

Registration number: 05039068

Discovery Communications Europe Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015

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Discovery Communications Europe Limited

Company Information

Directors Hester Wheeley
Nicolas Bonard

Registered office Discovery House
Chiswick Park Building 2
566 Chiswick High Road
London
W4 5YB

Independent Auditors PricewaterhouseCoopers LLP
London

Discovery Communications Europe Limited

Strategic Report for the Year Ended 31 December 2015

The directors present their strategic report for the year ended 31 December 2015.

Fair review of the business

The Company's audited results for the year are shown on page 8. The results for the Company show a pre-tax loss of £(70,846,679) (2014: £(32,135,482)). The Company has net assets of £889,880,431 (2014: £967,624,456).

No dividends were declared and paid during the year (2014: £nil).

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

| | 2015 | 2014 | Variance % |
|--------------|---------|---------|------------|
| | £000 | £000 | |
| Turnover | 795,242 | 697,539 | 14% |
| Gross Profit | 89,073 | 119,287 | (25%) |
| Gross margin | 11% | 17% | |

Principal risks and uncertainties

Risks are formally reviewed by management and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Company.

The key business risks affecting the Company are set out below:

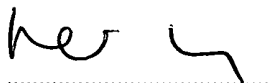
Economic Conditions

The Company derives substantial revenues from the provision of support services to fellow group operating companies. The group operating companies face cyclical economic conditions in the countries where they operate. Economic conditions may adversely affect the economic prospects of the group companies and therefore they may have an adverse effect on our business.

Employees

The Company's performance depends largely on its employees. The resignation of key individuals and the inability to recruit people with the right experience and skills could adversely impact the Company's results. To mitigate these issues, the Company has introduced programmes and schemes linked to the Group's performance that are designed to retain key individuals.

Approved by the Board on 29 September 2016 and signed on its behalf by:



Hester Wheelley
Director

Discovery Communications Europe Limited

Directors' Report for the Year Ended 31 December 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

Directors of the Company

The directors who held office during the year were as follows:

Hester Wheeley

Nicolas Bonard

Principal activities

The principal activity of the Company is the distribution of factual and lifestyle television channels via cable and satellite throughout the UK, the rest of Europe, the Middle East, Africa and Latin America.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives takes place at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. The involvement of employees in the Company's performance is encouraged through the Company bonus scheme which is partly linked to the group companies' performance. Communication with all employees continues through in-house briefing groups and the Discovery Communications intranet.

Future developments

International television markets vary in their stages of development. Some, notably the UK, are among the more advanced digital multi-channel television markets in the world with varying degrees of investment from operators in expanding channel capacity or converting to digital. The Company believes there is future growth in many markets.

The Company's turnover is principally earned from (1) the receipt of subscriber revenue from the broadcasting of television channels pursuant to affiliation agreements with cable network operators, direct-to-home satellite operators and other operators, and (2) advertising sales on the Company's television channels.

Going concern

The directors have a reasonable expectation that the Company and the Discovery Group have adequate resources to continue in operational existence for the foreseeable future.

Discovery Communications, Inc., the ultimate parent undertaking of Discovery Communications Europe Limited, has indicated its current intention to support the activities of the Company, including providing the means to enable it to meet its liabilities as they fall due. On that basis, the Directors believe it is appropriate for the financial statements to be prepared on a going concern basis.

Further details regarding the adoption of the going concern basis can be found in the accounting policies note in the financial statements.

Dividends

No dividends were paid during the year.

Discovery Communications Europe Limited

Directors' Report for the Year Ended 31 December 2015

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, credit risks, and liquidity risks.

The central treasury team of Discovery Communications, LLC, an intermediate parent company, has the responsibility of setting risk management policies applied across the global Discovery Group. The Company treasury team implements these policies to enable prompt identification of financial risks so that appropriate actions may be taken. The treasury team has a set of guidelines to manage exchange risk, credit risk and the use of financial instruments to manage these risks.

Foreign exchange risk

The Company has operations in multiple currencies and is exposed to foreign exchange risk mainly with respect to the Euro and US Dollar.

Credit risk

The Company has no significant concentration of credit risk and follows the Discovery Group policy with respect to credit risk associated with trade debtors. The Company has major intercompany receivables and may be unable to recover the receivables if any of the group companies face financial difficulties. To mitigate this risk the Company follows strict intercompany settlements and monitors the intercompany balances on a regular basis.

Liquidity risk

The Company actively maintains short-term committed facilities with Bank Mendes Gans BV to ensure that the Company has sufficient available funds for operations and planned expansions. For more details refer to note 26.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

PricewaterhouseCoopers LLP have been appointed as auditors of the Company and a resolution to reappoint them was proposed at the Annual General Meeting.

Discovery Communications Europe Limited

Statement of Directors' Responsibilities

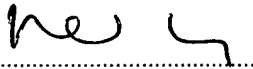
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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.

Approved by the Board on 29 September 2016 and signed on its behalf by:



Hester Wheeley
Director

Discovery Communications Europe Limited

Independent Auditors' Report to the Members of Discovery Communications Europe Limited (continued)

Report on the financial statements

Our opinion

In our opinion, Discovery Communications Europe Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 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.
-

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2015;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Discovery Communications Europe Limited

Independent Auditors' Report to the Members of Discovery Communications Europe Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves


We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Philip Stokes (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
London

29 September 2016

Discovery Communications Europe Limited

Profit and Loss Account for the Year Ended 31 December 2015

| | Note | 2015 £ 000 | 2014 £ 000 |
|--|------|------------------------|------------------------|
| Turnover | 4 | 795,242 | 697,539 |
| Cost of sales | | <u>(706,169)</u> | <u>(578,252)</u> |
| Gross profit | | 89,073 | 119,287 |
| Administrative expenses | | <u>(157,814)</u> | <u>(149,960)</u> |
| Operating loss | 5 | <u>(68,741)</u> | <u>(30,673)</u> |
| Other interest receivable and similar income | 6 | 546 | 182 |
| Interest payable and similar charges | 7 | <u>(2,652)</u> | <u>(1,644)</u> |
| | | <u>(2,106)</u> | <u>(1,462)</u> |
| Loss on ordinary activities before taxation | | (70,847) | (32,135) |
| Tax on loss on ordinary activities | 11 | <u>(5,348)</u> | <u>(885)</u> |
| Loss for the financial year | | <u><u>(76,195)</u></u> | <u><u>(33,020)</u></u> |

The above results were derived from continuing operations.

Discovery Communications Europe Limited

Statement of Comprehensive Income for the Year Ended 31 December 2015

| | 2015 £ 000 | 2014 £ 000 |
|--|------------------------|------------------------|
| Loss for the financial year | (76,195) | (33,020) |
| Items that may be reclassified subsequently to profit or loss | | |
| (Loss)/gain on cash flow hedges (net) | <u>(1,798)</u> | <u>1,894</u> |
| Total comprehensive expense for the year | <u><u>(77,993)</u></u> | <u><u>(31,126)</u></u> |

The notes on pages 13 to 40 form an integral part of these financial statements.

Discovery Communications Europe Limited

Registration number: 05039068

Balance Sheet as at 31 December 2015

| | Note | 2015 £ 000 | 2014 £ 000 |
|--|------|------------------|------------------|
| Fixed assets | | | |
| Intangible assets | 12 | 171,817 | 173,425 |
| Property, plant and equipment | 13 | 41,935 | 47,546 |
| Investments | 14 | 913,316 | 768,149 |
| | | <u>1,127,068</u> | <u>989,120</u> |
| Current assets | | | |
| Stocks | 16 | 36,916 | 110,444 |
| Trade and other debtors | 17 | 196,097 | 128,720 |
| Derivative financial instruments | 15 | 2,023 | 1,836 |
| Cash at bank and in hand | | 1,875 | 1,086 |
| Deferred tax assets | 11 | 9,451 | 8,423 |
| | | <u>246,362</u> | <u>250,509</u> |
| Creditors: Amounts falling due within one year | | | |
| Trade and other payables | 19 | (214,891) | (212,145) |
| Loans and borrowings | 20 | (250,278) | (37,504) |
| Derivative financial liabilities | 15 | (1,859) | (26) |
| Creditors: Amounts falling due within one year | | <u>(467,028)</u> | <u>(249,675)</u> |
| Net current (liabilities)/assets | | <u>(220,666)</u> | <u>834</u> |
| Total assets less current liabilities | | <u>906,402</u> | <u>989,954</u> |
| Creditors: Amounts falling due after more than one year | | | |
| Loans and borrowings | 20 | (11,818) | (16,438) |
| Deferred income | | <u>(2,437)</u> | <u>(3,750)</u> |
| Creditors: Amounts falling due after more than one year | | <u>(14,255)</u> | <u>(20,188)</u> |
| Provisions for liabilities | 22 | <u>(2,267)</u> | <u>(2,141)</u> |
| Net assets | | <u>889,880</u> | <u>967,625</u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 1,313,232 | 1,313,232 |
| Other reserves | | 90,692 | 90,692 |
| Profit and loss account | | <u>(514,044)</u> | <u>(436,299)</u> |
| Total Shareholders' funds | | <u>889,880</u> | <u>967,625</u> |

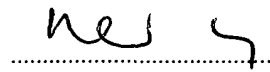
The notes on pages 13 to 40 form an integral part of these financial statements.

Discovery Communications Europe Limited

Registration number: 05039068

Balance Sheet as at 31 December 2015

Approved by the Board on 29 September 2016 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Hester Wheelley', is written over a horizontal dotted line.

Hester Wheelley

Director

Discovery Communications Europe Limited

Statement of Changes in Equity for the Year Ended 31 December 2015

| | Called up share capital £ 000 | Other reserves £ 000 | Profit and loss account £ 000 | Total shareholders' funds £ 000 |
|----------------------------------|--|---------------------------------|--|--|
| At 1 January 2014 | <u>1,313,232</u> | <u>90,692</u> | <u>(405,495)</u> | <u>998,429</u> |
| Loss for the financial year | - | - | (33,020) | (33,020) |
| Other comprehensive income | - | - | 1,894 | 1,894 |
| Total comprehensive expense | - | - | (31,126) | (31,126) |
| Share based payment transactions | - | - | 322 | 322 |
| At 31 December 2014 | <u>1,313,232</u> | <u>90,692</u> | <u>(436,299)</u> | <u>967,625</u> |

| | Called up share capital £ 000 | Other reserves £ 000 | Profit and loss account £ 000 | Total shareholders' funds £ 000 |
|----------------------------------|--|---------------------------------|--|--|
| At 1 January 2015 | <u>1,313,232</u> | <u>90,692</u> | <u>(436,299)</u> | <u>967,625</u> |
| Loss for the financial year | - | - | (76,195) | (76,195) |
| Other comprehensive expense | - | - | (1,798) | (1,798) |
| Total comprehensive expense | - | - | (77,993) | (77,993) |
| Share based payment transactions | - | - | 248 | 248 |
| At 31 December 2015 | <u>1,313,232</u> | <u>90,692</u> | <u>(514,044)</u> | <u>889,880</u> |

The notes on pages 13 to 40 form an integral part of these financial statements.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

1 General information

The address of its registered office is:

Discovery House
Chiswick Park Building 2
566 Chiswick High Road
London
W4 5YB

Discovery Communications Europe Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 3 to 4.

These financial statements are presented in British pounds sterling because that is the currency of the primary economic environment in which the Company operates.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, The Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

Basis of preparation

In the year ended 31 December 2015, the Company has undergone transition from reporting under UK Generally Accepted Accounting Practice to FRS 101 as issued by Financial Reporting Council. These financial statements have therefore been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101). Transition tables showing all material adjustments are disclosed in note 31.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- b) the requirements of IAS 7 Statement of Cash Flows;
- c) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- d) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- e) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transactions is wholly owned by such a member.

Where relevant, equivalent disclosures have been given in the financial statements of Discovery Communications, Inc. The financial statements of Discovery Communications Inc. are available to the public and can be obtained as set out in note 29.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report on page 2.

The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Discovery Communications Inc. group to continue as a going concern. The directors have assessed Discovery Communications Europe Limited's financial position and have a reasonable expectation that it will be able to continue in operational existence for the foreseeable future along with the support from Discovery Communications Inc.

Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Exemption from preparing group financial statements

Group financial statements of the Company and its subsidiary undertakings and its participating undertakings have not been prepared. The Company is exempt from the requirement to prepare group financial statements under the provisions of Section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking and not about its group.

Turnover

Current year turnover represents amounts charged to customers, net of VAT, and at the fair value of the consideration received or receivable when the product has been delivered and all the Company's contractual obligations have been met.

The Company has represented certain transactions from cost of revenue to revenue.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

Turnover is recognised as follows:

- Advertising revenues are recognised, net of agency commissions, in the period that the advertisements are aired; and
- Satellite and cable revenue is recognised as the services are provided to the platforms and may sometimes be a flat fee but is typically calculated based on the number of subscribers taking the Company's channels, as reported to the Company by the platforms, multiplied by the contractual rate per subscriber (with or without a minimum guaranteed fee).

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Share based payments

The Company employs certain senior staffs who are members of the Discovery Communications, Inc. (DCI) group's share-based compensation plans. There were two share-based compensation plans in existence during the period. Expenses arising under share-based compensation plans relate to stock options and restricted stock units.

The Company has applied the principles of IFRS 2 'Share-based payments' to its share-based compensation plans and has recorded all share-based compensation expenses as a component of administrative expenses.

The Company treats the award of units and stock options, and adjustments to the fair value of units and stock options, as a movement in equity as settlement of units and stock options is made by DCI, the ultimate parent company.

The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

Impairment of non-financial assets

Assets are reviewed at each financial year end for any indication of impairment. If such indication exists, the recoverable amount of the asset is reviewed in order to determine the amount of any impairment. The recoverable amount is the higher of its net selling price (fair value less selling costs) and its value in use. In estimating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects the time value of money and the risks specific to the asset. Under IAS 36, the impairment test is performed at a cash-generating unit level, being the "smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets". An impairment loss is recognised immediately as part of operating income.

An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. However the increased amount will not exceed the value that would have been determined had no impairment been recognised in prior years. A reversal of impairment loss is recognised immediately as part of operating income.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the profit and loss account. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the profit and loss account on disposal.

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Investments

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Stock and work in progress

Stock comprises acquired and commissioned television content and translation costs.

Content is stated at the lower of cost and net realisable value incurred up to the balance sheet date after making provision for expenditure on content and translations which are unlikely to be transmitted or sold.

Content cost is defined as payments made or due to content and translation suppliers once the content is aired or the license period commences. Translation cost is defined as payments made or due to translation suppliers once the content has been translated.

The costs of produced content are capitalised and amortised based on the expected realisation of revenues, resulting in an accelerated basis over four years for developed networks (Discovery Channel and Animal Planet) and a straight-line basis over a period of three years for developing networks (all other networks). The cost of licensed content is capitalised and amortised over a term not longer than the length of the license period, based on the expected realisation of revenues, resulting in an accelerated basis for developed networks and a straight-line basis for all other networks.

The costs of translation are capitalised and amortised on a straight line basis over a three year term, based on the expected realisation of revenues.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

The cost of television content and translation rights is recognised in the cost of sales expense line of the profit and loss account. Where content rights are identified as surplus to the Company's requirements, and no gain is anticipated through a disposal of the rights, or where the content will not be broadcast for any other reason, a charge to the profit and loss account is made.

Payments made upon receipt of commissioned and acquired content, but in advance of the legal right to broadcast the content, are treated as prepayments. Content rights not yet available for transmission are not included in inventories and are instead disclosed as contractual commitments (see note 25).

Debtors

Debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Loans and Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the profit and loss account and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when it becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through the Income statement) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets and liabilities

Classification and recognition

The classification of financial asset depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Derivative financial assets are measured at fair value through the profit and loss account, unless they are designated in a cash flow hedging relationship, in which case the change in the effective portion of the cash flow hedge is recorded in the statement of other comprehensive income and the ineffective portion is recorded in the profit and loss account.

Other financial assets are classified as 'loans and other debtors'. These include trade and other debtors that have fixed or determinable payments and are not quoted in an active market. Loans and other debtors are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying value of the allowance account are recognised in the profit and loss account.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

2 Accounting policies (continued)

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in the statement of other comprehensive income and accumulated in equity is recognised in the profit and loss account.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Derivatives and hedging

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account, and is included in the 'other gains and losses' line item.

Amounts previously recognised in the statement of other comprehensive income and accumulated in equity are reclassified to the profit and loss account in the periods when the hedged item is recognised in profit or loss, in the same line of the profit and loss account as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in the statement of other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the profit and loss account.

3 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of investments in subsidiaries

Determining whether subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations requires the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £913,315,933 with no impairment recognised in the period.

4 Turnover

| | 2015 £ 000 | 2014 £ 000 |
|----------------|----------------|----------------|
| UK and Ireland | 424,939 | 174,487 |
| Rest of Europe | 327,885 | 484,784 |
| Rest of World | 42,418 | 38,268 |
| | <u>795,242</u> | <u>697,539</u> |

The geographical analysis above is based on the country in which the television channel producing the income is shown. All turnover to third parties originates in the UK. The directors consider that the Company has one business class which is the broadcast of television channels.

5 Operating loss

Arrived at after charging:

| | 2015 £ 000 | 2014 £ 000 |
|---|---------------|---------------|
| Depreciation expense | 13,276 | 15,403 |
| Amortisation expense | 1,701 | 528 |
| Foreign exchange losses | 33,740 | 16,591 |
| Operating lease expense - property | 3,841 | 3,866 |
| Operating lease expense - other | 15,451 | - |
| Loss on disposal of property, plant and equipment | <u>11</u> | <u>-</u> |

6 Other interest receivable and similar income

| | 2015 £ 000 | 2014 £ 000 |
|----------------------------------|---------------|---------------|
| Interest income on bank deposits | 491 | 182 |
| Dividend income | <u>55</u> | <u>-</u> |
| | <u>546</u> | <u>182</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

7 Interest payable and similar charges

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Interest on bank overdrafts and borrowings | 1,439 | - |
| Interest on obligations under finance leases and hire purchase contracts | 1,199 | 1,630 |
| Other finance costs | 14 | 14 |
| | <u>2,652</u> | <u>1,644</u> |

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Wages and salaries | 5,934 | 8,653 |
| Social security costs | 1,211 | 1,437 |
| Other pension costs | 635 | 743 |
| Cost of employee share-based compensation plan (see note 24) | 248 | 322 |
| | <u>7,890</u> | <u>11,155</u> |

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

| | 2015 | 2014 |
|--------------------------|------------|------------|
| Programming and research | 1 | 1 |
| Broadcast and operations | 94 | 96 |
| Sales and marketing | 30 | 37 |
| Administration | 62 | 56 |
| | <u>187</u> | <u>190</u> |

9 Directors' remuneration

| | 2015 £ 000 | 2014 £ 000 |
|---|---------------|---------------|
| Aggregate emoluments | 387 | 2,017 |
| Company contributions to money purchase pension schemes | 32 | 143 |
| | <u>419</u> | <u>2,160</u> |

During the year the number of directors who were receiving benefits and share incentives was as follows:

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

9 Directors' remuneration (continued)

| | 2015 No. | 2014 No. |
|---|-------------|-------------|
| Received or were entitled to receive shares under long term incentive schemes | 1 | 7 |
| Exercised share options | <u>1</u> | <u>1</u> |

In respect of the highest paid director:

| | 2015 £ 000 | 2014 £ 000 |
|---|---------------|---------------|
| Remuneration | 387 | 1,492 |
| Company contributions to money purchase pension schemes | <u>32</u> | <u>95</u> |

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

10 Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP and their associates for the audit of the Company's accounts were £308,000 (2014: £331,000). This is borne by Discovery Corporate Services Limited in current and prior year.

11 Income tax

Tax charged/(credited) in the income statement

| | 2015 £ 000 | 2014 £ 000 |
|--|----------------|----------------|
| Current taxation | | |
| UK corporation tax adjustment to prior periods | - | (3,363) |
| Foreign tax | <u>6,376</u> | <u>7,241</u> |
| Total current income tax | <u>6,376</u> | <u>3,878</u> |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | (1,943) | (2,161) |
| Arising from changes in tax rates and laws | 834 | - |
| Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods | <u>81</u> | <u>(832)</u> |
| Total deferred taxation | <u>(1,028)</u> | <u>(2,993)</u> |
| Tax expense in the profit and loss account | <u>5,348</u> | <u>885</u> |

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2014 - higher than the standard rate of corporation tax in the UK) of 20.25% (2014 - 21.5%).

The differences are reconciled below:

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

11 Income tax (continued)

| | 2015 £ 000 | 2014 £ 000 |
|---|-----------------|-----------------|
| Loss before tax | <u>(70,847)</u> | <u>(32,135)</u> |
| Corporation tax at standard rate | (14,344) | (6,908) |
| Increase (decrease) in current tax from adjustment for prior periods | - | (3,363) |
| Decrease (increase) from effect of revenues exempt from taxation | (10) | - |
| Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss) | 212 | 361 |
| Increase (decrease) from effect of exercise employee share options | (41) | 50 |
| Increase (decrease) arising from group relief tax reconciliation | 13,288 | 5,730 |
| Increase (decrease) arising from overseas tax suffered (expensed) | 5,085 | 5,685 |
| Deferred tax expense (credit) from unrecognised temporary difference from a prior period | 81 | - |
| Deferred tax expense (credit) relating to changes in tax rates or laws | <u>1,077</u> | <u>(670)</u> |
| Total tax charge | <u>5,348</u> | <u>885</u> |

Deferred tax

Deferred tax assets and liabilities

| 2015 | Asset £ 000 |
|------------------------------|----------------|
| Accelerated tax depreciation | 8,902 |
| Other items | <u>549</u> |
| | <u>9,451</u> |

| 2014 | Asset £ 000 |
|------------------------------|----------------|
| Accelerated tax depreciation | 7,735 |
| Other items | <u>688</u> |
| | <u>8,423</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

11 Income tax (continued)

Deferred tax movement during the year:

| | At 1 January 2015 £ 000 | Recognised in income £ 000 | At 31 December 2015 £ 000 |
|------------------------------|-------------------------------|----------------------------------|------------------------------------|
| Accelerated tax depreciation | 7,735 | 1,167 | 8,902 |
| Other items | 688 | (139) | 549 |
| Net tax assets/(liabilities) | <u>8,423</u> | <u>1,028</u> | <u>9,451</u> |

Deferred tax movement during the prior year:

| | At 1 January 2014 £ 000 | Recognised in income £ 000 | At 31 December 2014 £ 000 |
|------------------------------|-------------------------------|----------------------------------|------------------------------------|
| Accelerated tax depreciation | 4,282 | 3,453 | 7,735 |
| Other items | 1,149 | (461) | 688 |
| Net tax assets/(liabilities) | <u>5,431</u> | <u>2,992</u> | <u>8,423</u> |

12 Intangible assets

| | Goodwill £ 000 | Other intangible assets £ 000 | Total £ 000 |
|---------------------------------|-------------------|--|----------------|
| Cost or valuation | | | |
| At 1 January 2015 | 712,086 | 8,658 | 720,744 |
| Additions | - | 93 | 93 |
| At 31 December 2015 | <u>712,086</u> | <u>8,751</u> | <u>720,837</u> |
| Accumulated amortisation | | | |
| At 1 January 2015 | 543,757 | 3,562 | 547,319 |
| Amortisation charge | - | 1,701 | 1,701 |
| At 31 December 2015 | <u>543,757</u> | <u>5,263</u> | <u>549,020</u> |
| Carrying amount | | | |
| At 31 December 2015 | <u>168,329</u> | <u>3,488</u> | <u>171,817</u> |
| At 31 December 2014 | <u>168,329</u> | <u>5,096</u> | <u>173,425</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

13 Property, plant and equipment

| | Asset retirement obligation £ 000 | Leasehold improvements and office equipment £ 000 | Computer equipment £ 000 | Film and edit equipment £ 000 | Transponder £ 000 | Asset under construction £ 000 | Total £ 000 |
|---------------------------------|--|---|--------------------------------|-------------------------------------|----------------------|--------------------------------------|----------------|
| Cost or valuation | | | | | | | |
| At 1 January 2015 | 1,549 | 21,714 | 33,322 | 53,717 | 36,379 | - | 146,681 |
| Additions | - | - | 6,598 | 1,967 | - | 911 | 9,476 |
| Disposals | - | (1,550) | (5,318) | (22) | (1,127) | - | (8,017) |
| Transfers | 117 | (117) | 662 | (785) | - | 123 | - |
| At 31 December 2015 | 1,666 | 20,047 | 35,264 | 54,877 | 35,252 | 1,034 | 148,140 |
| Accumulated depreciation | | | | | | | |
| At 1 January 2015 | 1,549 | 18,205 | 25,130 | 32,851 | 21,400 | - | 99,135 |
| Charge for the year | 23 | 989 | 4,927 | 6,883 | 454 | - | 13,276 |
| Eliminated on disposal | - | (1,550) | (3,523) | (6) | (1,127) | - | (6,206) |
| Transfers | 31 | (31) | - | - | - | - | - |
| At 31 December 2015 | 1,603 | 17,613 | 26,534 | 39,728 | 20,727 | - | 106,205 |
| Carrying amount | | | | | | | |
| At 31 December 2015 | 63 | 2,434 | 8,730 | 15,149 | 14,525 | 1,034 | 41,935 |
| At 31 December 2014 | - | 3,509 | 8,192 | 20,866 | 14,979 | - | 47,546 |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

13 Property, plant and equipment (continued)

The asset retirement obligation represents the future cost of removing the leasehold improvements installed in Chiswick Park property.

Assets held under finance leases relate to transponders and computer equipment. These assets are included in tangible assets as follows:

| | 2015 | 2014 |
|--------------------------|-----------------|-----------------|
| | £ 000 | £ 000 |
| Cost | 38,801 | 36,379 |
| Accumulated depreciation | <u>(23,772)</u> | <u>(21,401)</u> |
| Net book value | <u>15,029</u> | <u>14,978</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

14 Investments

| | |
|--------------------------|----------------|
| Subsidiaries | £ 000 |
| Cost or valuation | |
| At 1 January 2015 | 768,149 |
| Additions | 145,168 |
| Disposals | <u>(1)</u> |
| At 31 December 2015 | <u>913,316</u> |
| Provision | |
| Carrying amount | |
| At 31 December 2015 | <u>913,316</u> |
| At 31 December 2014 | <u>768,149</u> |

Company's directly owned subsidiaries

Details of the investments in which the Company holds 50% or more of the nominal value of any class of share capital are as follows:

| Name | Country of registration | Nature of business | Class and proportion of nominal value of issued shares held |
|--|-------------------------|--------------------|---|
| Discovery Communications Bulgaria EOOD | Bulgaria | Service Company | Ordinary - 100% |
| Discovery Communications Nordic ApS | Denmark | Service Company | Ordinary - 100% |
| Discovery Communications Ukraine TOV | Ukraine | Service Company | Ordinary - 99.99% |
| Discovery Content Verwaltungs GmbH | Germany | Management Company | Ordinary - 99% |
| Discovery Czech Republic S.R.O. | Czech Republic | Service Company | Ordinary - 99% |
| Discovery Medya Hizmetleri Limited Sirketi | Turkey | Holding Company | Ordinary - 99% |
| Discovery Networks Sweden AB | Sweden | Holding Company | Ordinary - 100% |
| DNE Music Publishing Limited | UK | Holding Company | Ordinary - 100% |
| DNI Germany Holdings I Limited | UK | Holding Company | Ordinary - 100% |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

14 Investments (continued)

Company's indirectly owned subsidiaries

Details of the investments in which the Company holds 50% or more of the nominal value of any class of share capital are as follows:

| Name | Country of registration | Nature of business | Class and proportion of nominal value of issued shares held |
|--|--------------------------------|---------------------------|--|
| Discovery Czech Republic S.R.O. (Ukraine Branch) | Ukraine | Service company | Ordinary - 99.99% |
| Discovery Networks Demark Aps | Denmark | TV Broadcaster | Ordinary - 100% |
| Discovery Networks Demark Holding Aps | Denmark | Holding company | Ordinary - 100% |
| Discovery Networks Norway AS | Norway | TV Broadcaster | Ordinary - 100% |
| Discovery Networks Norway Holding AS | Norway | Holding company | Ordinary - 100% |
| Discovery Networks Sweden Holding AB | Sweden | Holding Company | Ordinary - 100% |
| Discovery Science Televizyon yayincilik Anonim Sirketi | Turkey | TV Broadcaster | Ordinary - 99.99% |
| Discovery Televizyon yayincilik Anonim Sirketi | Turkey | TV Broadcaster | Ordinary - 99.99% |
| DNE Music Publishing Limited (Kazakhstan Branch) | Kazakhstan | Service company | Ordinary - 100% |
| DNI German Holdings II Limited | UK | Holding company | Ordinary - 100% |
| The Voice TV Norge AS | Norway | TV Broadcaster | Ordinary - 100% |
| Discovery Sweden AB | Sweden | Dormant | Ordinary - 100% |
| Discovery Networks Norge Holding AS | Norway | Holding company | Ordinary - 100% |
| Discovery Networks Finland Oy | Finland | TV Broadcaster | Ordinary - 100% |
| Discovery Networks OOO (Russia) | Russia | Service Company | Ordinary - 90% |
| Avrupa Spor TelevizyonYayincilik Anonim Sirketi (Turkey) | Turkey | Dormant | Ordinary - 99% |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

14 Investments (continued)

Company's indirectly owned associates

Details of the investments in which the Company holds between 20% and 50% of the nominal value of any class of share capital are as follows:

| Name | Country of registration | Nature of business | Class and proportion of nominal value of issued shares held |
|---------------------------------|-------------------------|--------------------|---|
| All Music SpA | Italy | TV Broadcaster | Ordinary - 3.14% |
| Discovery Communications OOO | Russia | TV Broadcaster | Ordinary - 20% |
| Discovery Holdings OOO | Russia | Holding Company | Ordinary - 20% |
| Discovery Italia Srl | Italy | TV Broadcaster | Ordinary - 3.14% |
| Discovery Networks SL | Spain | Service Company | Ordinary - 30% |
| Mediamatning I Skandinavien AB | Sweden | Radio Broadcaster | Ordinary - 24% |
| Takhayal for Art Production JSC | Egypt | Service Company | Ordinary - 5% |

15 Derivative financial instruments

| | 2015 £ 000 | 2014 £ 000 |
|--|---------------|---------------|
| Current derivative assets and liabilities | | |
| Derivative assets used for hedging | 2,023 | 1,836 |
| Derivative financial liabilities | (1,859) | (26) |
| | <u>164</u> | <u>1,810</u> |

16 Stock

| | 2015 £ 000 | 2014 £ 000 |
|-------------------|---------------|----------------|
| Work in progress | - | 1,469 |
| Content inventory | 36,916 | 108,975 |
| | <u>36,916</u> | <u>110,444</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

17 Trade and other debtors

| | 2015 £ 000 | 2014 £ 000 |
|-------------------------------------|----------------|----------------|
| Trade debtors | 89,852 | 69,810 |
| Amounts due from group undertakings | 55,837 | 14,066 |
| Accrued income | 42,739 | 36,771 |
| Prepayments | 7,476 | 2,530 |
| Other debtors | 193 | 225 |
| Corporation tax | - | 5,318 |
| | <u>196,097</u> | <u>128,720</u> |

18 Share capital

Allotted, called up and fully paid shares

| | 2015 No. | 2015 £ 000 | 2014 No. | 2014 £ 000 |
|--------------------------------|----------------------|------------------|----------------------|------------------|
| Authorised Ordinary of £1 each | <u>1,500,000,000</u> | <u>1,500,000</u> | <u>1,500,000,000</u> | <u>1,500,000</u> |

Allotted, called up and fully paid shares

| | 2015 No. 000 | 2015 £ 000 | 2014 No. 000 | 2014 £ 000 |
|----------------------------|------------------|------------------|------------------|------------------|
| Ordinary shares of £1 each | <u>1,313,232</u> | <u>1,313,232</u> | <u>1,313,232</u> | <u>1,313,232</u> |

19 Trade and other payables

| | 2015 £ 000 | 2014 £ 000 |
|---------------------------------|----------------|----------------|
| Trade payables | 11,738 | 5,482 |
| Deferred income | 15,889 | 18,842 |
| Accrued expenses | 9,258 | 14,627 |
| Amounts due to related parties | 170,803 | 171,454 |
| Social security and other taxes | 6,351 | 1,740 |
| Other payables | 852 | - |
| | <u>214,891</u> | <u>212,145</u> |

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note.

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 27 "Financial risk management and impairment of financial assets".

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

20 Loans and borrowings

| | 2015 £ 000 | 2014 £ 000 |
|---|----------------|---------------|
| Current loans and borrowings | | |
| Bank overdrafts | 244,511 | 31,573 |
| Finance lease liabilities | 5,767 | 5,931 |
| | <u>250,278</u> | <u>37,504</u> |
| | 2015 £ 000 | 2014 £ 000 |
| Non-current loans and borrowings | | |
| Finance lease liabilities | 11,818 | 16,438 |

Bank borrowings

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

The Company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in note 27 "Financial risk management and impairment of financial assets".

21 Obligations under leases and hire purchase contracts

Finance leases

Future minimum leases payments under finance lease contracts are as follows:

| | 2015 £ 000 | 2014 £ 000 |
|------------------------------|----------------|----------------|
| Within one year | 5,767 | 5,931 |
| Between 2 and 5 years | 12,166 | 17,832 |
| More than 5 years | 3,173 | 3,770 |
| Total gross payments | <u>21,106</u> | <u>27,533</u> |
| Lease charges included above | <u>(3,521)</u> | <u>(5,164)</u> |
| | <u>17,585</u> | <u>22,369</u> |

Operating leases

| | Land and Building | | Other | |
|--------------------------|-------------------|---------------|---------------|---------------|
| | 2015 £ 000 | 2014 £ 000 | 2015 £ 000 | 2014 £ 000 |
| Within one year | 4,842 | 5,074 | 16,006 | 18,700 |
| Within two to five years | 12,204 | 16,907 | 15,516 | 19,182 |
| | <u>17,046</u> | <u>21,981</u> | <u>31,522</u> | <u>37,882</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

22 Provisions for liabilities

| | Other provisions £ 000 | Total £ 000 |
|---|---------------------------------------|------------------------|
| At 1 January 2015 | 2,141 | 2,141 |
| Increase (decrease) due to passage of time or unwinding of discount | <u>126</u> | <u>126</u> |
| At 31 December 2015 | <u><u>2,267</u></u> | <u><u>2,267</u></u> |

The provision in 2014 and 2015 is represented by an asset retirement obligation in relation to the future cost of removing leasehold improvements installed in the Chiswick Park property.

The asset retirement obligation was reassessed on the extension of the existing premises lease to 31 July 2019 and increased to include a new provision in relation to an additional new lease of premises.

23 Pension and other schemes

The Company operates a defined contribution pension scheme. The assets are held separately from those of the Company in an independently administered fund. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £634,625 (2014: £742,529).

24 Share-based payments

Share-based compensation expense

Compensation expense recognised of share-based compensation plans is as follows:

| | 2015 £ 000 | 2014 £ 000 |
|------------------------|-----------------------|-----------------------|
| Stock options | 110 | 138 |
| Restricted stock units | <u>138</u> | <u>184</u> |
| | <u><u>248</u></u> | <u><u>322</u></u> |

Stock options

Stock options are granted with exercise prices equal to, or in excess of, the fair value at the date of the grant. These stock options vest either 25% or 33.3% per year, beginning one year after the grant date, and expire after three to ten years. Certain stock option awards provide for accelerated vesting upon an election to retire pursuant to the DCI group incentive plans or after reaching a specific age and years of service.

Out of the 104,133 outstanding options, 32,941 were exercisable. Options exercised in 2015 resulted in 57,109 shares being issued at a weighted average price of £21.03. The related weighted average share price at the time of exercise was £12.53.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

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24 Share-based payments (continued)

| Grant-Vest | Expiry date | Exercise price in £ per share option | Share options |
|--|-------------|---|----------------|
| 2008 - 2012 | 2015 | 3.95 | - |
| 2010 - 2014 | 2017 | 10.41 | 5,705 |
| 2011 - 2015 | 2018 | 13.06 | 5,728 |
| 2012 - 2016 | 2019 | 15.63 | 10,726 |
| 2013 - 2017 | 2020 | | 17,726 |
| 2014 - 2018 | 2021 | | 18,099 |
| 2015 - 2019 | 2022 | | 46,149 |
| Total share options outstanding | | | 104,133 |

Restricted stock units ("RSUs")

Restricted stock units are granted with exercise prices equal to, or in excess of, the fair market value at the date of grant. Typically vesting over 4 years with 33% of units vesting in year 2, 33% in year 3 and 34% in year 4. Vesting is depending on an employee remaining employed throughout the applicable date of otherwise meeting the vesting requirements of the award.

The fair value of the RSUs is the price of the stock at the grant date.

There were 26,964 outstanding RSUs. RSUs exercised in 2015 resulted in 25,276 shares being issued at a weighted average price £21.16.

RSUs outstanding at the end of year have the following expiry date and exercise prices:

| Grant-Vest | Grant price in £ per RSU | RSU |
|------------------------------|-----------------------------|---------------|
| 2012 - 2016 | 15.63 | 1,806 |
| 2013 - 2017 | 24.45 | 3,018 |
| 2014 - 2018 | 27.20 | 8,344 |
| 2015 - 2019 | 21.12 | 13,796 |
| Total RSU outstanding | | 26,964 |

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25 Other Commitments

At 31 December 2015, the Company had other contractual commitments as follows:

| | 2015 £ 000 | 2014 £ 000 |
|-----------------------|----------------|----------------|
| Transmission services | 140,400 | 157,699 |
| | <u>140,400</u> | <u>157,699</u> |

Transmission services consist of long-term transmission agreements payable over a number of years as part of the normal course of business.

26 Contingent liabilities

The Company entered into an arrangement with Bank Mendes Gans BV (the "Bank") whereby the cash position of Discovery Communications, Inc. subsidiaries (the "Subsidiaries") were combined, with cleared debit and credit balances being offset for interest calculation purposes.

Each of the Subsidiaries, which at any time have a negative balance, may set-off any amounts due to the Bank with any amounts due by the Bank to each of the Subsidiaries with a positive balance. When it wishes to seek repayment of any negative balances, the Bank shall first seek recourse against the positive balances.

The Company has an overdraft of £244,509,525 (2014: overdraft of £31,922,022) with the Bank at 31 December 2015. The net balance for the Subsidiaries at 31 December 2015 under this arrangement was a positive balance of £139,647,303. The combined bank balances of all Subsidiaries are not permitted to be less than nil.

27 Financial risk management and impairment of financial assets

The Company enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions in foreign currency out to 12 - 24 months within 50 per cent to 80 per cent of the exposure generated.

The fair values of derivative instruments are calculated using composite Bloomberg prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted composite Bloomberg forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to the profit and loss account only when the hedged transaction affects the profit or loss which is expected to take place during each month of the next financial year.

The movement in cash flow hedging reserve is as follows:

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Notes to the Financial Statements for the Year Ended 31 December 2015

27 Financial risk management and impairment of financial assets (continued)

| | 2015 £ 000 | 2014 £ 000 |
|---|---------------|---------------|
| Balance at 1 January 2015 | 1,962 | 72 |
| Gain on hedging instrument (foreign currency forward contracts) designated in a cash flow hedging relationship recognised in hedging reserve recognised | 8,120 | 3,053 |
| Cumulative gain arising on changes in fair value of hedging instruments (foreign currency forward contracts) reclassified to profit and loss account | (9,918) | (1,163) |
| Balance at 31 December 2015 | 164 | 1,962 |

28 Related party transactions

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to related party transactions.

29 Parent and ultimate parent undertaking

The immediate parent company is DNI Europe Holdings Limited. The ultimate parent company is Discovery Communications Inc. The financial statements of the parent are available upon request from the corporate website: <http://ir.corporate.discovery.com>.

30 Non adjusting events after the financial period

On 1 February 2016 the Company acquired elements of the business and assets of the UK Eurosport promotion and production business from a fellow group company. Subsequently, on the same day, the Company sold some of the assets acquired from this business to a fellow group Company. No gain or loss was recorded on disposal.

On 5 April 2016 the Company acquired elements of the business and assets of Discovery Networks Northern Europe Limited. The business acquired is that of television broadcaster, broadcasting to various Scandinavian countries. The related assets acquired included the playout facility of Building 5 Chiswick Park, 566 Chiswick High Road, London, W4 5YF.

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Notes to the Financial Statements for the Year Ended 31 December 2015

31 Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards".

Exemptions Applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2015 year ends retrospectively. The Company has taken advantage of the following exemptions:

- The company has elected to use the carrying value of goodwill under previous GAAP as the deemed cost on date of transition.

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

31 Transition to FRS 101 (continued)

Balance sheet at 1 January 2014

| | As originally reported £ 000 | As restated £ 000 |
|---|------------------------------------|----------------------|
| Fixed assets | | |
| Intangible assets | 169,513 | 169,513 |
| Tangible assets | 62,796 | 62,796 |
| Investments | 765,156 | 765,156 |
| | <u>997,465</u> | <u>997,465</u> |
| Current assets | | |
| Stocks | 203,604 | 203,604 |
| Debtors | 150,225 | 150,225 |
| Cash at bank and in hand | 1,391 | 1,391 |
| | <u>355,220</u> | <u>355,220</u> |
| Creditors: Amounts falling due within one year | <u>(328,672)</u> | <u>(328,672)</u> |
| Net current assets | <u>26,548</u> | <u>26,548</u> |
| Total assets less current liabilities | 1,024,013 | 1,024,013 |
| Creditors: Amounts falling due after more than one year | (23,562) | (23,562) |
| Provisions for liabilities | <u>(2,022)</u> | <u>(2,022)</u> |
| Net assets | <u>998,429</u> | <u>998,429</u> |
| Capital and reserves | | |
| Called up share capital | 1,313,232 | 1,313,232 |
| Other reserves | 90,692 | 90,692 |
| Profit and loss account | <u>(405,495)</u> | <u>(405,495)</u> |
| Total shareholders' funds/(deficit) | <u>998,429</u> | <u>998,429</u> |

Discovery Communications Europe Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

31 Transition to FRS 101 (continued)

Balance sheet at 31 December 2014

| | Note | As originally reported £ 000 | Remeasurement £ 000 | As restated £ 000 |
|---|------|------------------------------------|------------------------|----------------------|
| Fixed assets | | | | |
| Intangible assets | | 117,316 | 56,109 | 173,425 |
| Tangible assets | | 47,456 | - | 47,456 |
| Investments | | 768,149 | - | 768,149 |
| | | <u>932,921</u> | <u>56,109</u> | <u>989,030</u> |
| Current assets | | | | |
| Stocks | | 110,444 | - | 110,444 |
| Debtors | | 138,979 | - | 138,979 |
| Cash at bank and in hand | | 1,086 | - | 1,086 |
| | | <u>250,509</u> | <u>-</u> | <u>250,509</u> |
| Creditors: Amounts falling due within one year | | <u>(249,675)</u> | <u>-</u> | <u>(249,675)</u> |
| Net current assets | | <u>834</u> | <u>-</u> | <u>834</u> |
| Total assets less current liabilities | | 933,755 | 56,109 | 989,864 |
| Creditors: Amounts falling due after more than one year | | (20,188) | - | (20,188) |
| Provisions for liabilities | | <u>(2,141)</u> | <u>-</u> | <u>(2,141)</u> |
| Net assets | | <u>911,426</u> | <u>56,109</u> | <u>967,535</u> |
| Capital and reserves | | | | |
| Called up share capital | | 1,313,232 | - | 1,313,232 |
| Other reserves | | 90,692 | - | 90,692 |
| Profit and loss account | | <u>(492,408)</u> | <u>56,109</u> | <u>(436,299)</u> |
| Total shareholders' funds/(deficit) | | <u>911,516</u> | <u>56,109</u> | <u>967,625</u> |

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Notes to the Financial Statements for the Year Ended 31 December 2015

31 Transition to FRS 101 (continued)

Profit and loss account for the year ended 31 December 2014

| | As originally reported £ 000 | Remeasurement £ 000 | As restated £ 000 |
|--|------------------------------------|------------------------|----------------------|
| Turnover | 697,539 | - | 697,539 |
| Cost of sales | <u>(578,252)</u> | <u>-</u> | <u>(578,252)</u> |
| Gross profit | 119,287 | - | 119,287 |
| Administrative expenses | <u>(206,069)</u> | <u>56,109</u> | <u>(149,960)</u> |
| Operating loss | <u>(86,782)</u> | <u>56,109</u> | <u>(30,673)</u> |
| Other interest receivable and similar income | 182 | - | 182 |
| Interest payable and similar charges | <u>(1,644)</u> | <u>-</u> | <u>(1,644)</u> |
| | <u>(1,462)</u> | <u>-</u> | <u>(1,462)</u> |
| Loss on ordinary activities before taxation | (88,244) | 56,109 | (32,135) |
| Tax on loss on ordinary activities | <u>(885)</u> | <u>-</u> | <u>(885)</u> |
| Loss for the financial year | <u>(89,129)</u> | <u>56,109</u> | <u>(33,020)</u> |

31.1 Goodwill

Previously, under UK GAAP the goodwill was amortised straight-line over its estimated economic life of 20 years. Under the optional exemption of IFRS 1 for business combinations, the company has considered the carrying of its goodwill value under previous GAAP as deemed cost at the date of transition. Under IFRS, goodwill is not subject to amortisation; however goodwill was tested for impairment at transition date. No impairment adjustment was required. The effect of the differences in measurement are as follows:

| | 2014 £ 000 |
|-------------------------|-----------------|
| Goodwill | 56,109 |
| Administrative expenses | <u>(56,109)</u> |