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**Time Warner Entertainment Limited
Report and Financial Statements**

31 December 2012

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Time Warner Entertainment Limited

Registered No 02713676

Directors

P J Hosemann
B E S Jones
S Mertz
J M 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 2012

Results and dividends

The loss for the year after taxation amounted to £13,463,000 (2011 – profit £27,459,000)

Dividend paid during the year was £0 (2011 – £ 6,000,000)

Principal activity and review of the business

The company is a holding company. During the year, the company settled part of its obligation in connection with acquired games manufacturer Rocksteady Studios Limited. Further details of the transaction and remaining obligation are available within notes 7, 9, 11, and 12.

The directors will continue to invest in new companies in the future should they feel that it is a good business opportunity that would fit well alongside its existing investments and businesses.

The risks faced by the company are integral to those of Time Warner Group and are not managed separately.

Future developments

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

Fixed assets

The movements on fixed assets during the year are detailed in note 8 to the financial statements.

Directors

The directors who served during the year to 31 December 2012 are shown on page 1. There are no directors' interests requiring disclosure under the Companies Act 2006.

Post balance sheet events

There were no known significant events occurring between the balance sheet and the date the financial statements were approved by the board of directors.

Going concern

On the basis of their assessment of the company's financial position the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future; thus they consider it is appropriate to prepare the financial statements on a going concern basis.

Disclosure of information to the auditors

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

Auditors

The company has passed a resolution under section 485 of the Companies Act 2006 not to reappoint auditors annually. Ernst & Young LLP have expressed their willingness to continue in office for the forthcoming year.

By order of the Board



Director

J M Stewart

25 September 2013

Statement of directors' responsibilities

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). 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 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, 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent auditor's report
to the members of Time Warner Entertainment Limited**

We have audited the financial statements of Time Warner Entertainment Limited for the year ended 31 December 2012, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Naresh Almchandani (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 September 2013

Profit and loss account
for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Administrative credit		32	24
Operating profit	2	32	24
Income from investments	4	-	26,000
Impairment of investment	5	(13,492)	-
Interest receivable	6	65	2,693
Interest payable	7	(153)	(974)
(Loss)/profit on ordinary activities before taxation		(13,548)	27,743
Tax credit/(charge) on (loss)/profit on ordinary activities	8	85	(284)
(Loss)/profit for the financial year	14	(13,463)	27,459

All activities relate to continuing operations

Statement of total recognised gains and losses

For the year ended 31 December 2012

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £13,463,000 for the year to 31 December 2012 (2011 – profit £27,459,000)

Balance sheet
at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Investments	9	276,520	290,069
		276,520	290,069
Current assets			
Debtors amounts falling due within one year	10	12,098	-
Cash at bank and in hand		1,826	17,771
		13,924	17,771
Creditors amounts falling due within one year	11	(1)	(3,971)
Net current assets		13,923	13,800
Total assets less current liabilities		290,443	303,869
Creditors amounts falling due after more than one year	12	(2,194)	(2,157)
Net assets		288,249	301,712
Capital and reserves			
Called up share capital	13	72,150	72,150
Other reserves	14	28,470	28,470
Profit and loss account	14	187,629	201,092
		288,249	301,712
Equity		261,099	274,562
Non-equity	13	27,150	27,150
Shareholders' funds		288,249	301,712



P J Hosemann
 Director
 25 September 2013

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of preparation

The financial statements of the company were approved for issue by the board of directors on 25 September 2013

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

Going concern

On the basis of their assessment of the company's financial position the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future thus they consider it is appropriate to prepare the financial statements on a going concern basis

Consolidated financial statements

The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements as it is a wholly owned subsidiary of another company registered in England and Wales that prepares consolidated financial statements including the company, its subsidiaries, and associates. Consequently these financial statements present information about the company as an individual undertaking and not about its group.

Investments

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 at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to receive more tax with the following exception

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

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

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 2012

2. Operating profit

This is stated after charging

	2012 £000	2011 £000
Net adjustments regarding investment	32	-

Audit fees of £7,000 (2011 - £4,500) were borne by another group undertaking

3. Directors' emoluments

There were no employees, other than the directors, during the year (2011 – nil)

The directors of the company were also directors of other group undertakings. Their remuneration for the year was paid by a fellow group related undertaking.

The directors do not consider it is practicable to apportion this amount between their services as directors of the company and their services as directors of the fellow group undertaking.

4. Income from investments

	2012 £000	2011 £000
Dividends received from subsidiary undertakings	-	26,000

5. Impairment of investment

	2012 £000	2011 £000
Impairment of investment in subsidiary undertaking	13,492	-

6. Interest receivable

	2012 £000	2011 £000
Receivable from group undertakings	65	2,693

Notes to the financial statements

at 31 December 2012

7. Interest payable

	Note	2012 £000	2011 £000
Payable to parent and group undertakings		(4)	(792)
Deferred consideration and other interest*	12	(149)	(182)
		(153)	(974)

*£74,000 relates to notional interest upon unwinding of the discount rate. The remaining interest of £75,000 relates to the payment of interest on loan notes.

8. Tax

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

	2012 £000	2011 £000
Current Tax		
Corporation tax at 24.5% (26.5%)	-	511
Group relief receipts	(86)	-
Tax under/(over) provided in previous years	1	(227)
Total current tax	(85)	284
Total tax on (loss)/profit on ordinary activities	(85)	284

(b) Circumstances affecting current charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 24.5% (2011 - 26.5%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below.

	Note	2012 £000	2011 £000
(Loss)/profit on ordinary activities before tax		(13,548)	27,743
Tax on (loss)/profit on ordinary activities at standard rate		(3,319)	7,352
Factors affecting the tax charge			
Disallowable expenses		(72)	49
Impairment of investment		3,305	-
Non-taxable income		-	(6,890)
Tax under/(over) provided in previous years		1	(227)
Total current tax	8a	(85)	284

Notes to the financial statements

at 31 December 2012

8. Tax (continued)

(c) Factors affecting future tax changes

The Finance Act 2012, enacted in July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013

A further change to the rate was proposed in The Finance Act 2013, enacted July 2013, to reduce the rate by a further 2% to 21% from 1 April 2014 and to 20% from 1 April 2015. As these changes were substantively enacted after the balance sheet date, they are not included in the figures within these accounts. It is not yet possible to quantify the impact of this rate change upon current tax.

9. Investments

	Subsidiary undertakings Total £000
Cost	
At 1 January 2012	290,069
At 31 December 2012	290,069
Amounts written off	
Repayment of Investment	(57)
Impairment of investment	(13,492)
At 31 December 2012	(13,549)
Net book value	
At 31 December 2012	276,520
At 1 January 2012	290,069

Subsidiary undertakings

The company reduced its investment in The Bountiful Company Limited by £57,000 to £2,226,000 in respect of a repayment received (2011: repayment of £105,000)

In 2011, the company invested a further £60,000,000 in Warner Bros International Television Production Limited, and also increased its investment in Warner Home Video (UK) Limited by £5,873,000

During 2011, Time Warner Entertainment Limited acquired the remaining 25.1% interest in Rocksteady Studios Limited, a games manufacturer, for an initial consideration of £2,754,000. At 31 December 2011, the company revised its earn-out estimate by a further £951,000 and has estimated a further working capital cost of £64,000, both of which have been added to cost of investment.

The revised cumulative present value of the earn-out for Rocksteady Studios Limited recognised within investments has been calculated as £5,301,000.

Details in connection with the notional interest expense, and obligations determined as at 31 December 2012, are available within notes 7 and 12.

An impairment review was conducted during the year which resulted in the company impairing the carrying value of an investment in a subsidiary undertaking by £13,492,000.

Notes to the financial statements

at 31 December 2012

9. Investments (continued)

Details of the principal investments in which the company held more than 20% of the nominal value of any class of share capital as at 31 December 2012 were as follows

Subsidiary undertakings

Name of Company	Country of registration (or incorporation and operation)	Holding	Proportion of voting rights and shares held %	Nature of business
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
Warner Bros Studios Leavesden Limited	England and Wales	Ordinary shares	100	Film studio and related services
Warner Bros Cinemas (Holdings) Limited*	England and Wales	Ordinary shares	100	Holding company
Warner Home Video (UK) Limited	England and Wales	Ordinary shares	100	Film distribution pre-recorded DVDs and video cassettes
Warner Bros International Television Production Limited	England and Wales	Ordinary shares	100	Investment company & licensing
Rocksteady Studios Limited	England and Wales	Ordinary shares	100	Games manufacturer
The Bountiful Company Limited	England and Wales	Ordinary shares	100	Film production
Shed Media Group Limited*	England and Wales	Ordinary shares	54	Television programme production
BlazHoffSkı Holding B V*	The Netherlands	Ordinary shares	60	Holding company
BlazHoffSkı Belgie BVBA*	Belgium	Ordinary shares	60	Television programme production
BlazHoffSkı Productions B V*	The Netherlands	Ordinary shares	60	Television programme production

*Owned by a subsidiary company

Notes to the financial statements
at 31 December 2012

10. Debtors: amounts falling due within one year

	2012 £000	2011 £000
Due from group undertakings	12,012	-
Group relief receivable	86	-
	12,098	-

Amounts due from group undertakings relate to a loan made to Time Warner London Limited during the year

11. Creditors: amounts falling due within one year

	Note	2012 £000	2011 £000
Due to group undertakings		-	13
Deferred consideration*	12	-	3,674
Corporation tax payable		1	284
		1	3,971

*During the year, the company settled its deferred consideration and working capital sums of £3,674,000. Details of the remaining obligation are shown in note 12

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

	2012 £000	2011 £000
Deferred consideration	2,194	2,157

Deferred consideration

The deferred consideration relates to the acquisition of Rocksteady Studios Limited and the calculation of additional consideration payable to its previous owners in connection with games Arkham Asylum 2 and 3. The earn-out evaluates their performance rating using a discount rate of 3.52%. Following the release of the game Arkham Asylum 2, the estimates were updated to reflect the revised cumulative notional interest recognised and the present value of the obligation.

Notional interest expenses of £74,000 were recorded during the year as disclosed within note 7.

Notes to the financial statements

at 31 December 2012

13. Authorised and issued share capital

	Authorised		Allotted, called up and fully paid	
	2012	2011	2012	2011
	£000	£000	£000	£000
Ordinary shares of £1 each	50,000	50,000	45,000	45,000
Redeemable preference shares of £1 each	50,000	50,000	27,150	27,150
	100,000	100,000	72,150	72,150

The company issued 45,000,000 new ordinary £1 shares during 2011

The company shall have the right to redeem all or any of the preference shares upon giving not less than 28 days notice of its intention to do so. Such notice may be given at any time after 6 May 1992 but before 6 May 1991. The amount payable by the company on redemption of the shares is equal to their nominal value. Each preference share entitles the holder to one vote and each ordinary share entitles the holder to 100,000 votes.

14. Reconciliation of shareholders' funds and movements in reserves

	Share capital	Other reserves	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000
At 31 December 2010	27,150	28,470	179,633	235,253
Profit for the year	-	-	27,459	27,459
Dividend paid	-	-	(6,000)	(6,000)
Shares Issued	45,000	-	-	45,000
At 31 December 2011	72,150	28,470	201,092	301,712
Loss for the year	-	-	(13,463)	(13,463)
At 31 December 2012	72,150	28,470	187,629	288,249

The company paid a dividend during the year to its parent company of £nil (2011 - £6,000,000)

15. Contingent liabilities

The company has entered into a group 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 £1,825,000 (2011 - £17,771,000).

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 (2011 - £4,671,000). Since May 2001 the company has been indemnified against minimum annual rental payments of £1,393,000 (2011 - £1,393,000) by the purchasers of a former subsidiary undertaking.

Notes to the financial statements
at 31 December 2012

16. Post-balance sheet events

There were no known significant events occurring between the balance sheet and the date the financial statements were approved by the board of directors

17. Ultimate parent undertaking and controlling party

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 2012, 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.