \$96.53 and the weighted average exercise price of outstanding restricted stock units of \$74.16 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 statement of financial position date, and the movement in the year is the unwinding of that discount.

19 Called up share capital

	31 December 2016 Number	Issued, allotted, called up and fully paid		31 December 2015 £
		31 December 2016 £	31 December 2015 Number	
Ordinary shares of £1 each	125,001,100	125,001,100	1,100	1,100

During the year 125,000,000 ordinary shares were issued at par value.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2016

20 Pensions

The Time Warner UK Pension Plan ("TWUK PP") is a multi-employer defined benefit plan. The total overall combined contribution rate from employers to TWUK PP 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 2014, 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 TWUK PP was closed to new entrants with effect from 1 April 2010 from which time membership of The Time Warner Money Purchase Pension Plan ("TWMP PP"), a new defined contribution scheme, is available. With effect from 1 April 2011, TWUK PP was closed to future benefits accrual. The assets of TWUK PP are invested as a whole and are not segregated by the participating employer. Consequently information concerning that part of TWUK PP's assets attribution to the company is not available.

The company has discussed the position with the TWUK PP's actuaries and, in accordance with FRS 102 section 28 Employee Benefits has taken their advice that the company treat its participation in TWUK PP as if it were a defined contribution scheme. At 31 December 2015 and 31 December 2016, on a FRS 102 section 28 basis and before any related deferred tax, the scheme was in surplus.

Further information concerning both schemes (i.e. TWUK PP and TWMP PP) can be found in the report and financial statements of Time Warner Limited, the sponsoring employer, which are available from the Company Secretary, 16 Great Marlborough Street, London W1F 7HS.

The total pension cost to the company in relation to both schemes for the year ended 31 December 2016 amounted to £2,523,000 (2015 – £2,922,000).

21 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 statement of financial position date, funds deposited by the company into the system, and potentially at risk to cover liabilities elsewhere in the group, amounted to £35,015,000 (2015 - £15,757,000).

22 Related parties

During the year, turnover of £1,825,000 (2015 - £1,751,000) was invoiced to Filmbank Distributors Limited, which is 33.3% owned by the company. During the year, £437,000 (2015 - £437,000) of expenses were invoiced to Filmbank Distributors Limited. The year-end debtor balance is £835,000 (2015 - £250,000). The year-end creditor balance is £10,000 (2015 - £3,000).

23 Ultimate parent undertaking

The company's immediate parent undertaking is Warner Bros. Entertainment Nederland BV.

At 31 December 2016, Time Warner Inc., a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the smallest and 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.