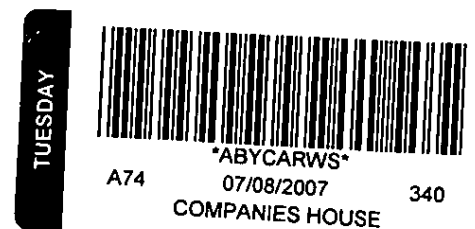


2713676

# **Time Warner Entertainment Limited**

## **Report and Financial Statements**

31 December 2006



# Time Warner Entertainment Limited

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Registered No 2713676

## **Directors**

P J Hosemann

B E S Jones

S Mertz

J Macdonald Stewart

## **Secretary**

B E S Jones

## **Auditors**

Ernst & Young LLP

1 More London Place

London SE1 2AF

## **Registered Office**

Time Warner House

44 Great Marlborough Street

London W1F 7JL

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

### Results and dividends

The profit for the year, after taxation, amounted to £28,240,000 (2005 - £57,467,000)

During the year a dividend of £20,000,000 was paid (2005 - £17,000,000)

### Principal activities and review of business

The company is a holding company

### Future developments

It is the directors' intention for the company to continue to act as a holding company

### Fixed assets

The movement on fixed assets during the year is detailed in note 8 to the financial statements

### Post-balance sheet event

On 19 March 2007 the company purchased 8,860,897 new ordinary shares in SCi Entertainment Group Plc ("SCi") for £44.5 million, representing a 10.3% of SCi's enlarged issued share capital. SCi is a video games company listed on the London Stock Exchange.

### Directors and their interests

The directors who served during the year ended 31 December 2006 are shown on page 1

There are no directors' interests requiring disclosure under the Companies Act 1985

### Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

### Auditors

Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 of The Companies Act 1985

By order of the Board



Director

## **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of Time Warner Entertainment Limited**

We have audited the company's financial statements of Time Warner Entertainment Limited for the year ended 31 December 2006 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

## ***Basis of audit opinion***

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

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

# Independent auditors' report

to the members of Time Warner Entertainment Limited

## *Opinion*

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*EY LLP*

Ernst & Young LLP  
Registered Auditors  
London

*28 June 2007*

## Profit and loss account

for the year ended 31 December 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Administrative expenses		(101)	(1,936)
<b>Operating loss</b>	<b>2</b>	<b>(101)</b>	<b>(1,936)</b>
Gain on sale of investments		–	9
Income from investments	4	25,500	57,791
Interest receivable	5	12,140	13,379
Interest payable	6	(9,153)	(11,496)
		<u>28,487</u>	<u>59,683</u>
<b>Profit on ordinary activities before taxation</b>		<b>28,386</b>	<b>57,747</b>
Tax on profit on ordinary activities	7	(146)	(280)
<b>Profit for the financial year</b>	<b>14</b>	<b>28,240</b>	<b>57,467</b>

All activities relate to continuing operations

## **Statement of total recognised gains and losses**

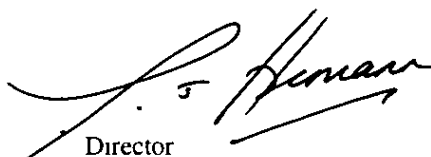
**for the year ended 31 December 2006**

There are no recognised gains or losses other than the profit of £28,240,000 attributable to shareholders of the company for the year ended 31 December 2006 (2005 – £57,467,000)

## Balance sheet

at 31 December 2006

	Notes	2006 £000	2005 £000
<b>Fixed assets</b>			
Investments	8	137,675	120,675
<b>Current assets</b>			
Debtors amounts falling due within one year	9	1,076	569
Debtors amounts falling due after more than one year	10	220,000	244,754
		221,076	245,323
<b>Creditors:</b> amounts falling due within one year	11	(167,860)	(33,847)
<b>Net current assets</b>		53,216	211,476
		190,891	332,151
<b>Creditors:</b> amounts falling due after more than one year	12	(2,500)	(152,000)
<b>Net Assets</b>		188,391	180,151
<b>Capital and reserves</b>			
Called up share capital	13	27,150	27,150
Other reserves	14	28,470	28,470
Profit and loss account	14	132,771	124,531
<b>Shareholders' funds:</b>			
Equity		161,242	153,002
Non-equity		27,149	27,149
<b>Shareholders' funds</b>	14	188,391	180,151

  
Director

27.6.07

## Notes to the financial statements

at 31 December 2006

### 1. Accounting policies

#### Basis of preparation

The financial statements of the company were approved for issue by the board of directors on 27 June 2007

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

#### Consolidated financial statements

The company is a wholly owned subsidiary of another company registered in England and Wales and has not therefore prepared consolidated financial statements. Consequently these financial statements present information about the company as an individual undertaking and not about its group.

Investments are stated at cost less any provision for impairment in value.

Acquisitions and disposals of all investments are accounted for on the date of completion.

#### Income from investments

Dividend income is recognised on declaration and payment of the dividend by subsidiary undertakings.

#### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent they are considered recoverable against future taxable profits.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax balances are not discounted.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

#### Related parties

The company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose related party transactions with fellow wholly owned group undertakings.

#### Statement of cash flows

The company has taken advantage of the exemption in FRS 1 (Revised) "Cash Flow Statements". A statement of cash flows has not been prepared as the company is a wholly owned subsidiary undertaking of Time Warner Inc, a company incorporated in the United States of America, which prepared a group statement of cash flows (see note 17).

## Notes to the financial statements

at 31 December 2006

### 2. Operating loss

This is stated after charging/ (crediting)

	2006 £000	2005 £000
Auditors' remuneration – audit services	4	14
Write back against investments (see note 8)	(846)	(374)
Waiver of loans to group undertakings	–	6,602
Compensation received from group undertaking	–	(4,090)
	<u>          </u>	<u>          </u>

### 3. Directors' remuneration and staff costs

The directors received no remuneration for their services to the company during the year (2005 - £nil)

There were no employees, other than the directors, during the year (2005 - none)

### 4. Income from investments

	2006 £000	2005 £000
Dividends received from subsidiary undertakings	25,500	57,790
Dividends received from other investments	–	1
	<u>25,500</u>	<u>57,791</u>

### 5. Interest receivable

	2006 £000	2005 £000
Bank and other interest	–	825
Receivable from group undertakings	12,140	12,554
	<u>12,140</u>	<u>13,379</u>

### 6. Interest payable

	2006 £000	2005 £000
Bank loans and overdrafts	1,606	2,780
Payable to group undertakings	7,547	8,716
	<u>9,153</u>	<u>11,496</u>

## Notes to the financial statements

at 31 December 2006

### 7. Tax on profit on ordinary activities

(a) The taxation charge based on the profit for the year is as follows

	2006 £000	2005 £000
Taxation based on the profit for the year		
Group relief payments	146	280
Total current tax charge	146	280
Total tax charge on profit on ordinary activities	146	280

(b) Circumstances affecting the current tax charge

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 30% (2005 - 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below

	2006 £000	2005 £000
Profit on ordinary activities before tax	28,386	57,747
Tax on profit on ordinary activities at standard rate	8,516	17,324
Factors affecting charge		
Non-taxable income	(8,370)	(16,300)
Group relief received for nil consideration	–	(744)
Total current tax (note 7(a) above)	146	280

## Notes to the financial statements

at 31 December 2006

### 8. Investments

	<i>Subsidiary undertakings</i>	<i>Associated undertakings</i>	<i>Other investments</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost				
At 31 December 2005	116,342	19,170	2	135,514
Repayment of funding	–	(344)	–	(344)
Exchange adjustment	–	(2,062)	–	(2,062)
Additions	16,992	–	–	16,992
At 31 December 2006	133,334	16,764	2	150,100
Amounts written off				
At 31 December 2005	–	14,839	–	14,839
Written back during the year	–	(846)	–	(846)
Exchange adjustment	–	(1,568)	–	(1,568)
At 31 December 2006	–	12,425	–	12,425
Net book value				
At 31 December 2006	133,334	4,339	2	137,675
At 31 December 2005	116,342	4,331	2	120,675

The associated undertaking repaid £344,000 of funding back to the company during the year (2005 - £211,000). It also made a profit during the year. The company's share of the associated undertaking's profit of £846,000 (2005 - £374,000) has been written back against the provision that was set up against the funding made to the undertaking.

Other investments represent investments listed on the London Stock Exchange. The market value of these investments at 31 December 2006 was £2,218 (2005 - £2,112), if they had been sold at this value there would have been no liability to corporation tax on the capital gain arising from the sale.

Details of principal investments in which the group or the company holds more than 20% of the nominal value of any class of share capital at 31 December 2006 are as follows:

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
<b>Subsidiary undertakings</b>				
Warner Bros Entertainment UK Limited	England and Wales	Ordinary shares	100%	Film distribution, sale of pre- recorded DVDs and video cassettes, licensing and management services
Warner Bros Productions Limited	England and Wales	Ordinary shares	100%	Film production
Warner Bros Theatres (Holdings) Limited	England and Wales	Ordinary shares	100%	Investment company
Warner Bros Theatres (UK) Limited	England and Wales	Ordinary shares	100%	Investment company

## Notes to the financial statements

at 31 December 2006

### 8. Investments (continued)

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
<b>Subsidiary undertakings (continued)</b>				
Warner Bros Theatres Limited	England and Wales	Ordinary shares	100%	Investment company
Warner Bros Cinemas (Holdings) Limited	England and Wales	Ordinary shares	100%	Holding company
<b>Associated undertaking</b>				
The Bountiful Company Limited	England and Wales	Ordinary and 'A' ordinary shares	50%	Film production

### 9. Debtors: amounts falling due within one year

	<i>2006 £000</i>	<i>2005 £000</i>
Other debtors	75	50
Corporation tax recoverable	—	225
Due from other group undertakings	1,001	294
	<u>1,076</u>	<u>569</u>

### 10. Debtors: amounts falling due after more than one year

	<i>2006 £000</i>	<i>2005 £000</i>
Due from subsidiary undertakings	—	30,754
Due from other group undertakings	220,000	214,000
	<u>220,000</u>	<u>244,754</u>

### 11. Creditors: amounts falling due within one year

	<i>2006 £000</i>	<i>2005 £000</i>
Bank overdraft	28,374	32,843
Group relief payable	146	280
Due to subsidiary undertakings	138,680	258
Due to other group undertakings	623	424
Other creditors	19	—
Accruals	18	42
	<u>167,860</u>	<u>33,847</u>

## Notes to the financial statements

at 31 December 2006

### 12. Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Loans wholly repayable within five years	2,500	152,000
<u>Loans from subsidiary undertakings</u>		
Unsecured interest bearing loan at Barclays Bank Plc base rate plus 0.25% repayable on 31 October 2007	–	133,000
Unsecured interest bearing loan at Barclays Bank Plc base rate plus 0.25% repayable on 25 May 2010	2,500	19,000
	<u>2,500</u>	<u>152,000</u>

### 13. Share capital

	2006 No '000	2005 No '000	Allotted, called up and fully paid 2006 £000	2005 £000
Ordinary shares of £1 each	50,000	50,000	1	1
Redeemable preference shares of £1 each	50,000	50,000	27,149	27,149
	<u>100,000</u>	<u>100,000</u>	<u>27,150</u>	<u>27,150</u>

The Preference shares are convertible to ordinary shares at the shareholders' option at any time, and are redeemable at the company's option at any time after 6 May 1996, but before 6 May 1991, at the nominal value per share

The preference shares carry the right of one vote for each preference share held and the Ordinary shares 100,000 votes for each Ordinary share held. Each Preference share is entitled to receive by way of a dividend, £1 for every £100,000 received on an ordinary share and the same proportion on a winding-up of the company

### 14. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	Other reserves £000	Profit and loss account £000	Total share- holders' funds £000
At 31 December 2004	27,150	28,470	84,064	139,684
Profit for the financial year	–	–	57,467	57,467
Dividends	–	–	(17,000)	(17,000)
At 31 December 2005	27,150	28,470	124,531	180,151
Profit for the financial year	–	–	28,240	28,240
Dividends	–	–	(20,000)	(20,000)
At 31 December 2006	<u>27,150</u>	<u>28,470</u>	<u>132,771</u>	<u>188,391</u>

## Notes to the financial statements

at 31 December 2006

### 15. Contingent liabilities

The company has a composite accounting agreement with its bankers. The terms of the agreement permit the bankers, without notice, to draw down funds deposited into the system, to offset borrowings drawn down from the system by other group members who are also parties to these arrangements. At the balance sheet date, funds deposited by the company into the system, and potentially at risk to cover liabilities elsewhere in the group, amounted to £nil (2005 – £nil).

The company has also acted as guarantor to leases of property occupied by subsidiary undertakings, the minimum annual rental payments of which amount to £4,671,000 (2005 – £4,671,000). Since May 2001 the company has been indemnified against minimum annual rental payments of £1,843,000 (2005 – £2,562,000) by the purchasers of a former subsidiary undertaking.

### 16. Post-balance sheet event

On 19 March 2007 the company purchased 8,860,897 new ordinary shares in SCi Entertainment Group Plc ("SCi") for £44.5 million, representing a 10.3% of SCi's enlarged issued share capital. SCi is a video games company listed on the London Stock Exchange.

### 17. Ultimate parent undertaking

Time Warner Holdings Limited is the parent 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 2006, Time Warner Inc., a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company is a member and for which group financial statements are drawn up. Copies of Time Warner Inc.'s financial statements can be obtained from One Time Warner Center, New York, NY 10019, USA.