Turner Broadcasting System Europe Limited

Report and Financial Statements

31 December 2012

Registered No 1927955

Directors
J Kupsky resigned 23 March 2012
L Sams
Z Ratajova

Secretary
E Browne

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

Bankers
Barclays Bank PLC
PO Box 544
1st Floor
54 Lombard Street
London EC3V 9EX

Solicitors
E Browne
Turner House
16 Great Marlborough Street
London W1F 7HS

Registrars
E Browne
Turner House
16 Great Marlborough Street
London W1F 7HS

Registered Office
Turner House
16 Great Marlborough Street
London W1F 7HS

Directors' report

The dırectors present theır report and the audıted financıal statements of the company for the year ended 31 December 2012

Business review and prıncıpal activıtıes

Turner Broadcastıng System Europe Ltd ("TBSEL") ıs a wholly owned subsıdıary of Turner Broadcastıng System Holdıngs (Europe) Lımıted ("TBSHEL"), a company regıstered ın England and Wales Tıme Warner Holdıngs Lımıted ıs the parent undertakıng of the smallest group of undertakıngs of whıch the company ıs a member and for whıch group financıal statements are drawn up

The company's prıncıpal actıvıtıes are

- the lıcensıng of the televısıon networks of Turner Broadcastıng System Inc , a 24 hour news programme TBSEL also operates a 24 hour cartoon, entertaınment and classıc movıe networks throughout the Unıted Kıngdom, Europe, Afrıca and Mıddle East
- the provısıon of advertısıng representatıve servıces to group undertakıngs, and
- the provısıon of management servıces to group undertakıngs

In September 2012, TBSEL management announced restructurıng of ıts Europe/Mıddle East/Afrıca (EMEA) busıness after concludıng a detaıled revıew of ıts operatıons The restructurıng ınvolves reductıon ın headcount across a number of functıons at TBSEL's London office The company's financıal statements ınclude a restructurıng provısıon, wıth respect to employees who are expected to leave the company

Results and dividends

The company's loss for the year transferred to reserves was €4,204,541 (2011 – loss of €19,968,325) No dıvıdend was paıd ın the year (2011 – nıl)

The dırectors consıder that key performance ındıcators are not necessary for an understandıng of the development, performance or posıtıon of the busıness due to the fact that the success of the busıness ıs measured as part of Tıme Warner Holdıngs Ltd

Principal rısks and uncertaınties

The medıa ındustry ın the UK and Europe ıs subject to substantıal competıtıve pressure and rapıd technologıcal change, and thıs ıs a contınuıng rısk for the company, whıch could result ın loss of sales and ıncreased costs The company manages thıs rısk by monıtorıng market trends and developıng new methods of medıa dıstrıbutıon

Sales and expendıtures are made ın many currencıes other than the Euro and the company ıs therefore exposed to exchange rate movements The group's treasury functıon takes out contracts to manage thıs rısk at group level

The rısks and uncertaıntıes of the company are ıntegrated wıth the rısks of the group and are not managed separately

Directors' report

Going concern

The company's business activities together with factors likely to affect its future development, performance and position are set out in the business review above

The company has considerable financial resources together with long standing relationships with key clients and suppliers As a consequence, the directors believe that the company is well placed to manage its business risks successfully The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Directors

The directors who have served during the year ended 31 December 2012 and thereafter are as follows

J Kupsky resigned 23 March 2012
L Sams
Z Ratajova

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

Disclosure of information to auditors

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

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

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

Auditors

Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 485 of the Companies Act 2006

By order of the Board

Director
10 May 2013

Statement of directors' responsibilities in respect of the financial statements

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting 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, and

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

Independent auditors' report

to the members of Turner Broadcasting System Europe Limited

We have audited the financial statements of Turner Broadcasting System Europe Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 28 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB'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 the financial and non-financial information in the Director's report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implication 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 2012 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report (continued)

to the members of Turner Broadcasting System Europe Limited

Matters on which we are required to report by exception

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

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

Karl Havers (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 May 2013

Profit and loss account

for the year ended 31 December 2012

	Notes	2012 €	2011 €
Turnover	2	327,221,308	346,080,954
Cost of sales		(293,818,321)	(292,497,520)
Gross Profit		33,402,987	53,583,434
Loss on write down of investment	3	(16,643,510)	(59,985,464)
Restructuring expense	4	(10,298,514)	-
Impairment of programming assets	5	(7,026,751)	-
Operating Loss	6	(565,788)	(6,402,030)
Interest receivable	9	154,312	58,233
Interest payable and similar charges	10	(1,358,992)	(382,895)
Dividends receivable	11	233,199	3,450,926
Other finance income		3,641,489	-
Profit/(loss) on ordinary activities before tax		2,104,220	(3,275,766)
Tax on profit/(loss) on ordinary activities	12	(6,308,761)	(16,692,559)
Loss for the financial year transferred to reserves		(4,204,541)	(19,968,325)

Turnover is all attributable to continuing activities

The company had no recognised gains or losses during the year other than those reflected in the profit and loss account

The notes on pages 9 to 29 form part of these accounts

Registered No 1927955

Balance Sheet

at 31 December 2012

	Notes	2012 €	2011 €
Fixed assets			
Film rights and other costs	13	121,004,680	95,864,065
Tangible assets	14	19,928,925	16,767,486
Investments	15	45,546,526	51,441,497
		186,480,131	164,073,048
Current assets			
Debtors			
- amounts falling due within one year	16	160,386,261	153,934,743
Cash at bank and in hand	25	16,114,621	10,442,777
		176,500,882	164,377,520
Non-current assets			
Debtors			
- amounts falling due after one year	16	526,783	105,231
Creditors: amounts falling due within one year	17	(125,836,478)	(115,968,708)
Net current assets		50,664,404	48,408,812
Total assets less current liabilities		237,671,318	212,587,091
Creditors: amounts falling due after one year	17	(3,512,946)	(3,233,636)
Provision for liabilities and charges	18	(15,222,847)	(3,921,106)
Net Assets		218,935,525	205,432,349
Capital and reserves			
Called up share capital	20,21	151,038,232	132,524,014
Equity share-based payments	21,22	2,701,469	3,507,970
Profit and loss account	21	65,195,824	69,400,365
Equity shareholders' funds	21	218,935,525	205,432,349

The notes on pages 9 to 29 form part of these accounts

Zuzana Ratajova
Director

10 May 2013

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of accounting

The financial statements of Turner Broadcasting System Europe Limited ("TBSEL") were approved for issue by the board of directors on 10 May 2013 The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards The company's earning streams are predominately Euro denominated It is therefore appropriate to treat the Euro as the company's functional currency

Foreign currencies

Monetary assets and liabilities are remeasured into Euros at rates of exchange prevailing at the balance sheet date Non-monetary items denominated in currencies other than Euros are converted into Euros using the exchange rate at the date of the transaction Profit and loss accounts are converted into Euros using average rates of exchange All exchange gains or losses on settlement or remeasurement at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year

Turnover

Turnover is primarily generated from the Company's principal activities and represents the value of services provided during the year in the normal course of business net of value added tax The unearned portion is recorded as deferred income The company's activities are based primarily in the UK, Europe, Africa and the Middle East

Depreciation

All tangible fixed assets are depreciated over their estimated useful economic life on a straight-line basis

The annual rates of depreciation are

Leasehold improvements	–	The shorter of 7 years or the remaining term of the lease
Computer equipment	–	3 years
Operating equipment	–	5 years
Furniture and fixtures	–	5 years

Impairment

At each balance sheet date, the Company reviews the carrying amounts of all its assets to determine whether there is any indication that any of those assets have suffered an impairment loss

Impairment is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount An impairment of an investment in a joint venture or associate is recognised within the share of profit from joint ventures and associates The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Film rights and other costs

Film rights and other costs are stated at cost less accumulated amortisation and impairment, and consist of licensed program rights and dubbing/subtitling costs

Licensed program rights represent amounts paid or payable to program licensors for the limited right to broadcast the licensors' programming Exhibition rights under the licenses are generally limited to a contract period or a specific number of showings Accordingly, licensed program rights are amortised to expense at the greater of the straight-line rate or a rate based on actual usage and over 5 years using the sum of digits amortisation method for Cartoon Network Original Programs and Co-productions Original General Entertainment programming held primarily for purposes of syndication as well as airing on other network channels is amortised ninety per cent in first month of airing and remaining ten per cent over the next twenty three months

Dubbing and subtitling costs are expensed to the profit and loss account on the basis of being amortised over 24 months straight line for external acquisitions and over 3 years using the sum of digits amortisation method for live action programmes and 5 years for animated programmes

Produced program production in process costs are included in inventory and are amortised over 5 years using the sum of digits amortisation method commencing from the day on which the programs are first aired

Investments

Investments in subsidiary undertakings are stated in the balance sheet at cost less provision for impairment Group financial statements have not been prepared as the company has taken advantage of the dispensation available under Section 400 of the Companies Act 2006 to wholly owned subsidiary undertakings where group financial statements have been prepared by a European Union parent (note 28)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse Deferred tax balances are not discounted

Operating leases

The company enters into operating leases Rentals under operating leases are charged to the profit and loss account, as incurred, over the terms of the leases

Provisions

Provisions are recognised when the Company has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available The amounts recognised represent the Company's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date

Pensions

The company participates in the Time Warner Money Purchase Pension Plan, a defined contribution scheme The pension cost charged to the profit and loss account represents contributions payable by the company to the relevant funds as they become payable in accordance with the rules of the scheme

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Share based payment

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by an external valuer using an appropriate pricing model In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions) No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006

For awards granted before 7 November 2002, the company recognises only the intrinsic value or cost of these potential awards as an expense This is accrued over the performance period of each plan based on the intrinsic value of the equity settled awards

The financial effect of awards by the Company of options over its equity shares to the employees of subsidiary undertakings are recognised by the Company in its individual financial statements In particular the Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 cost in the subsidiary undertakings

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

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

On 1 January 2011, as a result of transfer of TENIL's assets, all employees are now part of TBSEL This is considered as an intra-group transfer of employment and the change of employment from one group entity to another does not represent a new grant of equity instruments because the equity instruments were granted by the parent and not each individual subsidiary The transfer itself was not treated as an employee's failure to satisfy a vesting condition The transfer did not trigger any reversal of the charge previously recognised in respect of the services received from the employee in the financial statements from which the employee transfers employment Each subsidiary measures the services received from the employee by reference to the fair value of the equity instruments at the date those rights to equity instruments were originally granted by the parent as defined in FRS 20, Appendix A, and the proportion of the vesting period served by the employee with each subsidiary

If an employee leaves the group during the vesting period, each subsidiary adjusts the amount previously recognised in respect of the services received from the employee in accordance with the general principles of FRS 20

2. Turnover

The geographical source of the turnover of the company is as follows

	2012	*2011*
	€	€
UK	95,120,836	80,778,506
Europe	195,405,343	227,637,799
Africa and Middle East	27,190,029	34,651,969
Rest of the world	9,505,100	3,012,680
	327,221,308	346,080,954

Turnover is all attributable to continuing activities

3. Loss on write down of investment

	2012	*2011*
	€	€
Loss on impairment of investments	16,643,510	59,985,464

The impairment of investments relates to the write down of investments in Turner Nordic and Baltic AB (Note 15)

In 2011 the company has written off its investments in Starlounge, TNT Televizyon Produksiyon Ltd Sti and impaired Turner Nordic and Baltic AB (formerly known as "Millennium Media Group AB")

4. Restructuring

As explained in note 18, a provision has been made for the restructuring of operations at TBSEL's London office Restructuring expenses of €10,298,514 have been recognized in respect of redundancies which will occur over the next two years The provision is expected to be substantially utilised during 2013

Notes to the financial statements

at 31 December 2012

5. Impairment of programming assets

	2012	*2011*
	€	€
Impairment of Spanish programming assets	6,111,597	-
Impairment of Turkish programming assets	915,154	-
	7,026,751	-

In March 2013 management has taken a decision to shut down Spanish kids pay television channels Accordingly all programming assets were fully impaired (Note 27)

On 15 June 2012, TNT Televizyon Produksiyon Ltd Sti, a subsidiary of TBSEL ceased operations Accordingly programming assets have been impaired fully as at 31 December 2012

6. Operating profit

Operating profit on ordinary activities before taxation is stated after charging

	2012	*2011*
	€	€
Depreciation of owned fixed assets	7,103,086	7,712,927
Amortisation of film rights and other costs	90,593,130	79,159,763
Foreign exchange loss	684,433	3,538,749
Operating lease rentals – Plant and Machinery	5,190,572	4,803,244
Operating lease rentals – Other	246,408	219,143
Auditors remuneration	210,167	209,973

The audit fee for the current period was €210,167 (2011 - €173,436) The total included in the table above includes audit fees paid on behalf of other group companies, for whom TBSEL bears the cost Fees payable to auditors for non-audit services were €7,374 (2011 - €6,869)

7. Directors' emoluments

Directors' emoluments (including pension contributions) for qualifying services were as follows

	2012	*2011*
	€	€
Total emoluments		
Salaries and benefits	1,769,722	1,741,873
Pensions	13,605	56,063
	1,783,327	1,797,936

The total emoluments of the highest paid director were €1,487,622 (2011 - €1,189,061), of which €13,605 (2011 - €52,211) related to pension contributions During the year €155,498 (2011 - €112,819) was paid to the directors in respect of a long term incentive plan, and the net value of assets received by directors in such schemes was €nil (2011 - €nil) One director was a member of a money purchase pension scheme (2011 2 directors) Included in salaries and benefits, €413,748 was paid as severance to one director during the year (2011 €nil)

During the year, one director exercised share options (2011 2 directors)

Notes to the financial statements

at 31 December 2012

8. Staff costs

	2012	*2011*
	€	*€*
Wages and salaries	43,828,066	36,975,055
Social security costs	6,276,548	4,932,612
Other pension costs	2,190,338	1,779,199
Equity settled share options (note 22)	1,258,326	743,391
	53,553,278	44,430,257

The average number of employees during the year was 568 (2011 – 562) All employees are primarily based in the UK

9. Interest receivable

	2012	*2011*
	€	*€*
Third party interest	105,057	58,233
Receivable from group undertaking	49,255	-
	154,312	58,233

10. Interest payable

	2012	*2011*
	€	*€*
Third party interest	354,674	90,297
Payable to group undertaking	1,004,318	292,598
	1,358,992	382,895

11. Dividends receivable

The company has a dividend receivable of €233,199 (2011 €73,044) from Lazytown Entertainment Latibaer ehf

In 2011 the company received dividends of €2,000,000 and €1,377,882 from Turner Broadcasting System France SAS and Turner Broadcasting System Espagna SA respectively

Notes to the financial statements

at 31 December 2012

12. Tax on profit on ordinary activities

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

	2012	*2011*
	€	€
Taxation based on the profit for the period		
Corporation tax payable at 24 5% (2011 - 26 5%)	5,943,000	14,133,261
Double taxation relief	(5,637,000)	(6,246,259)
Under provision for prior years	173,203	268,722
Overseas tax suffered	5,990,558	7,044,835
Total current tax charge	6,469,761	15,200,559
Deferred tax		
Timing differences, origination and reversal	(779,000)	385,430
Charge due to change in tax rate	517,000	463,000
Under provision for prior years	101,000	643,570
Total deferred tax	(161,000)	1,492,000
Total tax charge on Profit/(Loss) on ordinary activities	6,308,761	16,692,559

b) Circumstances affecting current charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 24 5% (2011 - 26 5%) The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below

	2012	*2011*
	€	€
Profit/(Loss) on ordinary activities before tax	2,104,220	(3,275,766)
Tax on profit/(loss) on ordinary activities at standard rate	515,534	(868,078)
Factors affecting charge		
Disallowable expenses	492,749	388,056
Depreciation in excess of capital allowances	(37,240)	202,195
Loss on write down of investment	4,077,660	15,896,148
Income not taxable	(57,085)	(914,515)
Tax overprovided in previous years	173,203	268,722
Overseas tax suffered	353,115	798,576
Other timing differences	951,825	(570,545)
Total current tax (note (a))	6,469,761	15,200,559

Notes to the financial statements

at 31 December 2012

12. Tax on profit/(loss) on ordinary activities (continued)

c) Factors affecting future tax charges

The Finance Act 2012, enacted in July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 The effect of this change on the deferred tax balances has been included in the figures within these accounts

A further change to the rate was proposed in the March 2012 Budget statement to reduce the rate by a further 1% to 22% from 1 April 2014 The December 2012 Autumn statement further reduced the rate to 21% from 1 April 2014 The March 2013 Budget statement reduced the rate by a further 1% to 20% from 1 April 2015 As these changes have not yet been substantively enacted, they are not included in the figures within these accounts We estimate the impact upon deferred tax as a result of this change to be a reduction in the balance of approximately €776,000 over the next two years It is not yet possible to quantify the impact of this rate change upon current tax

13. Film rights and other costs

	Dubbing and subtitling	Programme rights	Total
Cost			
At 1 January 2012	59,417,208	222,065,276	281,482,484
Additions	13,583,847	109,155,464	122,739,311
Contracts written off	(3,504,399)	(9,420,244)	(12,924,643)
Expired contracts	-	(93,525,017)	(93,525,017)
At 31 December 2012	69,496,656	228,275,479	297,772,135
Accumulated Depreciation			
At 1 January 2012	47,256,299	138,362,120	185,618,419
Provided during the year	10,977,250	79,615,880	90,593,130
Accumulated amortization of contracts written off	(2,703,435)	(3,215,642)	(5,919,077)
Expired contracts	-	(93,525,017)	(93,525,017)
At 31 December 2012	55,530,114	121,237,341	176,767,455
Net Book Value			
At 31 December 2012	13,966,542	107,038,138	121,004,680
At 1 January 2012	12,160,909	83,703,156	95,864,065

Notes to the financial statements

at 31 December 2012

14. Tangible fixed assets

	Leasehold improvement	Computer equipment	Fixtures & fittings	Total
Cost				
At 1 January 2012	21,797,422	24,684,996	42,161,299	88,643,717
Additions	931,585	2,514,533	6,890,024	10,336,142
Disposals	(2,543,433)	(9,063,070)	(17,831,409)	(29,437,912)
Transfers	-	(868,161)	868,161	-
Foreign exchange	11,937	-	1,575	13,512
At 31 December 2012	20,197,511	17,268,298	32,089,650	69,555,459
Accumulated Depreciation				
At 1 January 2012	17,997,469	21,130,416	32,748,346	71,876,231
Provided during the year	1,472,886	2,006,723	3,623,478	7,103,086
Disposals	(2,534,624)	(9,063,070)	(17,801,298)	(29,398,991)
Foreign exchange	16,858	-	29,350	46,208
At 31 December 2012	16,952,589	14,074,069	18,599,876	49,626,534
Net Book Value				
At 31 December 2012	3,244,922	3,194,229	13,489,774	19,928,925
At 1 January 2012	3,799,953	3,554,580	9,412,953	16,767,486

Notes to the financial statements

at 31 December 2012

15. Investments

	Investment in subsidiary undertaking	Investment in associated undertaking	Other investment	Total
	€	€	€	€
Cost				
At 1 January 2012	41,389,912	10,046,568	5,017	51,441,497
Additions	10,748,539	-	-	10,748,539
Impairment	(16,643,510)	-	-	(16,643,510)
At 31 December 2012	35,494,941	10,046,568	5,017	45,546,526

Notes to the financial statements

at 31 December 2012

15. Investments (continued)

(a) Subsidiary undertakings

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

Turner Nordic and Baltic AB	Sweden
Turner Broadcasting System Italia Srl	Italy
Turner Broadcasting System Deutschland GmbH	Germany
Turner Broadcasting System Sweden AB	Sweden
Turner Broadcasting System France SAS	France
Turner Broadcasting System Espagna SA	Spain
Turner Broadcasting System Nederland BV	The Netherlands
Turner Broadcasting System Denmark ApS	Denmark
Turner Broadcasting System Hungary Limited Liability Company	Hungary
Turner Broadcasting System Arabia FZ-LLC	United Arab Emirates
Turner Broadcasting System Arabia Studios FZ-LLC	United Arab Emirates
Turner Broadcasting System Norway AS	Norway
Turner Broadcasting System Limited Liability Company	Russia ^
Turner Information and Lifestyle Limited Liability Company	Russia*
Turner Kids Limited Liability Company	Russia*
Turner Entertainment Limited Liability Company	Russia*
TNT Televizyon Produksiyon Ltd Sti	Turkey ~
Eda TelevizyonYayıncılık ve Produksiyon Anonim Sirketi	Turkey ***
Turner Broadcasting System Romania Srl	Romania +
Turner Broadcasting System Poland SP Z O O	Poland ^
Turner Broadcasting System Iceland EHF	Iceland**

^ 99% owned by TBSEL, 1% owned by another group undertaking

* 99% indirectly owned by TBSEL

+ 95% owned by TBSEL and 5% by its immediate parent company

~ 32 04% owned by TBSEL and 0 08% by its immediate parent company The remaining 67 88% is owned by Turner Broadcasting System Inc

**83 35% owned by TBSEL and 16 65% by other related party individuals

*** 0 02% owned by TBSEL, 99 9% owned by TNT Televizyon Produksiyon Ltd Sti and 0 08% owned by immediate parent companies

Turner Broadcasting System Nederland BV is a non-operating company All other above listed companies carry out marketing services and consultancy in relation to distribution licensing with the exception of Turner Nordic and Baltic AB ("TNB") TNB operates television channels primarily in Nordic countries, Baltic States, Benelux and Africa An ad sales function is also performed by Turner Broadcasting System Italia Srl, Turner Broadcasting System Deutschland GmbH, Turner Broadcasting System France SAS, Turner Broadcasting System Denmark ApS, TBS Arabia FZ LLC and TNT Televizyon Produksiyon Ltd Sti

All the above undertakings are wholly owned unless noted otherwise The principal areas of operations are the UK, Europe, Middle East and Africa

Notes to the financial statements

at 31 December 2012

15. Investments (continued)

(a) Subsidiary undertakings (continued)

In 2012 TBSEL made an additional capital contribution of €102,849 in Turner Broadcasting System Arabia Studios FZ-LLC

In 2012 TBSEL made an additional capital contribution of €10,443,123 in Turner Broadcasting System Iceland EHF, increasing its total shareholding to 83 35% As explained in note 27, TBSEL made a further €6,518,000 investment on 6 February 2013 which increased its shareholding to 87 65%

In 2012 TBSEL contributed an additional €202,524 in Turner Broadcasting System Norway

In 2012 TBSEL acquired 0 02% of the issued share capital of Eda Televizyon Yayıncılık ve Produksiyon Anonim Sirketi for a consideration of €42

On 15 June 2012, TNT Televizyon Produksiyon Ltd Sti ceased operations

Turner Nordic and Baltic AB had operating losses during the year Management assessed the company's ability to generate future profits and concluded that net present value of future profits were less than carrying value of the investment at 31 December 2012 As a result the company's investment in TNB was impaired by €16,643,510 (2011 € 17,307,089) (note 3)

(b) Associated undertakings

TBSEL holds 49% interest in BOING SpA, a company incorporated in Italy The company operates an Italian television channel for children

TBSEL has 33 33% shareholding in Starlounge International AB (Starlounge) as of 31 December 2012, an entity incorporated in Sweden In 2012, Starlounge management filed for administration due to its inability to continue as a going concern without additional shareholder support The company has ceased its operations in June 2012 and is currently in the process of liquidation

(c) Other investments

As of 31 December 2012, TBSEL has 1 47% interest in Clearcast Limited Clearcast Limited was acquired from another Time Warner Limited subsidiary

Notes to the financial statements

at 31 December 2012

16. Debtors

	2012	*2011*
	€	*€*
Amounts falling due within one year		
Trade debtors	112,942,260	101,617,004
Amounts owed by group undertakings	17,271,731	30,423,930
Other debtors	32,795	1,828,689
Prepayments	24,189,475	14,276,120
Deferred tax (see note 19)	5,950,000	5,789,000
	160,386,261	153,934,743
Amounts falling due more than one year		
Other debtors	526,783	105,231

17. Creditors

	2012	*2011*
	€	*€*
Amounts falling due within one year		
Trade creditors	4,805,029	1,009,784
Amounts owed to group undertakings	43,647,694	44,998,375
Other creditors including taxation and social security	9,544,537	9,067,282
Accruals and deferred income	67,372,564	52,733,917
Corporation tax payable	466,654	8,159,350
	125,836,478	115,968,708
Amounts falling due more than one year		
Non-current payable to Lazytown shareholders	3,295,888	3,233,636
Other non-current liabilities	217,058	-
	3,512,946	3,233,636

Notes to the financial statements

at 31 December 2012

18. Provision for liabilities and charges

	CNN House	*Restructuring provision*	*National Insurance on Share Options*	*Other*	*Property*	*Total*
	€	€	€	€	€	€
At 1 January 2012	99,205	-	472,395	-	3,349,506	3,921,106
Additions during the year	-	10,298,514	526,127	9,695	166,395	11,000,731
Remeasurement	5,589	-	105,790	-	189,631	301,010
At 31 December 2012	104,794	10,298,514	1,104,312	9,695	3,705,532	15,222,847

Provision has been made for National Insurance contributions on share options, which are expected to be exercised The provision has been calculated based on the excess between the year end share price of €25 92 and the weighted average exercise price of outstanding shares of €27 81 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 also been made for National Insurance contributions on restricted stock units (RSUs) The provision has been calculated based on the year end share price of €25 92 and the outstanding stock units

As explained in Note 4, a provision has been made for the restructuring of operations at TBSEL's London office The provision is for redundancy costs with respect to employees who are expected to leave the company

The provision for property relates to dilapidations on Turner House, 16 Great Marlborough Street

Notes to the financial statements

at 31 December 2012

19. Deferred taxation

Deferred tax is provided at 23% (2011 - 25%) in the balance sheet as follows

	2012 €	*2011* €
The deferred tax included in the balance sheet is as follows		
Included in debtors	5,950,000	5,789,000
Analysed as		
Accelerated capital allowances	3,028,000	3,265,000
Short term timing difference	2,922,000	2,524,000
	5,950,000	5,789,000

Analysis of movement in deferred tax asset	€	€
At start of year	5,789,000	3,352,000
Charged to profit and loss account	161,000	(1,492,000)
Transfer from Turner Entertainment Networks International Ltd	-	3,929,000
At end of year	5,950,000	5,789,000

The asset is not disclosed separately on the balance sheet It appears in Note 16

20. Share capital

	2012 *No*	*2012* €	*2011* *No*	*2011* €
Authorised				
Ordinary shares of £1 each	100	126	100	126
Ordinary shares of €1 each	151,038,106	151,038,106	132,523,888	132,523,888
	151,038,206	151,038,232	132,523,988	132,524,014
Allotted, called up and fully paid				
Ordinary shares of £1 each	100	126	100	126
Ordinary shares of €1 each	151,038,106	151,038,106	132,523,888	132,523,888
	151,038,206	151,038,232	132,523,988	132,524,014

During the year 18,514,218 ordinary shares at €1 were issued by TBSEL to TBSHEL

Notes to the financial statements

at 31 December 2012

21. Reconciliation of movements in shareholders' funds and movement in reserves

	Share Capital	*Equity Share Based payment amount*	*Profit and Loss*	*Total Share-Holders funds*
	€	€	€	€
At 1 January 2012	132,524,014	3,507,970	69,400,365	205,432,349
Share issue	18,514,218	-	-	18,514,218
Stock option recharges	-	(1,432,910)	-	(1,432,910)
Stock option reserve	-	626,409	-	626,409
Loss for the year	-	-	(4,204,541)	(4,204,541)
At 31 December 2012	151,038,232	2,701,469	65,195,824	218,935,525

Notes to the financial statements

at 31 December 2012

22. Share based payments

a) Stock optıons

The number and weıghted average exercıse prıces for the optıons granted over Tıme Warner Inc shares, ıncludıng grants of optıons prıor to 7 November 2002, are as follows

	2012	*2012*	*2011*	*2011*
	Number of Optıons	*Weıghted average exercıse prıce*	*Number of Optıons*	*Weıghted Average Exercıse Prıce*
		€	*as restated*	€
1 January as restated	669,672	27 28	408,038	24 78
Transferred from TENIL	-		293,503	32 81
Adjustment to openıng balance	-		116,810	
Granted	-		50,209	25 92
Forfeıted	(3,518)	25 11	(14,542)	17 93
Exercısed	(255,838)	24 27	(92,942)	17 27
Expıred	(103,310)	39 49	(91,404)	46 59
At 31 December	307,006	27 81	669,672	27 28
Exercısable at 31 December	229,623	24 73	506,480	27 75

	2012	*2011*
	€	€
Weıghted average share prıce for optıons exercısed ın the year	31 89	25 56

Notes to the financial statements

at 31 December 2012

22. Share based payments (contınued)

Detaıls of the outstandıng optıons at 31 December 2012 are as follows

Year of Grant	Number of Options	Weıghted average exercıse prıce €	Exercıse Perıod From	To
2003	18,702	17 87	14/02/2003	28/12/2013
2004	29,310	27 64	13/02/2004	12/02/2014
2005	26,235	28 74	18/02/2005	17/02/2015
2006	31,977	27 83	03/03/2006	02/03/2016
2007	35,498	31 87	02/03/2007	14/10/2017
2008	43,015	23 89	07/03/2008	06/03/2018
2009	53,176	11 76	20/02/2009	19/02/2019
2010	29,933	20 79	01/03/2010	08/02/2020
2011	39,160	27 81	07/02/2011	29/02/2020

For the purpose of applyıng FRS 20, the faır value of each optıon ıs estımated on the date of grant usıng the Black-Scholes optıon-prıcıng model wıth the followıng assumptıons used

Year of Grant	Expected yıeld %	Rısk free volatılıty %	Expected ınterest rates %	Term (years)
2002	-	52 75	4 16	2 97
2003	-	54 10	2 56	3 12
2004	-	35 25	3 02	3 53
2005	0 10	24 40	3 90	4 79
2006	1 10	22 20	4 61	4 89
2007	1 10	22 05	4 40	5 20
2008	1 70	28 75	3 12	5 79
2009	4 50	35 45	2 48	5 84
2010	3 16	29 48	2 85	6 26
2011	2 60	29 42	2 75	6 10

There were no optıons granted ın 2012 For those optıons granted ın 2011, the weıghted average faır value was €6 37 and the weıghted average share prıce was €25 92 The expected volatılıty has been calculated usıng the ımplıed volatılıtıes based prımarıly on traded Tıme Warner Inc optıons

Notes to the financial statements

at 31 December 2012

22. Share based payments (continued)

b) Restrıcted stock unıts

The number and weıghted average exercıse prıces for the restrıcted stock unıts granted over Tıme Warner Inc shares are as follows

	2012 Number of optıons	*2012 Weıghted average exercıse prıce* €	*2011 Number of optıons*	*2011 Weıghted average exercıse prıce* €
At 1 January	67,263	18 50	33,545	18 89
Transferred from TENIL	-		12,004	17 16
Granted	39,738	29 07	30,410	25 92
Exercısed	(6,425)	29 12	(2,389)	26 62
Forfeıted	(8,326)	19 84	(6,307)	17 62
At 31 December	92,250	19 30	67,263	18 50

The total charge to the profit and loss account ın respect of share-based payments ıncluded wıthın wages and salarıes (see note 8) ıs

	2012 €	*2011* €
Equıty settled share optıons	555,360	377,088
Restrıcted stock unıts	702,966	366,303
	1,258,326	743,391

Notes to the financial statements

at 31 December 2012

23. Operating lease commitments

The company was committed to making the following annual payments in respect of operating leases

	Other Total 2012 €	*Other Total 2011* €	*Land and buildings Total 2012* €	*Land and buildings Total 2011* €
Operating leases which expire				
Within 1 year	160,732	249,048	-	-
Within 2 – 5 years	13,953,221	13,565,193	5,285,426	4,851,469
After five years	9,159,639	8,589,467	10,270,251	-

24. Statement of cash flows

A statement of cash flows has been omitted as the company has taken advantage of the dispensation available under FRS 1 (Revised) to wholly owned subsidiary undertakings where a consolidated statement of cash flows has been prepared by the ultimate parent undertaking (Note 28)

25. Contingent liabilities

The company has a composite accounting agreement with its bankers The terms of the agreement permit the bankers, without notice, to draw down funds deposited into the system, to offset borrowings drawn down from the system by other group members who are also parties to these arrangements At the balance sheet date, funds deposited by the company into the system, and potentially at risk to cover liabilities elsewhere in the group, amounted to €16,114,621 (2011 €10,442,777)

Notes to the financial statements

at 31 December 2012

26. Related party transactions

The company has taken advantage of the exemptıon avaılable under FRS 8 not to dısclose related party transactıons wıth fellow subsıdıary undertakıngs ın whıch they have a 100% shareholdıng

Durıng the year the company entered ınto transactıons, ın the ordınary course of busıness, wıth other related partıes Transactıons entered ınto, and tradıng balances outstandıng at 31 December, are as follows

Related party	*Sales to related party* €	*Purchases from related party* €	*Amounts due from related party* €	*Amounts owed to related party* €
BOING SpA				
2012	14,400,000		7,200,000	
2011	10,800,000	-	1,800,000	-

BOING SpA TBSEL holds 49% of the ordınary share capıtal

27. Post balance sheet events

On 6 February 2013 the company contrıbuted an addıtıonal €6,518,000 to Turner Broadcastıng System Iceland EHF thereby ıncreasıng ıts shareholdıng from 78 6% to 87 65%

On 22 Aprıl 2013 the company contrıbuted an addıtıonal €4,694,229 to Turner Nordıc and Baltıc AB

In March 2013 management has taken a decısıon to shut down Spanısh kıds pay televısıon channels Accordıngly all programmıng assets were fully ımpaıred

28. Ultimate parent undertaking

The company's ultımate parent undertakıng ıs Tıme Warner Inc , whıch ıs ıncorporated ın the Unıted States of Amerıca Copıes of ıts group fınancıal statements, whıch ınclude the company, are avaılable from One Tıme Warner Center, New York, NY 10019

Tıme Warner Holdıngs Lımıted ıs the parent undertakıng of the smallest group of undertakıngs of whıch the company ıs a member and for whıch group fınancıal statements are drawn up Tıme Warner Holdıngs Lımıted ıs regıstered ın England and Wales and copıes of ıts fınancıal statements may be obtaıned from the Regıstrar of Companıes ın Cardıff

The company's ımmedıate parent undertakıng ıs Turner Broadcastıng System Holdıngs (Europe) Lımıted, a company ıncorporated ın England and Wales