

# **Paramount Home Entertainment International Limited**

(Registered Number 2139689)

## **Directors' Report and Financial Statements Year Ended 31 December 2008**

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# **Paramount Home Entertainment International Limited**

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# **Paramount Home Entertainment International Limited**

## **Directors' Report for the year ended 31 December 2008**

The directors present their report and audited financial statements of Paramount Home Entertainment International Ltd ("the company") for the year ended 31 December 2008.

### **Principal activity**

The Company's principal activity during the year was to provide professional and consulting services to Viacom Global (Netherlands) B.V.

### **Business review and future developments**

The Company operates on a cost plus basis on the overhead incurred for services provided to Viacom Global (Netherlands) B.V.

Profit on ordinary activities before taxation increased by \$1,973,000 compared with prior year. This was primarily due to the reduction of administrative expenditure and an increase in foreign exchange gains.

Intercompany receivables and payables increased during the year as a result of increased activity within the group.

The directors consider the results to be in line with expectations. No major changes are envisaged for the Company in the future.

### **Results and dividend**

The Company's profit for the year was \$1,812,000 (2007: \$12,000). The directors do not recommend the payment of a dividend (2007: \$nil). The profit for the year has been transferred to reserves.

### **Principal risks and uncertainties**

The management of the Company and execution of the Company's strategy are subject to a number of risks. The directors have identified the need to manage the Company's material financial risks, including foreign exchange, liquidity, credit and interest rate risks. These risks are monitored through a Group Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Viacom Inc. group companies (the 'Group').

Group Treasury also seeks to limit counter-party risk by conducting all of its banking and dealing activities with a limited number of major international banks, whose status is kept under review.

#### **Liquidity risk**

The Company finances its operations through a combination of issued ordinary share capital and retained earnings.

#### **Interest rate risk**

To the extent that the Company enters into banking arrangements, the Company's exposure to interest risk arises on the surplus cash bank accounts on which the interest income is based on UK LIBOR -0.25bp. For any bank accounts in overdraft the interest expenses is based on UK LIBOR +0.25bp. The Company does not participate in interest rate hedging.

# **Paramount Home Entertainment International Limited**

## **Credit risk**

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

## **Foreign exchange risk**

To the extent that the Company enters into banking arrangements and intercompany agreements in currencies different to that of the Company's functional currency, there is an exposure to movements in exchange rates. The Company does not participate in cross-currency hedging.

## **Key performance indicators ("KPIs")**

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

## **Directors and their interests**

The directors who held office during the year and up to the date of signing these financial statements are listed below:

- Paramount Home Entertainment International B.V.
- Michael Metcalfe (resigned 20 October 2008)
- Tracy Norton (resigned 15 January 2010)
- Philip Solomons
- John Kanhai (appointed 20 October 2008)

## **Creditor payment policy**

The Company aims to pay all of its creditors in accordance with the policies set out below:

- i) agree the terms of payment at the commencement of business with that supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The Company has 30 days purchases outstanding at 31 December 2008 (2007: 30 days) based on the average daily amount invoiced by suppliers during the year then ended.

## **Statement of directors' responsibilities**

The directors are responsible for preparing 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). The financial statements are required by law to 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.

## Paramount Home Entertainment International Limited

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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.

### Post balance sheet events

On 5 June 2009 Viacom Inc. announced that its Board of Directors has authorised a change in its fiscal year from 31 December to 30 September. This change will be effective for the 9 months ended 30 September 2010.

### Auditors and disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

Each director has taken all the steps that they ought to have taken as directors in order to make themselves 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 S2342A of the Companies Act 1985.

### Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next annual general meeting.

By order of the board.



R. Affourtit  
(Director)

For and on behalf of Paramount Home Entertainment International B.V.

19 January 2010

## **Independent Auditors' Report to the Members of Paramount Home Entertainment International Limited**

We have audited the financial statements of Paramount Home Entertainment International Limited (the "Company") for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

20 January 2010

# Paramount Home Entertainment International Limited

## Profit and loss account for the year ended 31 December 2008

	<i>Notes</i>	<b>2008</b> \$'000	2007 \$'000
<b>Turnover</b>	3	<b>14,899</b>	14,487
Administrative expenses		(13,795)	(15,673)
Other operating income/(expenses)		610	(12)
Exceptional items	5	-	2,235
<b>Operating profit</b>	4	<b>1,714</b>	1,037
Interest receivable and similar income	9	1,194	14
Interest payable and similar charges	10	(245)	(361)
<b>Profit on ordinary activities before taxation</b>		<b>2,663</b>	690
Tax on profit on ordinary activities	11	(851)	(678)
<b>Retained profit for the financial year</b>	17	<b>1,812</b>	12

The above results were derived from continuing activities.

There is no difference between the profit as reported and that on a historic cost basis.

## Statement of total recognised gains and losses for the year ended 31 December 2008

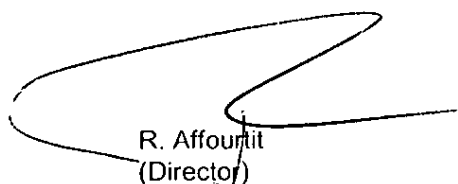
	<i>Notes</i>	<b>2008</b> \$'000	2007 \$'000
Profit for the financial year		<b>1,812</b>	12
Actuarial gain on pension scheme	19	614	451
Deferred tax relating to actuarial gain on pension scheme		(172)	(126)
Share option expense	8	156	148
<b>Total recognised gains and losses relating to the year</b>		<b>2,410</b>	485

# Paramount Home Entertainment International Limited

## Balance Sheet as at 31 December 2008

	Notes	2008 \$'000	2007 \$'000
<b>Fixed assets</b>			
Tangible assets	13	2,055	3,005
<b>Current assets</b>			
Debtors	14	10,811	8,712
Cash at bank and in hand		484	24
		11,295	8,736
<b>Creditors - amounts falling due within one year</b>	15	(3,978)	(2,920)
<b>Net current assets</b>		7,317	5,816
<b>Net assets excluding pension liability</b>		9,372	8,821
Pension liability	19	(1,082)	(2,941)
<b>Net assets including pension liability</b>		8,290	5,880
<b>Capital and reserves</b>			
Called up share capital	16	17	17
Profit and loss account	17	8,273	5,863
<b>Total equity shareholders' funds</b>	17	8,290	5,880

The financial statements on pages 7 to 23 were approved by the Board of Directors on 19 January 2010 and were signed on its behalf by:



R. Affourtit  
(Director)

For and on behalf of Paramount Home Entertainment International B.V.



# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### a) Basis of preparation

These financial statements are prepared on a going concern basis, in accordance with the Companies Act 1985, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

#### b) Reporting currency

Due to the international nature of the Company's activities and that a significant proportion of the Company's transactions are denominated in US dollars, the directors regard the US dollar as the Company's functional currency.

Fixed assets are translated into US Dollars at the rate prevailing in the month of acquisition and are then maintained at historical US Dollar values.

Other assets and liabilities in foreign currencies are translated at a rate of exchange which approximates to the rate prevailing at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Exchange gains and losses are recorded in the profit and loss account.

#### c) Turnover

Turnover is comprised of the invoiced value of services supplied net of value added tax. Turnover is recognised on the provision of professional and consulting services to Viacom Global (Netherlands) B.V., a fellow subsidiary undertaking.

#### d) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis to write off the cost of the assets (less the estimated residual value) over their estimated useful lives, as follows:

Useful economic lives are:

Office equipment and machinery	-	3 - 10 years
Motor vehicles	-	3 years
IT equipment	-	3 years
Furniture and fixtures	-	5 years

#### e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

# **Paramount Home Entertainment International Limited**

## **Notes to the Financial Statements for the year ended 31 December 2008**

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### **f) Pension costs**

The Company participates in a group pension scheme arrangement which provides defined benefits.

The cost of providing benefits is determined using the projected unit valuation method, with FRS 17 valuations performed at each balance sheet date and full actuarial valuations being carried out every three years. Current service cost is recognised in operating costs in the period in which the defined benefit obligation increases as a result of employee services. Actuarial gains and losses are recognised in full in the period in which they occur in the Statement of Total Recognised Gains and Losses. Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest. Settlements are recognised when the Company enters into a transaction that eliminates all further legal or constructive obligations for benefits under a scheme. Curtailments are recognised when the Company is committed to a material reduction in the number of employees covered by a scheme.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost. The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest.

### **g) Leasing and hire purchase commitments**

Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

### **h) Share based compensation**

#### **Employee Share Schemes**

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed to the profit and loss account on a straight line basis over the vesting period, based on the Company's estimate of the number of shares that will vest. A corresponding amount is recorded as a credit to the profit and loss account reserve each year.

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

Fair value is measured using methods appropriate to each of the different schemes as follows:

Stock options	Black-Scholes
Restricted Share Units	Market value at grant date

The Company has taken advantage of the transitional provisions of FRS 20, Share-based payments, in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002, that were unvested at 1 January 2006.

### i) **Exceptional items**

Exceptional items are events or transactions that fall within the activities of the Company and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

## **2 Cash Flow Statement and Related Party Disclosures**

The Company is a subsidiary undertaking where 90% or more of the voting rights are controlled within the Viacom Inc. Group and is included in the consolidated financial statements of that group, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Viacom Inc. Group or investees of that group (see note 20).

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 3 Turnover

Turnover is comprised of the invoiced value of services supplied net of value added tax. Turnover is recognised on the provision of professional and consulting services to Viacom Global (Netherlands) B.V., a fellow subsidiary undertaking.

### 4 Operating Profit

	2008	2007
	\$'000	\$'000
Operating profit for the year is stated after charging/(crediting):		
Depreciation of tangible fixed assets (Note 13)	943	794
Operating lease rentals	865	1,640
– land and buildings		
– other	24	32
Loss on disposal of fixed assets	-	120
Auditors' remuneration	71	60
Recharged staff expenses to suppliers	(468)	(566)
Foreign exchange gains	(596)	(12)

### 5 Exceptional items

	2008	2007
	\$'000	\$'000
Reversal of over-depreciation of fixed assets charged in previous years	-	(1,698)
Reversal of excess accruals for social security charges	-	(537)
	-	(2,235)

### 6 Employee Information

Staff costs during the year were as follows:

	2008	2007
	\$'000	\$'000
Wages and salaries	5,199	7,105
Social security costs	943	783
Employee share schemes (see Note 8)	156	91
Pension costs (see Note 19)	700	122
<b>Staff costs</b>	<b>6,998</b>	<b>8,101</b>

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

The average number of persons employed by the Company during the year was as follows:

	2008 Number	2007 Number
Finance, Administrative and Management Information Systems	25	27
Product Services/Marketing	13	14
Operations	9	10
	<b>47</b>	<b>51</b>

### 7 Directors' remuneration

The directors remuneration in respect of their services to the company is set out below.

	2008 \$'000	2007 \$'000
Directors emoluments (including pension contributions)	<b>551</b>	<b>437</b>

Retirement benefits are accruing to two (2007: one) directors under a defined benefit scheme.

One director was granted stock options and RSU's during the year in the ultimate parent company.

The directors are not entitled to any benefits from Long Term Incentive Schemes. The remuneration for the highest paid director is as follows:

	2008 \$'000	2007 \$'000
Total amount of emoluments and amounts (excluding shares)	<b>296</b>	<b>437</b>
Defined benefit pension scheme:		
Employers contribution during the year	<b>35</b>	<b>14</b>
Accrued pension at end of year	<b>21</b>	<b>39</b>
	<b>56</b>	<b>53</b>

One of the directors is remunerated by Paramount Pictures International Limited and details are available in the financial statements of that company. One of the directors is remunerated by Viacom Global (Netherlands) BV and details are available in the financial statements of that company. Two of the directors are remunerated by Paramount Home Entertainment International Ltd.

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 8 Share-based payments

As a subsidiary of Viacom Inc, the Company participates in a number of the group's employee share schemes under which it makes equity-settled share based awards in Viacom Inc shares to certain employees. The Compensation Committee to the Board of Viacom approves all equity awards. These are described in the Annual Report and Accounts of Viacom Inc. There were no other share-based payment transactions during the year.

On 31 December 2005, the parent company became a stand-alone public entity in connection with the separation from former Viacom Inc. ("Former Viacom") which is now known as CBS Corporation. As a result of the parent company separation from former Viacom, all outstanding unexercised options to purchase shares of former Viacom class B Common Stock and all outstanding RSUs of former Viacom Class B Common Stock held by an individual who was an employee or a director of former Viacom immediately prior to 31 December 2005 and was an employee or director of Viacom immediately following 31 December 2005 were converted into options to purchase shares of Viacom Class B Common Stock and RSUs of Viacom Class B Common Stock, respectively. For additional information, refer to the Annual Report and Accounts of Viacom Inc.

#### Stock Options

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. For options granted during 2007 and 2006, the determination of volatility is principally based upon implied volatilities from traded options, whereas for options granted during 2005 and prior, the assumption for volatility was based upon historical volatility of the Former Viacom. The expected term, representing the period of time that options granted are expected to be outstanding, is estimated using a lattice-based model incorporating historical post vest exercise and employee termination behaviour. The risk-free rate assumed in valuing the options is based on the U.S. Treasury Yield curve in effect applied against the expected term of the option at the time of the grant. The expected dividend yield, applicable for the Former Viacom, was based on the expected dividend yield percentage of Former Viacom divided by the market price of Former Viacom common stock at the date of grant. Viacom Inc. has no intention of declaring a dividend at this time.

No performance conditions were included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options. As allowed by FRS 20, only options granted since 7 November 2002 which were unvested at 1 January 2006 have been valued.

Grant Date	24/05/2006	4/06/2008
Exercise price	\$36.78	\$35.26
Share Price at grant date	\$36.78	\$35.26
Number of options originally granted	12,250	2,478
Vesting Period (yrs)	4	4
Expected Volatility (%)	24.37	30.28
Contractual Option Life (yrs)	8	8
Expected Life (yrs)	4.57	4.95
Risk Free Rate (%)	4.98	3.33
Expected dividend yield (%)	-	-
Expected forfeitures (%)	4	4
Fair Value per Option	\$11.06	\$11.50

## Paramount Home Entertainment International Limited

### Notes to the Financial Statements for the year ended 31 December 2008

Details of the stock options plan granted to employees of the Company since 7 November 2002 were as follows:

	Number	2008 Weighted average exercise price	Number	2007 Weighted average exercise price \$
Outstanding at start of year	38,834	48.39	40,934	47.79
Granted	9,378	45.26	-	-
Exercised	(875)	36.78	-	-
Forfeited or cancelled	(2,974)	42.82	(2,100)	36.78
Outstanding at end of year	44,363	48.32	38,834	48.39
Exercisable at end of year	36,234	50.70	28,419	51.64

For options outstanding at the end of the year, the range of exercise prices and average remaining life was as follows:

Range of exercise prices \$	Weighted average exercise price \$	Number of shares	2008 Average remaining contractual life Years	Range of exercise prices \$	Weighted average exercise price \$	Number of shares	2007 Average remaining contractual life Years
30.00-39.99	36.47	12,278	5.16	30.00-39.99	36.78	10,150	6.40
40.00-49.99	48.67	19,630	3.26	40.00-49.99	48.86	18,378	4.78
50.00-59.99	50.95	6,342	5.08	50.00-59.99	50.95	6,342	6.08
60.00-69.99	61.71	2,158	0.25	60.00-69.99	-	-	-
70.00-79.99	71.82	3,964	1.01	70.00-79.99	71.82	3,964	2.01
	48.32	44,372	3.70		48.39	38,834	5.13

The charge to the profit and loss account in the year in relation to the stock option plan awards held by employees of the Company was \$64,000 (2007: \$49,000).

#### Restricted Share Units

Restricted Share Units ("RSUs") typically vest rateably over a four-year period from the date of the grant. The grant date fair value for RSUs is the underlying share price on the date of grant. No performance conditions were included in the fair value calculations.

As a result of the parent company separation from Former Viacom, only the fair values of the RSU awards granted since 1 January 2006 together with the number of RSUs granted at each date and the related assumptions used in the fair value calculations are included below as follows:

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

The exercise price and share price at grant date are stated below.

Award Date	29/05/2007	04/06/2008
Share Price at award date	\$43.86	\$35.26
Award price	\$43.86	\$35.26
Number of units awarded	2,275	3,119
Fair Value per unit	\$43.86	\$35.26

The table below summarises the activity in relation to RSUs:

	2008		2007	
	Number of shares underlying RSUs	Weighted average grant date fair value \$	Number of shares underlying RSUs	Weighted average grant date fair value \$
Nonvested at start of year	4,032	41.79	2,782	38.99
Granted	5,452	37.82	2,275	43.86
Vested	(2,256)	41.38	(743)	39.54
Forfeited	(3,320)	38.91	(282)	36.78
Nonvested at end of year	3,908	38.94	4,032	41.79

The charge to the profit and loss account in the year in relation to RSU awards held by employees of the Company was \$92,000 (2007: \$42,000).

### 9 Interest Receivable and Similar Income

	2008 \$'000	2007 \$'000
Bank interest receivable	3	14
Exchange gain (see note 19)	1,191	-
	<b>1,194</b>	<b>14</b>

### 10 Interest Payable and Similar Charges

	2008 \$'000	2007 \$'000
Bank interest payable	79	7
Interest payable third parties	59	30
Other finance charges (see Note 19)	107	146
Exchange losses (see Note 19)	-	178
	<b>245</b>	<b>361</b>



# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 11 Tax on Profit on Ordinary Activities

The tax charge based on the profit on ordinary activities comprises:

	2008 \$'000	2007 \$'000
<b>Current Tax</b>		
UK Corporation Tax on profits for the year at 28.5% (2007: 30%)	568	-
Adjustment in respect of previous periods	-	12
<b>Total current tax</b>	<b>568</b>	<b>12</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(66)	606
Adjustment in respect of previous periods	(2)	5
Movement on pension scheme under FRS 17	351	55
	<b>283</b>	<b>666</b>
<b>Tax on profit on ordinary activities</b>	<b>851</b>	<b>678</b>

The tax assessed for the year varied from the amount computed by applying the standard rate of corporation tax in the UK (28.5%) to the profit on ordinary activities before tax. The differences were attributed to the following factors:

	2008 \$'000	2007 \$'000
<b>Profit on ordinary activities before tax</b>	<b>2,663</b>	<b>690</b>
<b>Profit on ordinary activities multiplied by the standard rate of tax in the UK in 2008 of 28.5% (2007: 30%)</b>	<b>759</b>	<b>207</b>
<b>Effects of:</b>		
Effect of current rate tax difference	(5)	-
Expenses not deductible for tax purposes	99	98
Capital allowances in excess of depreciation	58	(620)
Other short term timing differences	8	(47)
Adjustment in respect of prior periods	-	12
Pension deductions in excess of pension expense	(351)	-
Group relief surrendered for nil consideration	-	362
<b>Current tax charge for the year</b>	<b>568</b>	<b>12</b>

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 12 Deferred Taxation

The elements of deferred taxation provided for in the financial statements are as follows:

	2008 \$'000	2007 \$'000
Accelerated capital allowances	139	78
Other timing differences	7	8
Deferred tax in respect of Share Options	9	-
Deferred tax excluding that relate to pension deficit	155	86
Deferred tax relating to pension deficit (see Note 19)	620	1,144
Total deferred tax asset	775	1,230
Deferred tax asset:		
At 1 January 2008	1,230	2,022
Deferred tax (charged) / credited to profit and loss account	(283)	(666)
Deferred tax credit to the statement of total recognised gains and losses	(172)	(126)
At 31 December 2008	775	1,230

The Chancellor of the Exchequer announced a reduction in the standard rate of UK corporation tax from 30 per cent to 28 per cent with effect from 1 April 2008. This change became substantively enacted upon the third reading and approval of the Finance Bill 2007, which took place in the House of Commons on 26 June 2007. The deferred tax balances carried forward as at 31 December 2007 have therefore been revalued at 28% in accordance with FRS19. However, the effect of the tax rate change is not significant.

### 13 Tangible Fixed Assets

	Office Equipment & Machinery \$ '000	Furniture & Fixtures \$ '000	IT Equipment \$ '000	Motor vehicles \$ '000	Total \$ '000
<b>Cost</b>					
At 1 Jan 2008	44	222	12,790	114	13,170
Disposals	-	-	-	(114)	(114)
At 31 Dec 2008	44	222	12,790	-	13,056
<b>Accumulated Depreciation</b>					
At 1 Jan 2008	44	222	9,802	97	10,165
Charge for the year	-	-	933	10	943
Disposals	-	-	-	(107)	(107)
At 31 Dec 2008	44	222	10,735	-	11,001
<b>Net Book Value</b>					
At 31 Dec 2008	-	-	2,055	-	2,055
At 31 Dec 2007	-	-	2,988	17	3,005

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 14 Debtors

	2008 \$'000	2007 \$'000
Deferred tax (see Note 12)	155	86
Amounts owed by group undertakings	9,955	8,244
Value added tax receivable	233	74
Prepayments and accrued income	468	308
	<b>10,811</b>	<b>8,712</b>

Amounts owed by group undertakings are interest free, unsecured and repayable on demand.

### 15 Creditors

	2008 \$'000	2007 \$'000
Bank overdraft	103	411
Trade creditors	116	127
Amounts owed to group undertakings	2,780	-
Corporation tax creditor	209	4
Social security	214	234
Accruals and deferred income	556	2,144
	<b>3,978</b>	<b>2,920</b>

Amounts owed to group undertakings are interest free, unsecured and repayable on demand.

### 16 Share Capital

	2008 \$'000	2007 \$'000
<b>Authorised:</b>		
1,000 (2007: 1,000) ordinary shares of £100 each	156	156
<b>Allotted, called up and fully paid</b>		
100 ordinary shares of £100 each	17	17

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 17 Reconciliation of Movements in Shareholders' Funds and Reserves

	2008 \$'000	2007 \$'000
Profit for the financial year	1,812	12
Actuarial gain on pension scheme credited to the STRGL	614	451
Deferred tax charged to the STRGL	(172)	(126)
Employee share options	156	148
Net addition to shareholders' funds	2,410	485
Opening shareholders' funds	5,880	5,395
<b>Closing shareholders' funds</b>	<b>8,290</b>	<b>5,880</b>

	Share capital \$'000	Profit and loss account \$'000	Total Equity Shareholders' Funds \$'000
At 1 January 2008	17	5,863	5,880
Retained profit for the year		1,812	1,812
Actuarial gain on pension scheme credited to the STRGL		614	614
Deferred tax on actuarial gain on pension scheme charged to the STRGL		(172)	(172)
Employee share options		156	156
<b>At 31 December 2008</b>	<b>17</b>	<b>8,273</b>	<b>8,290</b>

### 18 Financial commitments

At 31 December, the Company had annual commitments under non-cancellable operating leases to make payments as follows:

	2008 \$'000	2007 \$'000
<b>Building rent:</b>		
Within one year	1,167	628
Within two to five years	4,668	3,140
<b>Other assets:</b>		
Within one year	-	4
Within two to five years	-	-
	<b>5,835</b>	<b>3,772</b>

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

### 19 Pensions

The Company participates in a group pension scheme arrangement, "The PHE & UIP Companies Pension Plan", which provides defined benefits for certain United Kingdom employees. The assets of this funded scheme are held in a separate trustee administered fund. The contributions are assessed in accordance with the advice of an independent qualified actuary. The Company accounts for pension costs in accordance with FRS 17 "Retirement benefits".

The pension cost in respect of the group pension scheme is based on actuarial advice from AON Consulting Limited. The most recent valuation was as of 31 December 2008, using the projected unit method of valuation and has been updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2008. Scheme assets are stated at their market value at 31 December 2008.

The major financial assumptions used in the calculations at 31 December 2008 were:

	2008	2007	2006
Rate of increase in salaries	4.80%	5.40%	5.20%
Rate of increase in pensions payment	2.80%	3.40%	3.20%
Discount rate	6.45%	5.80%	5.20%
Inflation assumption	2.80%	3.40%	3.20%

The expected rates of return at 31 December 2008 were:

	2008	2007	2006
Equities	7.75%	8.00%	8.00%
Bonds	6.45%	5.80%	5.20%
Index-linked gilts	3.90%	4.50%	4.50%
Cash	2.00%	5.50%	5.00%

The fair value of the assets in the scheme at 31 December 2008 were:

	2008 \$'000	2007 \$'000	2006 \$'000
Equities	4,298	7,544	7,242
Bonds	932	1,769	1,630
Index-linked gilts	430	820	694
Cash	1,505	59	77
Total market value of assets	7,165	10,192	9,643
Present value of scheme liabilities	(8,867)	(14,277)	(14,062)
<b>Deficit before any allowance for deferred tax liability</b>	<b>(1,702)</b>	<b>(4,085)</b>	<b>(4,419)</b>
Related deferred tax asset	620	1,144	1,325
<b>Net pension liability under FRS 17</b>	<b>(1,082)</b>	<b>(2,941)</b>	<b>(3,094)</b>

# Paramount Home Entertainment International Limited

## Notes to the Financial Statements for the year ended 31 December 2008

The actuarial value of assets represents 81% (2007: 71%) of the combined value of the benefits that have accrued to members, after allowing for expected future increases in salaries.

Details of experience gains and losses for the year ended 31 December 2008:

History of experience gains and losses	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Difference between the expected and actual rate of return on assets	1,947	(178)	235	747	139
Percentage of the total market value of the pension scheme assets	27.2%	(1.7%)	2.4%	9.6%	2.0%
Experience profit / (loss) on scheme liabilities	408	(277)	544	(212)	(8)
Percentage of the present value of the scheme liabilities	4.6%	(1.9%)	3.9%	1.7%	0.1%

The following amounts are recorded in the profit and loss account and statement of total recognised gains and losses for the year ended 31 December 2008:

<b>Operating Profit</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Current service cost	(700)	(716)
Gain on curtailments	-	594
<b>Total operating charge</b>	<b>(700)</b>	<b>(122)</b>
<b>Other finance charges</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Expected return on assets	501	633
Interest cost	(608)	(779)
<b>Total net cost</b>	<b>(107)</b>	<b>(146)</b>
<b>Statement of total recognised gains and losses</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Actual return less expected return on pension scheme assets	(1,947)	(178)
Change of assumptions	2,969	906
Experience losses arising on scheme liabilities	(408)	(277)
<b>Actuarial gain recognised in the STRGL</b>	<b>614</b>	<b>451</b>

## Paramount Home Entertainment International Limited

### Notes to the Financial Statements for the year ended 31 December 2008

Movement in deficit during the year	2008 \$'000	2007 \$'000
Deficit at start of year	(4,086)	(4,419)
Revaluation opening deficit	1,191	(178)
Current service cost	(700)	(716)
Gain on curtailments	-	594
Other financing charges	(107)	(146)
Employer contributions	1,386	328
Actuarial profit / (loss)	614	451
Deficit at end of the year	(1,702)	(4,086)

#### 20 Ultimate Parent Undertaking

The Company is a subsidiary undertaking of Paramount Home Entertainment International B.V. incorporated in the Netherlands.

Paramount Home Entertainment International B.V. is owned by Viacom Inc., a company incorporated in the USA, through its subsidiary Viacom Overseas Holdings C.V. The consolidated financial statements of Viacom Inc. are available to the public and may be obtained from 1515 Broadway, New York, 10036, USA.

The ultimate controlling party of the Company is National Amusements Inc. incorporated in the USA, the parent undertaking of Viacom Inc.

The largest and smallest group for which consolidated financial statements are drawn up and of which the Company is a member, is Viacom Inc., incorporated in the state of Delaware in the United States of America.

#### 21 Post Balance Sheet Events

On 5 June 2009 Viacom Inc. announced that its Board of Directors has authorised a change in its fiscal year from 31 December to 30 September. This change will be effective for the 9 months ended 30 September 2010. Management is currently assessing the impact on the Company.