Shed Media Limited

Report and Financial Statements

31 December 2010

Directors
J Kemp
N Southgate
C Hungate

Secretary
J Kemp

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

Bankers
Barclays Bank Plc
27 Soho Square
London W1D 3QR

Registered Office
85 Grays Inn Road
London
WC1X 8TX

Directors' report

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The profit for the year after taxation amounted to £2,982,923 (2009 – profit of £803,361) The directors paid a dividend of £1,069k (2009 - £992k)

Principal activities and review of the business

The principal activity of the company during the year continued to be as a management service company and television production holding entity

The company also received receipts regarding numerous intellectual property deals

On 13 October 2010 Time Warner Inc , through WB BidCo plc (which subsequently changed its name to Shed Media Group Limited), acquired a controlling interest in the company's then ultimate parent undertaking Shed Media plc, and the company became a subsidiary of Time Warner Inc at that date Shed Media plc subsequently changed its name to Shed Media Limited

Key performance indicators

The principal performance measures used to monitor the business are

i) Income from group undertakings Dividends received during the year increased to £10,527k (2009 – £4,400k)

ii) Administrative expenses Administrative expenses paid during the year increased to £3,917k (2009 - £2,924k)

Principal risks and uncertainties

The company uses various financial instruments which include cash, trade debtors, trade creditors and amounts due to group undertakings that arise directly from its operations The main purpose of these financial instruments is to raise finance for the company's operations The existence of these financial instruments exposes the company to a number of financial risks, which are described in detail below

The main risks arising from the company's financial instruments are currency risk, credit risk and liquidity risk

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

The company's policy throughout the year has been to achieve this objective through regular cash flow forecasting and review

Credit risk

The company's principal financial assets are cash and trade debtors The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies The principal credit risk arises, therefore, from trade debtors

Principal risks and uncertainties (continued)

Despite debtors being major international broadcast organisations debtors are reviewed by the financial controller financial director and the board on a regular basis through a monthly assessment of the funding due on productions underway and in conjunction with debt ageing and collection history

Directors' report

Currency risk

The company's key financial risk is in foreign currency exposure, both in terms of the cost of producing programmes on overseas shoots and in income received from overseas co-producers The uncertain nature of the timing of receipts (due to their tendency to be tied to flexible delivery milestones) makes it risky to take out explicit hedging contracts against these risks As such, the company agreed wherever possible to contractual rates in advance of the start of production and maintains Sterling, Euro and US$ balances within its bank facilities to fund costs where advantageous

Directors

The directors who served the company during the year were as follows

J Kemp
N Southgate
C Hungate
E Gallagher (resigned 5 November 2010)
N Powell (resigned 5 November 2010)
C Bonney (resigned 5 November 2010)
A Graham (resigned 5 November 2010)
T Carter (resigned 5 November 2010)
H Rabbatts (resigned 20 October 2010)
C McConville (resigned 20 October 2010)
M Watson (resigned 20 October 2010)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

Baker Tilly UK Audit LLP resigned as auditor on 13 October 2010 and Ernst & Young LLP was appointed in its place

A resolution to reappoint Ernst & Young LLP as auditor will be put to the members at the Annual General Meeting

On behalf of the Board

Director
Date 30/09/11

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper 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 auditor's report

to the members of Shed Media Limited

We have audited the financial statements of Shed Media Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 18 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 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 auditor's report

to the members of Shed Media 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

Ernst & Young LLP

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

3/10/2011

Profit and loss account

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Turnover		1,581	1,246
Cost of sales		(181)	(124)
Gross Profit		1,400	1,122
Administrative expenses		(3,917)	(2,924)
Operating profit	2	(2,517)	(1,802)
Interest receivable and similar income	4	5	11
Interest payable and similar charges	4	(2,967)	(2,785)
Investment Income	7	10,527	4,400
Exceptional Items	6	(3,867)	(409)
Profit on ordinary activities before taxation	2	1,181	(585)
Tax	5	1,802	1,388
Profit for the financial year		2,983	803

Statement of total recognised gains and losses

for the year ended 31 December 2010

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £2,982,923 in the year ended 31 December 2010 (2009 – loss of £803,361)

Balance sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	8	701	951
Investments	9	76,413	79,499
		77,114	80,450
Current assets			
Debtors	10	2,234	1,909
Cash at bank and in hand		971	979
		3,205	2,888
Creditors: amounts falling due within one year	11	(26,494)	(20,427)
Net current assets		(23,289)	(17,539)
Creditors: amounts falling due after one year	12	-	(14,255)
Provision for Liabilities	13	(14)	-
Net assets		53,811	48,656
Capital and reserves			
Called up share capital	14	-	86
Share premium account	15	34,647	33,880
Capital contribution reserve	16	1,907	-
Share option reserve		-	1,326
Own share held in trust		-	(450)
Profit and loss account	16	17,257	13,814
Shareholders' funds	16	53,811	48,656

Jonathon Kemp
Director
Date 30/09/11

Notes to the financial statements

at 31 December 2010

1 Accounting policies

The principal accounting policies, which have been consistently applied in the Company's financial information throughout the period under review, are as follows

Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom

Development Expenditure

Development expenditure has been written off as incurred, unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects In this situation, the development expenditure is deferred

Tangible fixed assets

Tangible fixed assets are stated at historical cost

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows -

Fixtures, fittings & equipment	25% straight line
Computer equipment	33% straight line

These assets are collectively shown as fixtures and fittings in note 8 to the Company financial statements

Operating Leases

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

Going Concern

The Directors regularly review that the Company has adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the Financial Statements See corporate governance statement for additional information

Investments

Fixed asset investments are stated at cost less any provision for diminution in value

Notes to the financial statements

at 31 December 2010

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken to the profit and loss account for the year

Deferred taxation

Deferred tax 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 Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which 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

Share-based payment

Equity settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest The fair value is measured by use of the Black-Scholes option pricing model The expected life used in the model has been adjusted, based on management's best estimate for the effect of non-transferability, exercise restrictions and behavioural considerations

Notes to the financial statements

at 31 December 2010

2 Operating Income

This is stated after charging/(crediting)

	2010	*2009*
	£'000	*£'000*
Auditors' remuneration	30	327
Depreciation – programme assets	217	162
Foreign exchange gains	12	15

3 Directors' remuneration

	2010	*2009*
	£ 000	*£'000*
Aggregate emoluments	1,363	1,701

The highest paid director received emoluments of £1,019,259 (2009 – £296,502)

4 Interest

	2010	*2009*
	£ 000	*£ 000*
Bank Interest receivable	5	11
Bank Interest payable	(2,967)	(2,785)

5. Tax

(a) Tax on profit/(loss) on ordinary activities

The tax charge is made up as follows

	2010	*2009*
	£'000	*£ 000*
Current tax		
Group relief	(1 977)	(1,275)
Adjustment in respect of prior years	27	(24)
Total current tax (note 6(b))	(1,950)	(1 299)
Deferred tax		
Origination and reversal of timing differences	148	(89)
Total deferred tax (note 6(c))	148	(89)
Tax on profit on ordinary activities	(1 802)	(1 388)

Notes to the financial statements

at 31 December 2010

5. Tax (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010 £'000	2009 £'000
Profit/(Loss) on ordinary activities before tax	1,181	(585)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 – 28%)	331	(164)
Effects of		
Accelerated film relief	-	(3)
Capital allowances in excess of depreciation	15	(7)
Disposal of film assets	55	-
Transfer pricing adjustment	(65)	(69)
Expenses not deductible for tax purposes	138	136
Impairment of investment in subsidiary – Outright Distribution Limited	864	-
Non-taxable income – dividends receivable	(2,948)	(1,232)
Share options costs	32	75
Share options exercised	(399)	(11)
Prior year adjustments	27	(24)
Current tax for the year (note 5(a))	(1,950)	(1,299)

Factors affecting future tax charges

A number of changes to the UK corporation tax system were announced in the June 2010 and March 2011 Budget statements The Finance (No 2) Act 2010, enacted in July 2010, included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 The effect of this change on the deferred tax balances has been included in the figures within these accounts

A further 1% reduction in the rate to 26% from 1 April 2011 was substantively enacted via Resolution in March 2011 and a reduction of a further 1% to a rate of 25% effective from 1 April 2012 was substantively enacted in July 2011 As these changes were substantively enacted after the balance sheet date, they are not reflected in the figures within these accounts Further changes to the rate are proposed to reduce the rate by a further 1% per annum to 23% by 1 April 2014 but these changes have not yet been substantively enacted and are not therefore included in the figures within these accounts We estimate the impact upon deferred tax as a result of these changes to be a reduction in the balance of approximately £1 457 over the forthcoming three years It is not yet possible to quantify the impact of these rate changes upon current tax

Notes to the financial statements

at 31 December 2010

6. Exceptional Items

Exceptional items refer to amounts borne by Shed Media Group Limited regarding the following -

	2010	*2009*
	£'000	£'000
Impairment of investment in subsidiary (Outright Distribution Limited)	3,086	-
Fees (Acquisition)	525	-
National Insurance on Share Options	256	-
Restructuring Costs	-	409
	3,867	409

7. Dividends

	2010	*2009*
	£'000	*£'000*
Paid during the year	(1,069)	(991)
Received during the year	10,527	4,400

8 Tangible fixed assets

	Fixtures & Fittings
	£'000
Cost	
At 1 January 2010	1,729
Additions	450
Disposals	(838)
At 31 December 2010	**1,341**
Depreciation	
At 1 January 2010	778
Charge for the year	217
Disposals	(355)
At 31 December 2010	**640**
Net book value at 31 December 2010	**701**
Net book value at 31 December 2009	951

Notes to the financial statements
at 31 December 2010

9. Fixed asset investments

	Interests in subsidiary undertakings
	£'000
Cost and net book value	
At 1 January 2010	79,499
Adjustments	(3,086)
At 31 December 2010	**76,413**

Details of principal subsidiary undertakings are below

Name	*Principal Activity*	*% Ownership ordinary shares*
Shed Productions Limited*	Television Production	100
Ricochet Limited*	Television Production	100
Twenty Twenty Productions Limited*	Television Production	100
Wall to Wall (Holdings) Limited *	Television Production	100
Shed Media USA Inc**	Television Production	100
Shed Media Scotland Limited *	Television Production	100

* Registered in England and Wales

** Registered in United States of America

10 Debtors

	2010	*2009*
	£'000	*£'000*
Trade debtors	372	3
Amounts owed by Group undertakings	1 485	1,435
Other debtors	65	190
Prepayments and accrued income	312	281
	2,234	**1,909**

Other debtors include deferred tax of £NIL (2009 £133,672)

Notes to the financial statements

at 31 December 2010

11. Creditors amount falling due within one year

	2010	*2009*
	£'000	*£'000*
Bank loan	-	11,251
Loan notes	-	500
Trade creditors	76	211
Amounts owed to Group undertakings	25,530	6,898
Corporation tax	280	1,123
Other taxes and social security	14	69
Accruals	594	375
	26,494	**20,427**

12 Creditors amounts falling due after one year

	2010	*2009*
	£'000	*£'000*
Bank loan	-	14,255
	-	14,255

13 Provisions for liabilities

Deferred tax (asset)/liability

	31 December 2010	*31 December 2009*
	£ 000	*£'000*
Accelerated capital allowances	19	17
Film Asset	(5)	63
Share Options	-	(214)
Deferred tax liability/(asset)	**14**	**(134)**
(Asset)/provision at start of period	(134)	(45)
Net deferred tax credit in profit and loss account for the period	148	(89)
Provision/(asset) at end of period	**14**	**(134)**

Notes to the financial statements

at 31 December 2010

14. Share capital

The share capital of Shed Media Limited consists of ordinary shares with a par value of 0 1p each All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at shareholders' meetings

	2010	*2009*
	£'000	*£'000*
Allotted, called up and fully paid		
1 ordinary shares of 0 1p each (2009 85,966,967 ordinary share of 0 1p each)		
	-	**86**
Authorised		
105,000,000 ordinary shares at 0 1p each (2009 105,000,000 ordinary shares at 0 1p each)	**105**	**105**

A summary of movements from 1 January 2010 is detailed below

	No of Shares
	'000
At 1 January 2010	85,967
Shares issued during the year	2,917
Share reduction	88,884
At 31 December 2010	-

15 Share premium

	Share Premium Account
	£'000
At 1 January 2010	33,880
On shares issued in the year	678
Share reduction	89
At 31 December 2010	**34,647**

Notes to the financial statements

at 31 December 2010

16 Reconciliation of movements in shareholders' funds

	Called up share capital	*Share premium account*	*Capital contribution reserve*	*Share option reserve*	*Own shares held in trust*	*Profit and loss account*	*TOTAL*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Shareholders' funds at 1 January 2009	80	28,740	-	971	(450)	13,954	43,295
Profit for the financial year	-	-	-	-	-	802	802
Dividend paid	-	-	-	-	-	(992)	(992)
Shares issued	6	5,140	-	-	-	-	5,146
Share based payment	-	-	-	405	-	-	405
Transfer to profit and loss account	-	-	-	(50)	-	50	-
Shareholders' funds at 31 December 2009	86	33,880	-	1,326	(450)	13,814	**48,656**
Shareholders' funds at 1 January 2010	86	33,880	-	1,326	(450)	13,814	48,656
Profit for the financial year	-	-	-	-	-	2,983	2,983
Dividend paid	-	-	-	-	-	(1,069)	(1,069)
Shares issued	3	678	-	-	450	-	1,131
Share based payment	-	-	-	(1,326)	-	1,529	203
Share reduction	(89)	89	-	-	-	-	-
Capital contribution	-	-	1,907	-	-	-	1,907
Shareholders' funds at 31 December 2010	-	34 647	1,907	-	-	17,257	**53,811**

17 Related party transactions

The Company has taken advantage of the exemption in FRS 8 – Related Party Transactions not to disclose transactions between Group companies

Notes to the financial statements

at 31 December 2010

18. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Shed Media Group Limited, a company incorporated in England and Wales

Time Warner Holdings Limited is the parent undertaking of the smallest group of undertakings of which the company is a member and for which group financial statements are drawn up Time Warner Holdings Limited is registered in England and Wales and copies of its financial statements can be obtained from the Registrar of Companies in Cardiff

At 31 December 2010, Time Warner Inc , a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company is a member and for which group financial statements are drawn up Copies of Time Warner Inc 's financial statements can be obtained from One Time Warner Center, New York, NY 10019, USA