

Company registration number: 0330764

Warner Bros. Studios Leavesden Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2017



Warner Bros. Studios Leavesden Limited

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 5
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7 to 9
Income Statement	10
Statement of Changes in Equity	11
Statement of Financial Position	12
Notes to the Financial Statements	13 to 31

Warner Bros. Studios Leavesden Limited

Company Information

Directors	D C Dark D Bisoni T H Creighton
Secretary	D Bisoni
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. Studios Leavesden Limited

Strategic Report for the Year Ended 31 December 2017

The directors present their Strategic Report on the affairs of Warner Bros. Studios Leavesden Limited ("the company") for the year ended 31 December 2017. In preparing this Strategic Report, the directors have complied with section 414c of the Companies Act 2006.

Principal activity

Throughout the year, the company continued to operate in two principal areas of activity; studio tour and merchandise sales, and studio facilities, equipment rental and related services.

Results

The profit for the year after taxation amounted to £59,696,000 (2016 - £58,574,000).

Review of the business and KPIs

The company's key financial and other performance indicators during the year were as follows:

	Unit	2017	2016
Turnover	£'000	145,055	126,625
Gross Profit	£'000	102,294	89,454
Operating profit	£'000	65,052	56,048
Operating margin	%	45	44
Number of employees		464	413

The company's turnover and gross profit increased year on year by 15% and 14% respectively owing to the ongoing programme of investment in the company's facilities at Leavesden.

The increase in turnover resulted in a similar increase in operating profit of 16%. A smaller increase in administrative costs has led to an increase in operating margin of one percentage point. The average number of employees increased by 12% to 464 in 2017.

Principal risks and uncertainties

An analysis of the risks and uncertainties of the Warner Media, LLC (formerly Time Warner Inc.) group are discussed in the group's Annual Report which is publicly available.

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

The media industry in the UK is subject to substantial competitive and economic pressures and rapid technological change which could result in loss of sales and increased costs for the company. The company manages this risk by continually investing in improving its film production facilities.

If the company fails to compete successfully against alternative entertainment and leisure activities, there may be an adverse effect on the company's results. The company competes with other providers of entertainment and leisure activities 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.

Warner Bros. Studios Leavesden Limited

Strategic Report for the Year Ended 31 December 2017 (continued)

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: **25 SEP 2018**

Warner Bros. Studios Leavesden Limited

Directors' Report for the Year Ended 31 December 2017

The directors present their annual report on the affairs of Warner Bros. Studios Leavesden Limited together with the financial statements for the year ended 31 December 2017.

Dividends

Dividends of £70,000,000 were paid during the year (2016 - £nil).

Post balance sheet event

On 14 June 2018, AT&T Inc. acquired the previous ultimate parent undertaking Time Warner Inc. and became the ultimate parent undertaking.

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.

Going concern

On the basis of the on-going group funding arrangement, 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 of the company

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

D C Dark
D Bioni
T H Creighton

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. AT&T 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.

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.

Warner Bros. Studios Leavesden Limited

Directors' Report for the Year Ended 31 December 2017 (continued)

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. 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 AT&T Inc. stock options or restricted stock units.

Disclosure of information to the auditors

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


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

25 SEP 2018

Warner Bros. Studios Leavesden Limited

Statement of Directors' Responsibilities

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 apply them consistently;
- make judgements 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. Studios Leavesden Limited

Independent Auditor's Report to the Members of Warner Bros. Studios Leavesden Limited

Opinion

We have audited the financial statements of Warner Bros. Studios Leavesden Limited (the 'company') for the year ended 31 December 2017, which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, and notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Warner Bros. Studios Leavesden Limited

Independent Auditor's Report to the Members of Warner Bros. Studios Leavesden Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the 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 records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Warner Bros. Studios Leavesden Limited

**Independent Auditor's Report to the Members of Warner Bros. Studios
Leavesden Limited (continued)**

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Stuart Darrington (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: *26/4/18*

Warner Bros. Studios Leavesden Limited

**Income Statement
for the Year Ended 31 December 2017**

	Note	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Turnover	2	145,055	126,625
Cost of sales		<u>(42,761)</u>	<u>(37,171)</u>
Gross profit		102,294	89,454
Administrative expenses		(40,443)	(35,869)
Other operating income	3	<u>3,201</u>	<u>2,463</u>
Operating profit	3	65,052	56,048
Interest receivable and similar income	6	268	20
Interest payable and similar expenses	7	<u>(68)</u>	<u>(923)</u>
Profit before tax		65,252	55,145
Taxation	8	<u>(5,556)</u>	<u>3,429</u>
Profit for the financial year		<u><u>59,696</u></u>	<u><u>58,574</u></u>

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.

The notes on pages 13 to 31 form an integral part of these financial statements.

Warner Bros. Studios Leavesden Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Share capital £ 000	Equity share based payments £ 000	Profit and loss account £ 000	Total shareholder's funds £ 000
At 1 January 2016	50,005	(57)	48,590	98,538
Profit for the year	-	-	58,574	58,574
Charge for equity share based payments	-	226	-	226
Stock options and RSU's exercised	-	(308)	(35)	(343)
At 31 December 2016	<u>50,005</u>	<u>(139)</u>	<u>107,129</u>	<u>156,995</u>

	Share capital £ 000	Equity share based payments £ 000	Profit and loss account £ 000	Total shareholder's funds £ 000
At 1 January 2017	50,005	(139)	107,129	156,995
Profit for the year	-	-	59,696	59,696
Dividends	-	-	(70,000)	(70,000)
Transfer between reserves	-	366	(366)	-
Deferred tax on share based payments	-	(35)	-	(35)
At 31 December 2017	<u>50,005</u>	<u>192</u>	<u>96,459</u>	<u>146,656</u>

Equity-settled share-based payments reserve

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

The notes on pages 13 to 31 form an integral part of these financial statements.

Warner Bros. Studios Leavesden Limited

**Statement of Financial Position
as at 31 December 2017**

	Note	31 December 2017 £ 000	31 December 2016 £ 000
Fixed assets			
Intangible assets	9	1,614	2,700
Tangible assets	10	214,427	184,977
Investments	11	3,000	3,000
		<u>219,041</u>	<u>190,677</u>
Current assets			
Stocks	12	4,790	2,483
Debtors	13	7,574	9,501
Cash at bank and in hand		7,643	7,579
		<u>20,007</u>	<u>19,563</u>
Creditors: Amounts falling due within one year	14	<u>(38,627)</u>	<u>(36,225)</u>
Net current liabilities		<u>(18,620)</u>	<u>(16,662)</u>
Total assets less current liabilities		200,421	174,015
Creditors: amounts falling due after more than one year	14	(48,389)	(12,443)
Provisions for liabilities	16	(5,376)	(4,577)
Net assets		<u>146,656</u>	<u>156,995</u>
Capital and reserves			
Called up share capital	17	50,005	50,005
Equity-settled share-based payments reserve		192	(139)
Profit and loss account		96,459	107,129
Total shareholder's funds		<u>146,656</u>	<u>156,995</u>

Approved by the Board and signed on its behalf by:



T H Creighton
Director

Date: 25 SEP 2018

Company registration number: 0330764

The notes on pages 13 to 31 form an integral part of these financial statements.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

1 Accounting policies

a) Statement of compliance

Warner Bros. Studios Leavesden 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 2017.

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 Warner Media, LLC (formerly Time Warner Inc.), a company incorporated in the United States of America, which prepares publicly available consolidated financial statements (see note 21).

Going concern

On the basis of the on-going group funding arrangement, 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 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, Warner Media, LLC (formerly Time Warner Inc.), prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 21).

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, Warner Media, LLC (formerly Time Warner Inc.), prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 21).

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 Warner Media, LLC (formerly Time Warner Inc.), which prepares publicly available consolidated financial statements (see note 21).

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

1 Accounting policies (continued)

Share based payment transactions

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, Warner Media, LLC (formerly Time Warner Inc.), prepares publicly available consolidated financial statements and the company is included in the consolidation (see note 21).

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 judgement 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 19 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.

Goodwill and intangible assets

The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

1 Accounting policies (continued)

Useful economic lives of tangible and intangible assets

The annual depreciation and amortisation charge for tangible and intangible 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 9 for the carrying value of the intangible assets, Note 10 for the carrying amount of the property plant and equipment, and below for the useful economic lives for each class of assets.

Stock provisioning

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 12 for the net carrying amount of the 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.

Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates, the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

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 8.

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.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

1 Accounting policies (continued)

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 income from film studio facilities and related services, equipment rental, post production services and ticket and related merchandising sales for the 'Making of Harry Potter' studio tour.

Revenue from the provision of studio facilities and post production services are recognised on a monthly usage basis.

Revenue from advanced ticket sales for the 'Making of Harry Potter' studio tour is deferred and only recognised on the scheduled date of the tour.

Revenue from equipment rental is recognised on an accrual basis based on the actual usage.

Pensions

The company is one of the sponsoring employers of the Time Warner UK Pension Plan ("the TWUK PP"), which is a defined benefit scheme. The assets of the TWUK PP 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 TWUK PP as if it were a defined contribution scheme. Contributions to the fund of the TWUK PP are charged to the income statement as they become payable.

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 ("the TWMP PP"), a defined contribution plan, is available. Contributions payable to the TWMP PP are charged to 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.

Foreign currencies

Transactions in foreign currencies are initially recorded in the company's 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.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

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, AT&T 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. In accordance with FRS 102.26.16 the company recognises and measures the cost of each option on the basis of the allocation of the expense it receives from its ultimate parent undertaking on an annual basis.

Certain employees of the company have been granted restricted stock units ("RSUs") in AT&T Inc.. The RSUs vest 50% three years after the date of grant and 50% four years after the date of grant. When the RSUs vest the employee receives shares in AT&T Inc. at no cost to themselves. In accordance with FRS 102.26.16 the company recognises and measures the cost of each RSU on the basis of the allocation of the expense it receives from its ultimate parent undertaking on an annual basis.

Investments

Investments are stated at cost less provision for impairments.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its useful economic life, or 10 years if no reliable estimate can be made. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The company amortises the goodwill in equal instalments over a 63 month period following transition to FRS 102 on 1 January 2014.

Intangible assets

In 2016 the company invested in the stage play 'Harry Potter and the Cursed Child' and this has been capitalised, classified as an intangible asset on the statement of financial position and amortised on a straight line basis over its useful economic life, or 3 years if no reliable estimate can be made. It was reviewed for impairment at the end of the first full financial year following acquisition and will be reviewed for impairment in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The company amortises the intangible asset in equal instalments over a 36 month period.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

1 Accounting policies (continued)

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
Motor vehicles	- over 5 years
Buildings and building improvements	- over 30 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.

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.

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.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Turnover

An analysis of turnover by geographical market is given below:

	Year ended 31 December 2017 £'000	Year ended 31 December 2017 %	Year ended 31 December 2016 £'000	Year ended 31 December 2016 %
United Kingdom and Ireland	145,055	100%	126,625	100%

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2017 %	Year ended 31 December 2016 £'000	Year ended 31 December 2016 %
Studio tour and merchandise sales	100,549	69%	85,723	68%
Studio facilities, equipment rental and related services	44,506	31%	40,902	32%
	145,055	100%	126,625	100%

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.

3 Operating profit

This is stated after charging/(crediting):

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Auditors remuneration - audit of the financial statements	89	70
Depreciation of tangible fixed assets	11,067	9,754
Amortisation of intangible fixed assets	1,086	620
Operating lease rentals - land and buildings	1,499	1,338
Loss on disposal of tangible fixed assets	237	62
Foreign exchange (gain)/loss	(8)	153
Operational restructuring costs	-	2

Included within operating profit is other operating income of £1,032,000 (2016 - £1,460,000) which is mainly rental income from third party tenants, and £2,160,000 (2016 - £240,000) in relation to the Harry Potter and the Cursed Child play investment which was fully reimbursed in the current year.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

4 Directors' remuneration

Certain directors of the company were paid by the company. The other directors of the company were paid by fellow group undertakings; they have minimal qualifying services to the company and receive no remuneration in respect of the company.

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Aggregate remuneration in respect of qualifying services	790	736
Aggregate company contributions paid to defined contribution pension scheme	<u>1</u>	<u>10</u>
	No.	No.
Members of defined contribution pension scheme	<u>2</u>	<u>2</u>

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

	2017 £ 000	2016 £ 000
Remuneration in respect of qualifying services	444	411
Company contributions paid to defined contribution pension scheme	<u>-</u>	<u>10</u>

The highest paid director exercised share options during the year and also received shares under the group's long term incentive scheme.

2 directors exercised share options during the year (2016 - 2).

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

5 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Wages and salaries	14,194	13,017
Equity-settled share based payments	291	264
Social security costs	1,479	1,276
Other pension costs	396	355
	<u>16,360</u>	<u>14,912</u>

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2017 No.	2016 No.
Administration and support	450	401
Sales, marketing and distribution	14	12
	<u>464</u>	<u>413</u>

6 Interest receivable and similar income

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Interest receivable and similar income	<u>268</u>	<u>20</u>

7 Interest payable and similar expenses

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Unwinding of the discount of the dilapidation provision	18	17
Interest payable to group undertakings	50	906
	<u>68</u>	<u>923</u>

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

8 Taxation

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

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
<i>Current tax:</i>		
Current tax at 19.25% (2016 - 20%)	4,363	-
Tax (over) / under provided in previous years	398	(1,798)
Total current tax charge/(credit)	4,761	(1,798)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	1,067	(1,586)
Credit due to change in tax rate	(125)	(53)
Under/(over) provision for prior years	(147)	8
Total deferred taxation	795	(1,631)
Total tax on profit on ordinary activities (note 8(c) below)	5,556	(3,429)

b) Tax included in group Statement of changes in Equity

The tax charge/(credit) is made up as follows:

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
<i>Deferred tax:</i>		
Deferred tax on share based payments reserve	35	-
Total tax in Statement of changes in Equity	35	-

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

8 Taxation (continued)

c) Circumstances affecting total tax charge:

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19.25% (2016 - 20%). The tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	Year ended 31 December 2017 £ 000	Year ended 31 December 2016 £ 000
Profit before tax	<u>65,252</u>	<u>55,145</u>
Corporation tax at standard rate	12,561	11,029
Factors affecting charge:		
Disallowable expenses	57	205
Non qualifying depreciation	1,048	826
Other differences	-	(20)
Tax (over) / under provided in previous years	251	(1,790)
Group relief received for nil consideration	(8,236)	(13,626)
Impact of change of rate of tax	<u>(125)</u>	<u>(53)</u>
Total tax charge/(credit) (see note 8(a) above)	<u>5,556</u>	<u>(3,429)</u>

d) Deferred tax

Deferred tax is provided at 17% (2016 - 17%) in the statement of financial position as follows:

	31 December 2017 £ 000	31 December 2016 £ 000
Included in debtors	-	-
Included in provisions for liabilities	<u>(4,428)</u>	<u>(3,598)</u>
	<u>(4,428)</u>	<u>(3,598)</u>
Analysed as:		
Accelerated capital allowances	(4,661)	(3,869)
Short term timing differences	161	166
Pension costs	33	32
Share-based payment	<u>39</u>	<u>73</u>
	<u>(4,428)</u>	<u>(3,598)</u>

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

8 Taxation (continued)

Analysis of movement in deferred tax:

Balance at start of period	(3,598)
Charged to income statement	(795)
Charged to Statement of changes in Equity	(35)
At end of period	<u>(4,428)</u>

The net reversal of deferred tax expected to occur in the following year is £929,000. This is due to capital allowances in excess of depreciation.

e) Factors affecting future tax charges

The Finance (No. 2) Act 2015, enacted on 18 November 2015, and the Finance Act 2016, enacted on 15 September 2016, included two changes to the future mainstream corporation tax rate. From 1 April 2017 the rate reduced from 20% to 19% and from 1 April 2020 the rate will reduce to 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.

9 Intangible assets

	Intangible Investment £ 000	Goodwill £ 000	Total £ 000
Cost or valuation			
At 31 December 2016	<u>2,400</u>	<u>1,597</u>	<u>3,997</u>
At 31 December 2017	<u>2,400</u>	<u>1,597</u>	<u>3,997</u>
Amortisation			
At 31 December 2016	334	963	1,297
Amortised during the year	<u>800</u>	<u>286</u>	<u>1,086</u>
At 31 December 2017	<u>1,134</u>	<u>1,249</u>	<u>2,383</u>
Carrying amount			
At 31 December 2017	<u>1,266</u>	<u>348</u>	<u>1,614</u>
At 31 December 2016	<u>2,066</u>	<u>634</u>	<u>2,700</u>

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

10 Tangible fixed assets

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost or valuation				
At 31 December 2016	168,107	52,934	946	221,987
Additions	37,379	3,377	-	40,756
Asset reclassification *	512	(669)	157	-
Disposals	(139)	(285)	-	(424)
At 31 December 2017	<u>205,859</u>	<u>55,357</u>	<u>1,103</u>	<u>262,319</u>
Depreciation				
At 31 December 2016	18,376	18,137	497	37,010
Charged during the year	6,373	4,521	173	11,067
Disposals	(18)	(167)	-	(185)
At 31 December 2017	<u>24,731</u>	<u>22,491</u>	<u>670</u>	<u>47,892</u>
Carrying amount				
At 31 December 2017	<u>181,128</u>	<u>32,866</u>	<u>433</u>	<u>214,427</u>
At 31 December 2016	<u>149,731</u>	<u>34,797</u>	<u>449</u>	<u>184,977</u>

Included within furniture, fittings and equipment is £2,365,000 (2016 - £1,025,000) and included within land and buildings is £37,167,000 (2016 - £20,134,000) of costs relating to assets in the course of construction. These will be depreciated once the assets are complete and ready for use.

* The asset reclassification is a result of prior year assets under construction being capitalised during the year under a different tangible fixed asset category.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

11 Investments

	Investments in subsidiary undertakings £ 000
Cost	
At 31 December 2016 and 31 December 2017	3,000
Amounts provided:	
At 31 December 2016 and 31 December 2017	<u>-</u>
Net book value:	
At 31 December 2017	<u>3,000</u>
At 31 December 2016	<u>3,000</u>

The investments in subsidiary undertakings at 31 December 2017 comprise 100% of the ordinary share capital of Warner Bros. Theatres (UK) Limited, a company registered in England and Wales.

12 Stocks

	31 December 2017 £ 000	31 December 2016 £ 000
Finished goods and goods for resale	<u>4,790</u>	<u>2,483</u>

Stock recognised in cost of sales during the year as an expense was £10,014,000 (2016 - £8,668,000).

An impairment loss of £97,000 (2016 - £121,000) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

13 Debtors

	31 December 2017 £ 000	31 December 2016 £ 000
Trade debtors	4,770	6,784
Other debtors	694	8
Prepayments and accrued income	7	562
VAT receivable	272	-
Amounts owed by group undertakings	1,831	2,147
	<u>7,574</u>	<u>9,501</u>

Included within amounts owed by group undertakings is an amount of £2,000 in respect of an intercompany deposit with Time Warner London Limited (2016 - £28,000). The deposit was interest bearing at market rate, being Barclays base rate minus 0.1%. The deposit was unsecured and repayable on demand. All other amounts owed by fellow group undertakings are unsecured, interest free and repayable on demand.

14 Creditors

	Note	31 December 2017 £ 000	31 December 2016 £ 000
Due within one year			
Trade creditors		5,352	6,467
Other creditors		842	922
Other taxes and social security costs		221	343
VAT payable		-	674
Corporation tax payable	8	4,761	3,537
Accruals and deferred income		25,113	22,078
Amounts owed to group undertakings		2,338	2,204
		<u>38,627</u>	<u>36,225</u>
Due after one year			
Amounts owed to group undertakings		<u>48,389</u>	<u>12,443</u>

Included within amounts owed to group undertakings is an amount of £48,389,000 in respect of an intercompany loan with Time Warner London Limited (2016 - £12,443,000). The loan is interest bearing at market rate, being Time Warner's cost of funds plus an applicable margin, the margin being plus 1.25%. The loan is unsecured and has a maturity date of 31 December 2025.

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

15 Obligations under leases and hire purchase contracts

Operating lease agreements where the company is lessee

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

	Land and buildings	
	2017	2016
	£ 000	£ 000
Payments due:		
Not later than one year	1,401	1,358
Later than one year and not later than five years	2,097	2,934
Later than five years	594	955
	<u>4,092</u>	<u>5,247</u>

Operating lease agreements where the company is lessor

The company holds surplus office buildings which are let to third parties.

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

	Land and buildings	
	2017	2016
	£ 000	£ 000
Receipts due:		
Not later than one year	726	988
Later than one year and not later than five years	1,552	1,767
Later than five years	142	-
	<u>2,420</u>	<u>2,755</u>

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

16 Provisions for liabilities

	Dilapidation provision £ 000	Deferred tax provision £ 000	National insurance on share options £ 000	Total £ 000
At 31 December 2016	806	3,598	173	4,577
Unwinding of discount	18	-	-	18
Arising during the year	96	830	(145)	781
At 31 December 2017	<u>920</u>	<u>4,428</u>	<u>28</u>	<u>5,376</u>

The dilapidation provision 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.

17 Share capital

Issued, allotted, called up and fully paid

	31 December 2017		31 December 2016	
	No.	£	No.	£
Ordinary shares of £1 each	<u>50,005,002</u>	<u>50,005,002</u>	<u>50,005,002</u>	<u>50,005,002</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

18 Dividends

	31 December 2017 £ 000	31 December 2016 £ 000
Ordinary dividends paid	<u>70,000</u>	<u>-</u>
	<u>70,000</u>	<u>-</u>

An interim dividend of £1.40 per ordinary share was paid during the year (2016 - £nil dividend paid).

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

19 Pension

The Time Warner UK Pension Plan ("TWUK PP") is a multi-employer defined benefit plan. The total overall combined contribution rate from employers to the 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, the TWUK PP was closed to future benefits accrual. The assets of the TWUK PP are invested as a whole and are not segregated by the participating employer. Consequently information concerning that part of the TWUK PP's assets attributable 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 2016 and 31 December 2017, on a FRS 102 section 28 basis and before any related deferred tax, the scheme was in surplus.

The company and other fellow sponsors are jointly and severably liable for any scheme deficit.

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 2017 amounted to £396,000 (2016 - £355,000).

20 Contingent liabilities

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 £7,512,000 (2016 - £4,924,000).

Warner Bros. Studios Leavesden Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

21 Ultimate parent undertaking

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

At 31 December 2017, and until 14 June 2018 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.

On 14 June 2018, AT&T Inc., a company incorporated in the United States of America, acquired Time Warner Inc., which was renamed Warner Media, LLC, in a merger transaction that resulted in Warner Media, LLC becoming a direct subsidiary of AT&T Inc., and AT&T Inc. became the ultimate parent undertaking.