Shed Productions (WR) Limited

Report and Financial Statements

31 December 2013

Directors
N Southgate
C Hungate
T Downing

Secretary
C Hungate

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

Bankers
Barclays Bank Plc
27 Soho Square
London W1D 3QR

Registered Office
85 Gray's Inn Road
London WC1X 8TX

Registered No. 04034991

Strategic report

The directors present their strategic report for the year ended 31 December 2013.

Review of the business

The company's principal activities during the year continued to be that of drama television programme production.

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

	2013	2012	Change
	£	£	%
Turnover	16,459,480	12,398,032	33%
Gross profit	2,163,327	904,093	139%
Operating profit	2,164,094	889,879	143%
Profit after tax	1,690,408	651,874	159%
Equity shareholder' funds	3,863,764	2,173,356	78%
Average number of employees	143	77	86%
Hours produced	34	25	36%
Number of productions	4	2	100%

Turnover increased by 33% during the year primarily due to the increased number of hours produced and increased distribution income.

Total operating profit increased by 143% and profit after tax increased by 159% during the year. Both improvements were caused by an increased number of hours produced and higher distribution income in 2013.

The average number of employees increased by 86% during the year. This was attributable to the additional number of productions in the year.

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 principal risks and uncertainties facing the company are broadly grouped as – competitive, legislative and financial instrument risk.

Strategic report – (continued)

Competitive risk

The company is reliant on certain major broadcasters for commissions. Although the Production market is a competitive one the directors consider that the relationships the company has with its broadcasters along with its brands and reputation enable the company to maintain an edge over its competitors.

A general market trend is towards the broadcasters tightening production budgets with increasing instances of them seeking for Production companies to deficit finance programmes. The scale of the Shed group of companies along with the relationship with Warner Bros distribution enables the company to mitigate this risk.

Legislative risk

The company is subject to non-sector specific government legislation such as the 2014 auto-enrolment pension legislation which, as it does in any industry, impacts already constrained margins.

Sector specific legislation has however been supportive in recent years as evidenced by the film tax credit legislation and the directors consider this is likely continue.

Financial instrument 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. 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.

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.

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.

By order of the board

T Downing
Director
23 May 2014

Directors' report

The Directors present their report for the year ended 31 December 2013.

Directors of the company

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

N Southgate
C Hungate
T Downing (appointed 25 November 2013)
B Park (resigned 31 December 2013)
E Gallagher (resigned 31 December 2013)
A McManus (resigned 31 December 2013)

Dividends

The directors do not recommended a final dividend.

Future developments

In future periods the company will continue to produce television programming and receive receipts from international sales.

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position and its exposures to credit, liquidity and currency risk are described in the Strategic Report on pages 2 to 3.

The company has considerable financial resources together with strong relationships with a number of large broadcasters covering different genres. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

After making enquiries 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.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Financial instruments

Details of financial instruments are provided in the strategic report on page 3.

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' report – (continued)

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 group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to made himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

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

By order of the board

T Downing
Director
23 May 2014

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 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 16. 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 6, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report (continued)

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

23 May 2014

Profit and loss account

for the year ended 31 December 2013

	Notes	2013 £	2012 £
Turnover	2	16,459,480	12,398,032
Cost of sales		(14,296,153)	(11,493,939)
Gross profit		2,163,327	904,093
Administrative expenses		767	(14,214)
Operating profit	3	2,164,094	889,879
Interest receivable and similar income	6	–	53
Interest payable and similar charges	7	–	(59,288)
Profit on ordinary activities before taxation		2,164,094	830,644
Tax on profit on ordinary activities	8	(473,686)	(178,770)
Profit for the financial year	13	1,690,408	651,874

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2013

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £1,690,408 in the year ended 31 December 2013 (2012 – profit of £651,874).

Balance sheet

at 31 December 2013

	Notes	2013 £	2012 £
Fixed assets			
Television programme rights	9	941,114	448,082
Current assets			
Debtors	10	6,679,062	2,582,509
Cash at bank and in hand		177,535	3,956,092
		6,856,597	6,538,601
Creditors: amounts falling due within one year	11	(3,745,724)	(4,710,268)
Net current assets		3,110,873	1,828,333
Total assets less current liabilities		4,051,987	2,276,415
Provisions for liabilities			
Deferred tax	8(c)	(188,223)	(103,059)
Net assets		3,863,764	2,173,356
Capital and reserves			
Called up share capital	12	100	100
Profit and loss account	13	3,863,664	2,173,256
Shareholders' funds	14	3,863,764	2,173,356

T Downing

Director

23 May 2014

Notes to the financial statements

at 31 December 2013

1. Accounting policies

Basis of preparation

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

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.

Statement of cash flows

The company has taken advantage of the exemption within FRS 1 – Statements of Cash Flows, 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 amounts receivable for work carried out in producing television programmes and distribution income on licensing formats and completed programmes available to third parties.

Production income is recognised on the stage of completion method, based on the proportion of costs incurred at the balance sheet date in relation to the total expected cost of production.

Distribution income represents licence fees receivable from both Time Warner group companies and third parties. Amounts recognised in the profit and loss account include withholding tax but exclude Value Added Tax. Distribution income is recognised based on statements received from distributors.

Television programme rights

Television programme rights are stated at cost less accumulated depreciation and accumulated impairment losses.

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.

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.

Notes to the financial statements
at 31 December 2013

3. Operating profit
This is stated after charging:

		2013	2012
		£	£
Depreciation	– television programme rights	23,506	788,125

Auditor's remuneration in both the current and prior year has been borne by the Company's intermediate parent, Shed Media Group Limited.

4. Directors' remuneration
The directors are also directors of other companies in the group. They are remunerated by other group companies and are considered to have minimal qualifying services in respect of the company. In view of this, the directors do not consider it practical to apportion remuneration in respect of services to the company.

5. Staff costs

	2013	2012
	£	£
Wages and salaries	4,231,873	3,100,169
Social security costs	457,625	355,969
	4,689,498	3,456,138

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

	No.	No.
Cast, crew and production	279	127

6. Interest receivable and similar income

	2013	2012
	£	£
Bank interest receivable	–	53

7. Interest payable and similar charges

	2013	2012
	£	£
Loan interest payable	–	59,288

Notes to the financial statements

at 31 December 2013

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2013 £	*2012* £
Current tax:		
Group relief payments	388,522	353,820
Total current tax (note 8(b))	388,522	353,820
Deferred tax:		
Origination and reversal of timing differences	113,397	(166,088)
Credit due to change in tax rate	(28,233)	(8,962)
Total deferred tax (note 8(c))	85,164	(175,050)
Tax on profit on ordinary activities	473,686	178,770

(b) Circumstances affecting the tax charge:

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 23.25% (2012 - 24.5%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	2013 £	*2012* £
Profit on ordinary activities before tax	2,164,094	830,644
Tax on profit on ordinary activities at standard rate	503,152	203,508
Factors affecting charge:		
Accelerated film relief	(114,630)	162,767
Group relief received for nil consideration	–	(12,455)
Current tax for the year (note 8(a))	388,522	353,820

Notes to the financial statements

at 31 December 2013

8. Tax (continued)

(c) Deferred tax

	2013	2012
	£	£
Deferred tax is provided at 20% (2012 - 23%) in the balance sheet as follows:		
Included in provisions for liabilities	188,223	103,059
Analysed as:		
Accelerated film relief	188,223	103,059
Total deferred tax	188,223	103,059

Analysis of movement in deferred tax:	£
At 1 January 2013	103,059
Charged to profit and loss account (note 8(a))	85,164
At 31 December 2013	188,223

(d) Factors that may affect future tax charges

The Finance Act 2013, enacted in July 2013, included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The effect of this change on the deferred tax balances has been included in the figures within these accounts. It is not yet possible to quantify the impact of this rate change upon current tax.

9. Television programme rights

	£
Cost:	
At 1 January 2013	7,449,069
Additions	516,538
At 31 December 2013	7,965,607
Depreciation:	
At 1 January 2013	7,000,987
Charge for the year	23,506
At 31 December 2013	7,024,493
Net book value:	
At 31 December 2013	941,114
At 1 January 2013	448,082

Notes to the financial statements

at 31 December 2013

10. Debtors

	2013	*2012*
	£	*£*
Trade debtors	279,909	244,228
Amounts due from group undertakings	1,023,601	1,027,744
Other debtors	356,408	351,213
Other taxes and social security costs	119,455	142,672
Prepayments and accrued income	4,899,689	816,652
	6,679,062	2,582,509

11. Creditors: amounts falling due within one year

	2013	*2012*
	£	*£*
Trade and other creditors	93,004	2,466
Amounts owed to group undertakings	2,353,496	1,848,411
Other taxes and social security costs	48,022	110,406
Group relief payable	388,522	353,820
Accruals and deferred income	862,680	2,395,165
	3,745,724	4,710,268

12. Issued share capital

		2013		*2012*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each	100	100	100	100

13. Movements on reserves

	Profit and loss account
	£
At 1 January 2013	2,173,256
Profit for the financial year	1,690,408
At 31 December 2013	3,863,664

14. Reconciliation of shareholders' funds

	2013	*2012*
	£	*£*
Profit for the financial year	1,690,408	651,874
Net movement to shareholders' funds	1,690,408	651,874
Opening shareholders' funds	2,173,356	1,521,482
Closing shareholders' funds	3,863,764	2,173,356

Notes to the financial statements

at 31 December 2013

15. Related party transactions

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

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

16. 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 2013, 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.