

Warner Bros. Entertainment UK Limited

Report and Financial Statements

31 December 2013



Warner Bros. Entertainment UK Limited

Company registration number: 00259661

Directors

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

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

Results

The profit for the year after taxation amounted to £19,288,000 (2012 - £14,513,000).

Business review

The directors of Time Warner Inc. review the group's operations at a group level, rather than at an individual business unit level. For this reason, the directors believe that an analysis of Warner Bros. Entertainment UK Limited's ("the company") key performance indicators is not necessary or appropriate for an understanding of the development, performance and position of its business. The development, performance and position of Time Warner Inc., which include those of the company, are discussed in the group's Annual Report, which does not form part of this report.

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.

The risks and uncertainties of the company are integrated with the risks of the Time Warner Inc. group and are not managed separately. Time Warner's risks are discussed in the group's Annual Report which does not form part of this report.

On behalf of the Board



T.H. Creighton
Director

Date:

30/7/2014

Warner Bros. Entertainment UK Limited

Directors' report

Company registration number: 00259661

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 2013.

Dividends

Interim dividends of £20,000,000 (2012 - £nil) were paid during the year. The directors do not recommend the payment of a final dividend (2012 - £nil).

Principal activity

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.

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 and their interests

The directors of the company who served during the period were as follows:

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

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 period 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.

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 auditors will be deemed to be reappointed and Ernst & Young LLP will continue in office.

On behalf of the Board



T H Creighton

Director

Date:

30/7/2014.

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;
- 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 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 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 24. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 2013 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.

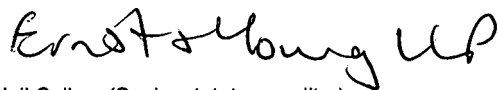
Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

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 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

11/8/2014

Warner Bros. Entertainment UK Limited

Profit and loss account for the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Gross income	1	407,347	443,186
Gross payments	1	(115,371)	(158,573)
Turnover	2	291,976	284,613
Cost of sales		(245,052)	(238,217)
Gross profit		46,924	46,396
Distribution and administrative expenses		(78,848)	(76,048)
		(31,924)	(29,652)
Other operating income	3	55,202	48,744
Operating profit	3	23,278	19,092
Non-operating exceptional items	5	156	-
Profit on ordinary activities before investment income, interest and taxation		23,434	19,092
Interest receivable and similar income	7	70	72
Interest payable and similar charges	8	(182)	(377)
Profit on ordinary activities before taxation		23,322	18,787
Taxation on profit on ordinary activities	9	(4,034)	(4,274)
Profit for the financial year	19	19,288	14,513

All amounts relate to continuing operations.

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

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

Warner Bros. Entertainment UK Limited

Balance sheet at 31 December 2013

	Notes	31 December 2013 £'000	31 December 2012 £'000
Fixed assets			
Tangible fixed assets	10	2,704	2,404
Investments	11	6,926	6,926
		<u>9,630</u>	<u>9,330</u>
Current assets			
Stock	12	17,345	12,391
Debtors	13	159,159	154,555
Cash at bank and in hand		15,857	43,365
		<u>192,361</u>	<u>210,311</u>
Creditors: amounts falling due within one year	14	<u>(151,532)</u>	<u>(163,541)</u>
Net current assets		<u>40,829</u>	<u>46,770</u>
Total assets less current liabilities		<u>50,459</u>	<u>56,100</u>
Provisions for liabilities	16	<u>(3,803)</u>	<u>(3,021)</u>
Net assets		<u><u>46,656</u></u>	<u><u>53,079</u></u>
Capital and reserves			
Called up share capital	17	1	1
Capital reserve	19	2,863	2,863
Equity-settled share-based payments reserve	19	(1,987)	3,724
Profit and loss account	19	45,779	46,491
Total shareholder's funds		<u><u>46,656</u></u>	<u><u>53,079</u></u>

Approved by the Board and signed on its behalf by:



T H Creighton

Director

Date:

30/7/2014

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

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 24). 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. 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.

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 24).

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 (see note 24).

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.

Theatrical distribution income

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

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.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

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 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.

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.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

1 Accounting policies (continued)

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.

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 is recognised in the profit and loss account 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.

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.

Dividend income

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

2 Turnover

An analysis of turnover by geographical market is given below:

	Year ended 31 December 2013 £'000	Year ended 31 December 2013 %	Year ended 31 December 2012 £'000	Year ended 31 December 2012 %
United Kingdom and Ireland	272,440	93.3%	269,224	94.6%
United States of America and Canada	1,662	0.6%	2,598	0.9%
Other territories	17,874	6.1%	12,791	4.5%
Total	291,976	100.0%	284,613	100.0%

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

	Year ended 31 December 2013 £'000	Year ended 31 December 2013 %	Year ended 31 December 2012 £'000	Year ended 31 December 2012 %
Distribution of cinematography films	80,761	27.7%	66,300	23.3%
Sale of pre-recorded DVD and Blu-Ray	203,240	69.6%	211,210	74.2%
Sale of character merchandising licences	7,975	2.7%	7,103	2.5%
Total	291,976	100.0%	284,613	100.0%

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

3 Operating profit

This is stated after charging:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Operating lease rentals		
- plant and machinery	95	89
- land and buildings	4,508	4,375
Auditor's remuneration		
- audit of the financial statements	147	241
- over accrual of prior year audit fees	(96)	-
- audit of group companies' financial statements	30	-
- other services	2	23
Depreciation of tangible assets	1,187	1,304
Loss on disposal of tangible fixed assets	142	-
Operational restructuring costs	149	727

Included within operating profit is other operating income of £55,202,000 (2012 - £48,744,000) which is mainly service fee income generated from within the Time Warner Group.

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 2013 £'000	Year ended 31 December 2012 £'000
Emoluments	1,120	980
Company contributions paid to defined contribution pension scheme	63	62
	No.	No.
Members of defined contribution pension scheme	2	3
<i>The amounts in respect of the highest paid director are as follows:</i>	£'000	£'000
Emoluments	586	567
Company contributions paid to defined contribution pension scheme	-	13

3 directors exercised share options during the year (2012 - one director).

Details of other transactions between the company and directors are disclosed in Note 23.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

5 Exceptional items

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Recognised below operating profit:		
Profit on disposal of fixed asset investments (see note 11)	156	-

6 Staff costs

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Wages and salaries	37,371	36,007
Share based payments	1,760	1,630
Social security costs	5,270	4,601
Other pension costs (see note 20)	2,975	2,999
	47,376	45,237

The average monthly number of employees during the year was 455 (2012 - 444), all of whom were engaged in administration and sales.

7 Interest receivable and similar income

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interest receivable from group undertakings	61	59
Other	9	13
	70	72

8 Interest payable and similar charges

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Unwinding of the discount of the dilapidation provision	127	307
Interest payable to group undertakings	55	70
	182	377

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

9 Taxation on profit on ordinary activities

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

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
<i>Current tax:</i>		
UK corporation tax		
Current tax at 23.25% (2012 - 24.5%)	2,335	4,725
Group relief payments	2,398	-
Over provision for prior years	(751)	(85)
Double tax relief	(46)	(119)
	<u>3,936</u>	<u>4,521</u>
Foreign tax		
Current tax on income for the period	46	119
	<u>3,982</u>	<u>4,640</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(279)	(257)
Charge due to change in tax rate	367	215
Over provision for prior years	(36)	(324)
	<u>52</u>	<u>(366)</u>
Total deferred tax		
	<u>4,034</u>	<u>4,274</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 23.25% (2012 - 24.5%).

The current tax (credit)/charge for the year differs from the standard rate for the reasons in the reconciliation below:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Profit on ordinary activities before tax	<u>23,322</u>	<u>18,787</u>
Tax on profit on ordinary activities at standard rate	5,422	4,603
Factors affecting the tax charge:-		
Disallowable expenses	401	245
Depreciation in excess of capital allowances	5	90
Non taxable income	(38)	-
Over provision for previous years	(751)	(85)
Other timing differences	(1,057)	(213)
	<u>3,982</u>	<u>4,640</u>
Total current tax (credit)/charge (see note 9(a) above)		

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

9 Taxation on profit on ordinary activities (continued)

c) Deferred tax

Deferred tax is provided at 20% (2012 - 23%) in the balance sheet as follows:

	31 December 2013 £'000	31 December 2012 £'000
Included in debtors	2,441	2,493
Analysed as:		
Accelerated capital allowances	614	511
Short term timing differences	1,827	1,982
Deferred tax asset	2,441	2,493
Analysis of movement in deferred tax:		
		Total £'000
At 31 December 2012		2,493
Charged to the profit and loss account (see note 9(a) above)		(52)
At 31 December 2013		2,441

d) Factors affecting future tax charges

The Finance Act 2013, enacted in July 2013, included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The effect of this change on the deferred tax balances has been included in the figures within these accounts. It is not yet possible to quantify the impact of this rate change upon current tax.

10 Tangible fixed assets

	Leasehold land and buildings £'000	Furniture fittings and equipment £'000	Total £'000
Cost or valuation:			
At 31 December 2012	17,743	8,515	26,258
Additions	954	675	1,629
Disposals	(1,698)	-	(1,698)
At 31 December 2013	16,999	9,190	26,189
Depreciation:			
At 31 December 2012	16,733	7,121	23,854
Charged during the year	548	639	1,187
Disposals	(1,556)	-	(1,556)
At 31 December 2013	15,725	7,760	23,485
Net book value:			
At 31 December 2013	1,274	1,430	2,704
At 31 December 2012	1,010	1,394	2,404

Included within furniture, fittings and equipment is £623,000 (2012 - £230,000) 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 2013

11 Investments

	Investments in subsidiary undertakings £'000	Investments in associated undertakings £'000	Other £'000	Total £'000
Net book value:				
At 31 December 2013	6,706	-	220	6,926
At 31 December 2012	6,706	-	220	6,926

The investments in subsidiary undertakings at 31 December 2013 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 Thompson Place Productions Limited (formerly Warner Bros. Investment Limited), a company registered in England and Wales and 100% of the ordinary share capital of WB UK Services Limited, a company registered in England and Wales.

The investment in associated undertaking comprises an investment in Filmbank Distributors Limited ("Filmbank") and represents 33.3% (2012 - 50%) of the ordinary share capital. The company sold 25 of its 75 ordinary shares in Filmbank in 2013 to a third party, leaving it with a 33.3% shareholding at 31 December 2013 (see note 5). Filmbank is engaged in the distribution of filmed entertainment in non-theatrical markets.

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

12 Stocks

	31 December 2013 £'000	31 December 2012 £'000
Finished goods held for resale	17,345	12,391

13 Debtors

	31 December 2013 £'000	31 December 2012 £'000
Trade debtors	55,131	53,838
Other debtors	322	329
Prepayments and accrued income	20,331	21,482
Amounts owed by group undertakings	80,753	76,029
Amounts owed by associated undertakings	181	384
Deferred tax asset (see note 9(c))	2,441	2,493
	159,159	154,555

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

14 Creditors: amounts falling due within one year

	31 December 2013 £'000	31 December 2012 £'000
Trade creditors	22,712	26,328
Other creditors	175	92
Other taxes and social security costs	18,516	15,654
Corporation tax payable	1,569	4,503
Group relief payable	2,398	-
Accruals and deferred income	24,246	28,265
Amounts owed to associated undertakings	-	16
Amounts owed to group undertakings	81,916	88,683
	151,532	163,541

15 Obligations under leases and hire purchase contracts

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

	Land and buildings		Other	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Operating leases which expire:				
Within one year	582	-	4	15
In the second to fifth years inclusive	-	776	5	11
In over five years	4,285	3,905	-	-
	4,867	4,681	9	26

16 Provisions for liabilities

	Dilapidation provision £'000	National Insurance on share options £'000	Total £'000
At 31 December 2012	1,692	1,329	3,021
Unwinding of discount (see note 8)	127	-	127
Arising during the year	-	655	655
At 31 December 2013	1,819	1,984	3,803

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 \$69.72 and the weighted average exercise price of outstanding shares of \$32.98, and for restricted stock units based on the year end share price of \$69.72 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.

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

17 Called up share capital

	Issued, allotted, called up and fully paid			
	31 December	31 December	31 December	31 December
	2013	2013	2012	2012
	Number	£	Number	£
Ordinary shares of £1 each	1,100	1,100	1,100	1,100

18 Dividends

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Ordinary dividends paid	20,000	-

An interim dividend of £18,181.82 per ordinary share was paid during the year (2012 - £nil per ordinary share).

19 Reconciliation of shareholder's funds and movement in reserves

	Share capital £'000	Capital reserve £'000	Equity share based payments £'000	Profit and loss account £'000	Total shareholder's funds £'000
At 31 December 2012	1	2,863	3,724	46,491	53,079
Profit for the financial year	-	-	-	19,288	19,288
Dividends (see note 18)	-	-	-	(20,000)	(20,000)
Charge for equity share based payments (see note 21)	-	-	1,105	-	1,105
Stock options and RSU's exercised	-	-	(6,816)	-	(6,816)
At 31 December 2013	1	2,863	(1,987)	45,779	46,656

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 2011, 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, 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 17 has taken their advice that the company treat its participation in TWUK PP as if it were a defined contribution scheme. At 31 December 2012 and 31 December 2013, on a FRS 17 basis and before any related deferred tax, the scheme was in surplus.

Further information concerning both schemes can be found in the report and financial statements of Time Warner Holdings Limited, which are available from the Company Secretary, Time Warner House, 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 2013 amounted to £2,975,000 (2012 - £2,999,000).

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

21 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.

The number and weighted average exercise prices for the options granted over Time Warner Inc. shares are as follows:

	2013	2013	2012	2012
	Number of options	Weighted average exercise price US \$	Number of options	Weighted average exercise price US \$
Share options				
Outstanding at 1 January	586,524	\$32.92	897,052	\$33.35
Transferred in	10,448	\$35.12	4,020	\$32.61
Transferred out	-	\$0.00	(16,276)	\$31.49
Granted	-	\$0.00	17,424	\$37.48
Forfeited	(2,818)	\$22.31	(11,171)	\$35.98
Exercised	(225,750)	\$33.01	(247,668)	\$30.11
Expired	(2,047)	\$38.66	(56,857)	\$53.14
Outstanding at 31 December	366,357	\$32.98	586,524	\$32.92
Exercisable at 31 December	285,232	\$32.74	427,150	\$33.79

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

21 Share-based payments (continued)

Weighted average share price for options exercised in the year:

2013	2012
US\$	US\$

56.77	42.06
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Restricted stock (RSUs)

	2013 Number of RSUs	2012 Number of RSUs
Outstanding at 1 January	272,935	244,751
Transferred in	4,584	3,057
Transferred out	(250)	-
Granted	60,057	90,108
Forfeited	(6,139)	(5,655)
Exercised	(79,632)	(59,326)
Outstanding at 31 December	251,555	272,935

Details of the outstanding options at 31 December 2013 is as follows:

Year of Grant	Number of options	Weighted average exercise price US \$	Exercise Period	
			From	To
2004	17,989	36.07	13/02/2005	14/04/2014
2005	28,951	37.34	18/02/2006	14/12/2015
2006	43,588	36.43	17/01/2007	15/10/2016
2007	46,738	41.53	02/03/2008	15/07/2017
2008	41,561	30.99	07/03/2009	14/09/2018
2009	38,867	15.94	20/02/2010	14/10/2019
2010	52,528	27.04	15/01/2011	14/11/2020
2011	77,529	36.07	07/02/2012	14/12/2021
2012	18,606	37.48	15/02/2013	14/02/2022

Details of the outstanding restricted stock units at 31 December 2013 are as follows:

Year of grant	Number of RSUs
2010	35,576
2011	69,716
2012	87,122
2013	59,141

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

Warner Bros. Entertainment UK Limited

Notes to the financial statements at 31 December 2013

21 Share-based payments (continued)

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)
2005	0.0	24.4	3.9	4.80
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
2010	3.1	29.5	2.9	6.51
2011	2.6	29.5	2.8	6.31
2012	2.8	31.2	1.3	6.50
2013	2.1	29.6	1.3	6.27

The weighted average fair value of those options granted in 2012 was \$8.52. No options were granted in 2013. 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 2013 was \$53.56 (2012 - \$37.56).

The total charge to the profit and loss account in respect of share-based payments included within wages and salaries (see note 6) is:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Equity settled share options	87	174
Restricted stock units	1,018	893
	<u>1,105</u>	<u>1,067</u>

22 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 £14,817,000 (2012 - £42,376,000).

23 Related parties

During the year, turnover of £1,801,000 (2012 - £2,803,000) was invoiced to Filmbank Distributors Limited, an associated undertaking of the company. During the year, £335,000 (2012 - £547,000) of expenses were invoiced to Filmbank Distributors Limited. The year-end debtor balance is £181,000 (2012 - £384,000).

During the year, the company was invoiced £145,000 (2012 - £611,000) by Filmbank Distributors Limited for the company's share of expenses. The year-end creditor balance is £nil (2012 - £16,000).

A director was advanced €23,000 by the company during the year ended 31 December 2009 to pay a double taxation liability. The advance is repayable upon the earlier of the tax being refunded or the director leaving the company.

24 Ultimate parent undertaking

The company's immediate parent undertaking is Time Warner Entertainment Limited.

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 2013, 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.