Shed Productions (WR) Limited

Report and Financial Statements

31 December 2011

Directors
B Park
E Gallagher
A McManus
J Kemp (resigned 2 March 2012)
C Hungate (appointed 2 March 2012)
N Southgate

Secretary
J Kemp (resigned 2 March 2012)
C Hungate (appointed 2 March 2012)

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 2011

Results and dividends

The loss for the year after taxation amounted to £2,609,329 (2010 profit of £339,273) The directors do not recommend a final dividend (2010 £nil)

Principal activity and review of the business

The principal activity of the company during the year was the production and exploitation of television programmes The company will continue to produce television programmes in the future

The company produced Waterloo Road (Series 6 and 7) in the year for the BBC and received receipts from international and DVD sales of Bad Girls (Series 3) and Waterloo Road (Series 1 to 7)

Key performance indicators

The principal performance measures used to monitor the business are

- Sales Sales decreased by 20% on an annualised basis
- Gross margin Gross margin decreased to -41% (2010 3 7%)
- Operating profit margin The operating profit margin decreased to -41% (2010 3 7%)

Future developments

In future periods the company will continue to receive receipts from international and DVD sales and is likely to produce additional television programming

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 more detail below

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

Directors' report

Principal risks and uncertainties (continued)

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 credit-rating agencies The principal credit risk arises, therefore, from trade debtors

Despite debtors being major 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

Going concern

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 these financial statements

Directors

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

	Date of Appointment	Date of Resignation
B Park	25 July 2000	N/A
E Gallagher	25 July 2000	N/A
A McManus	25 July 2000	N/A
J Kemp	27 January 2005	2 March 2012
N Southgate	20 January 2009	N/A
C Hungate	2 March 2012	N/A

Disclosure of information to the auditor

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

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

Auditor

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

Claire Hungate
Director

26 September 2012

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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report

to the members of Shed Productions (WR) Limited

We have audited the financial statements of Shed Productions (WR) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 15 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 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 Report and Financial Statements 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 2011 and of its loss 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 Productions (WR) 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
26 September 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	*2011* £	*2010* £
Turnover	2	8,831,999	11,044,205
Cost of sales		(12,476,743)	(10,634,215)
Gross (loss)/ profit		(3,644,744)	409,990
Administrative expenses		(982)	(164)
Operating (loss)/ profit	3	(3,645,726)	409,826
Interest receivable and similar income	6	319	7,913
(Loss)/ profit on ordinary activities before taxation		(3,645,407)	417,739
Tax	7	1,036,078	(78,466)
(Loss) / profit for the financial year	12	(2,609,329)	339,273

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2011

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £2,609,329 in the year ended 31 December 2011 (2010 – profit of £339,273)

Balance sheet

at 31 December 2011

	Notes	*2011* £	*2010* £
Fixed assets			
Tangible assets	8	1,112,434	4,867,359
Current assets			
Debtors	9	1,901,888	1,299,211
Cash at bank and in hand		645,322	80,232
		2,547,210	1,379,443
Creditors amounts falling due within one year	10	(1,860,053)	(801,804)
Net current assets		687,157	577,639
Total assets less current liabilities		1,799,591	5,444,998
Provisions for liabilities	7 (c)	(278,109)	(1,314,187)
Net assets		1,521,482	4,130,811
Capital and reserves			
Called up share capital	11	100	100
Profit and loss account	12	1,521,382	4,130,711
Shareholders' funds	13	1,521,482	4,130,811

The financial statements on pages 7 to 15 were approved by the Board of Directors and signed on behalf of the Board by

Claire Hungate
Director
26 September 2012

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

Statement of cash flows

The company has taken advantage of the exemption within FRS 1 – Cash Flow Statements, for subsidiaries with 90% or more of the voting rights controlled within the group, and has not presented a statement of cash flows

Turnover

Turnover represents distribution income and amounts receivable for work carried out in producing television programmes

Production income is recognised over the period of the production or as per the contract where payment is dependent on materials delivery Gross profit on production activity is recognised over the period of the production or in accordance with the underlying contract and where there is certainty of this being realised, overages on productions are recognised as they arise and underages are recognised on completion of the productions

For distribution income the amount recognised in the profit and loss account represents the value of the licence fees including withholding tax but excluding Value Added Tax

Distribution income is recognised when

- An agreement is contracted
- The fee is fixed or determinable
- For finished programme sales, when the programme is delivered

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses

For programme assets, depreciation is provided in accordance with the income forecast method whereby depreciation is taken to the profit and loss account on a pro rata basis calculated as the income received in the accounting period in relation to the expected revenue over the life of the programme Forecasted income is based on information provided by the distributors of the programmes, which represents a change in the basis of the estimates Previously forecasted income was estimated based on knowledge and expectations of senior management of the company, with consideration taken on income achieved on earlier series of the programmes

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Going concern

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 these financial statements

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Deferred taxation

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 have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

2. Turnover

The company's turnover and profit on ordinary activities before taxation were derived from its principal activity wholly undertaken in the United Kingdom

3. Operating (loss) / profit

This is stated after charging

			2011	*2010*
			£	*£*
Auditor's remuneration	–	audit services	–	–
Depreciation	–	programme assets	3,754,991	560,652

Auditors' remuneration is borne by the Company's intermediate parent, Shed Media Group Limited

4. Directors' remuneration

The directors' remuneration in the year was £nil (2010 – £nil) Certain directors received remuneration from other group undertakings, in the opinion of the directors, it is not practicable to apportion the remuneration of those directors between qualifying services to the company and services to the rest of the group

5. Staff costs

	2011	*2010*
	£	*£*
Wages and salaries	1,778,299	2,345,188
Social security costs	189,109	204,061
	1,967,408	2,549,249

Notes to the financial statements

at 31 December 2011

5. Staff costs (continued)

The average monthly number of employees during the year was made up as follows

	No	*No*
Management and administration	-	5
Cast, crew and production	54	23
	54	28

There was also an average of 38 self employed production people during the year (2010 – 53) The self employed people were paid a total of £2,140,290 during the year (2010 – £2,905,573)

6. Interest receivable and similar income

	2011	*2010*
	£	*£*
Bank interest receivable	319	1,183

7. Tax

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

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

	2011	*2010*
	£	*£*
Current tax:		
UK corporation tax on the profit for the year at 26 5% (2010 28%)	–	8,161
Total current tax (note 7(b))	–	8,161
Deferred tax:		
Origination and reversal of timing differences	(1,013,829)	70,305
Credit due to change in tax rate	(22,249)	–
Total deferred tax (note 7(c))	(1,036,078)	70,305
Total tax (credit) /charge on (loss) / profit on ordinary activities	(1,036,078)	78,466

Notes to the financial statements

at 31 December 2011

7. Tax (continued)

(b) Factors affecting the current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26 5% (2010 – 28%) The differences are explained below

	2011	*2010*
	£	*£*
(Loss)/ profit on ordinary activities before tax	(3,645,407)	417,740
Tax on (loss) / profit at standard rate	(966,033)	116,967
Effects of		
Accelerated film relief	995,073	(118,978)
Transfer pricing adjustment	–	10,172
Group relief received for nil consideration	(29,040)	–
Current tax for the year (note 7(a))	–	8,161

(c) Deferred tax

	2011	*2010*
	£	*£*
At 1 January	1,314,187	1,243,882
Transfer to profit and loss account (note 7 (a))	(1,036,078)	70,305
At 31 December	278,109	1,314,187
Analysed as		
Accelerated film relief	278,109	1,314,187
Total deferred tax	278,109	1,314,187

(d) Factors affecting future tax charges

A number of changes to the UK corporation tax system were announced in the June 2010, March 2011 and March 2012 budget statements The Finance Act 2011, enacted in July 2011, included legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 The effect of this change on the deferred tax balances has been included in the figures within these financial statements

A further 1% reduction in the rate, to 24% from 1 April 2012, was substantively enacted via Resolution in March 2012 and a reduction of a further 1% to a rate of 23%, effective from 1 April 2013, was substantively enacted in July 2012 As these changes were substantively enacted after the balance sheet date, they are not reflected in the figures within these accounts A further change to the rate is proposed to reduce the rate by a further 1% to 22% from 1 April 2014, but this change has not yet been substantively enacted and is 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 £33,373 over the forthcoming two 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 2011

8. Tangible fixed assets

	Programme assets £
Cost	
At 1 January 2011	7,145,416
Additions	179,880
At 31 December 2011	7,325,296
Depreciation	
At 1 January 2011	2,278,057
Charge for the year	3,934,805
At 31 December 2011	6,212,862
Net book value	
At 31 December 2011	1,112,434
At 1 January 2011	4,867,359

The programme assets represents rights, titles and interests to the programme Bad Girls (Series 3) and Waterloo Road (Series 1–7)

The net book value of programme assets held under finance leases is £nil (2010 – £nil) The related depreciation charge for the year in respect of these assets is £nil (2010 – £21,046)

9. Debtors

	2011 £	*2010* £
Amounts due from group undertakings	772,506	582,506
Other debtors	217,613	303,802
Other taxes and social security costs	487,712	35,962
Prepayments and accrued income	424,057	376,941
	1,901,888	1,299,211

Notes to the financial statements

at 31 December 2011

10. Creditors: amounts falling due within one year

	2011	*2010*
	£	*£*
Trade and other creditors	25,237	71,398
Amounts owed to group undertakings	1,611,990	631,240
Accruals and deferred income	222,826	99,166
	1,860,053	801,804

11. Issued share capital

		2011		*2010*
Allotted, called up and fully paid	*No*	*£*	*No*	*£*
Ordinary shares of £1 each	100	100	100	100

12. Movements on reserves

	£
At 1 January 2011	4,130,711
Loss for the financial year	(2,609,329)
At 31 December 2011	1,521,382

13. Reconciliation of shareholders' funds

	2011	*2010*
	£	*£*
Loss for the financial year	(2,609,329)	339,273
Net reduction to shareholders' funds	(2,609,329)	339,273
Opening shareholders' funds	4,130,811	3,791,538
Closing shareholders' funds	1,521,482	4,130,811

14. Related party transactions

The company has taken advantage of the exemption conferred by FRS 8 from the requirements to disclose details of transactions with group companies

Other than transactions with group companies, there were no related party transactions during the year

Notes to the financial statements

at 31 December 2011

15. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Shed Media 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 2011, Time Warner Inc , a company incorporated in the United States of America, was the ultimate parent undertaking, the controlling party 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