

Parlophone Records Limited

Report and Financial Statements

25 September 2015

Registered No. 00068172

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COMPANIES HOUSE

Parlophone Records Limited

Registered No. 68172

DIRECTORS

C J Ancliff

R D Booker

S V Bergen

SECRETARY

Olswang Cossec Limited

90 High Holborn

London

WC1V 6XX

AUDITOR

KPMG LLP

15 Canada Square

London

E14 5GL

REGISTERED OFFICE

Seventh Floor

90 High Holborn

London

WC1V 6XX

CONTENTS

Strategic Report.....	1
Directors Report.....	2
Statement of Directors' Responsibilities.....	3
Independent Auditor's Report.....	4-5
Profit & Loss Account.....	6
Balance Sheet.....	7
Notes to Financial Statements.....	8-17

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 25 September 2015.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The company's principal activity during the year ended 25 September 2015 was the sale and distribution of recorded music.

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

	2015 £000	2014 £000	Change %
Turnover	88,582	64,087	+38%
Profit / (loss) after tax	172,815	(11,328)	+1,625%
Shareholders' funds	287,875	345,058	-17%

Turnover has increased by 38% for the year ended 25 September 2015 due to the termination of an income assignment with Parlophone Music International Limited.

Profit after tax has increased by 1,625% for the year ended 25 September 2015 due to the receipt of £190m dividend income.

Shareholders' funds have decreased by 17% as a result of the dividend of £230m paid during the year.

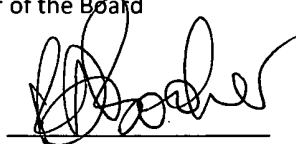
PRINCIPAL RISKS AND UNCERTAINTIES

The company faces a number of risks and uncertainties as is normal for a company of its size and complexity. The directors consider that the principal risks faced by the business include:

- The market for recorded music product has been declining and may continue to decline;
- The current uncertainty in global economic conditions would adversely affect the prospects and results of the business;
- The downward pressure on the pricing of music products leading to pressure on the margins;
- The dependence on identifying, signing and retaining artists with long-term potential, and the effect of results of successful artists;
- The continuing exposure of the music industry to illegal music downloads and file sharing.

By order of the Board

Signed



R D Booker (Director)

Seventh Floor
90 High Holborn
London
WC1V 6XX

Date

24th June 2016

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 25 September 2015.

RESULTS AND DIVIDENDS

The profit for the year, after tax, amounted to £172,815,447 (2014 – loss of £11,327,501). Following receipt of a dividend of £190m from a subsidiary, the directors reviewed the audited financial statements at 26 September 2014 and considered the performance of the company since that period end to assess a proposed dividend payment. The directors then approved the payment of a dividend of £230m (2014 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year ended 25 September 2015 and until the date of this report were as follows:

C J Ancliff
R D Booker
S V Bergen

There are no other directors' interests requiring disclosure under the Companies Act 2006.

GOING CONCERN

The company's business activities, together with the factors likely to affect its future development, its financial position and its exposures to price, credit and liquidity are described above. The company has considerable financial resources. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DISCLOSURE OF INFORMATION TO AUDITOR

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

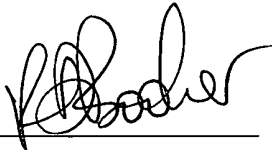
DIRECTORS' REPORT (CONTINUED)

AUDITOR

In accordance with section 485 of the Companies Act 2006, a resolution was proposed at the Annual General Meeting to appoint of KPMG LLP as auditors of the company.

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the reappointment of KPMG LLP as auditor of the company. KPMG LLP have confirmed their willingness to be appointed in office.

By order of the Board

Signed 
R D Booker (Director)

Seventh Floor
90 High Holborn
London
WC1V 6XX

Date 24th June 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARLOPHONE RECORDS LIMITED

We have audited the financial statements of Parlophone Records Limited for the year ended 25 September 2015, set out on pages 8 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 25 September 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARLOPHONE RECORDS LIMITED (CONTINUED)

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.

Signed 
Kevin Hall (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date 24 June 2016

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 25 SEPTEMBER 2015

	Notes	2015 £000	2014 £000
TURNOVER	2	88,582	64,087
Cost of sales		(46,568)	(39,561)
GROSS PROFIT		42,014	24,526
Administrative expenses		(24,824)	(19,892)
Distribution expenses		(5,710)	(4,510)
Impairment of investment		(31,924)	-
OPERATING PROFIT	3	(20,444)	124
Dividend income		190,000	-
Interest receivable	7	15,106	8,624
Interest payable	8	(3,230)	(3,217)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		181,432	5,531
Tax on profit on ordinary activities	9	(8,617)	(16,859)
PROFIT / (LOSS) FOR THE YEAR		172,815	(11,328)

The losses above for the year ended 25 September 2015 were all derived from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company had no recognised gains or losses other than the profit of £172,815,447 for the year ended 25 September 2015 (2014: loss of £11,327,501).

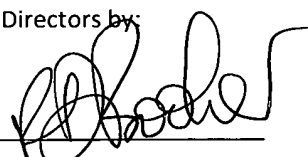
The notes on pages 8 to 17 form part of the financial statements.

BALANCE SHEET AT 25 SEPTEMBER 2015

	Notes	2015 £000	2014 £000
FIXED ASSETS			
Intangible assets	10	13,934	-
Tangible assets	11	-	954
Investments	12	17,289	49,213
		<u>31,223</u>	<u>50,167</u>
CURRENT ASSETS			
Debtors (including £1,921,000 (2014: £10,434,000)) due after more than one year	13	363,877	695,667
CURRENT LIABILITIES			
Creditors: Amounts falling due within one year	14	(98,140)	(391,172)
NET CURRENT ASSETS		<u>265,737</u>	<u>304,495</u>
PROVISIONS FOR LIABILITIES AND CHARGES	15	(9,085)	(9,604)
NET ASSETS		<u>287,875</u>	<u>345,058</u>
CAPITAL AND RESERVES			
Called up share capital	17	312,605	312,605
Profit and loss account	18	(24,730)	32,453
SHAREHOLDERS' FUNDS	18	<u>287,875</u>	<u>345,058</u>

The notes on pages 8 to 17 form part of the financial statements.

These financial statements were approved by the Board of Directors and were signed on behalf of the Board of Directors by:

Signed 
R D Booker(Director)

Seventh Floor
90 High Holborn
London
WC1V 6XX

Date 24th June 2016

NOTES TO THE FINANCIAL STATEMENTS AT 25 SEPTEMBER 2015

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

ACCOUNTING PERIOD

The company prepares accounts for either 52 or 53 week periods ending within one week of 30 September.

GOING CONCERN

The company's business activities, together with the factors likely to affect its future development, its financial position and its exposures to price, credit and liquidity are described above. The company has considerable financial resources. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

FOREIGN CURRENCIES

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

REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods: revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer i.e. on despatch and can be reliably measured. Revenue is measured at fair value after making a provision in respect of expected future returns of goods and services supplied by the Company prior to the balance sheet date.

Royalty, license and other income: revenue is recognised based on the contractual arrangements entered into with third parties, which allow them to exploit the Group's intellectual property in return for a fee. Where the Group is entitled to a fee which is not dependent upon future usage, revenue is recognised when the Group has fulfilled its contractual commitments. Where the fees due to the Group are dependent upon usage, revenue is recognised based upon that usage. Where no reliable basis is available for estimating such usage, revenue is recognised when reported to the Group by third parties.

Interest income is recognised when it has been earned and can be reliably measured.

1. ACCOUNTING POLICIES (CONTINUED)

GROUP FINANCIAL STATEMENTS

The company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group accounts as the company is included in the consolidated accounts of a larger group. These financial statements present information about the company as an individual undertaking and not as a group.

ARTISTS' ADVANCES

Artists were classified as proven or unproven depending on earnings potential. Advances to unproven artists were expensed as incurred. Advances to proven artists were held at net book value equal to the expected future royalty earnings.

RETIREMENT BENEFITS

The company operates a defined contribution schemes for its employees. Payments to the defined contribution scheme are charged as an expense as they fall due.

CASH FLOW STATEMENTS

The company has taken advantage of the exemption in Financial Reporting Standard No.1 Revised ("FRS1"). A cash flow statement has not been prepared because as at the year end the company was a wholly owned subsidiary of Warner Music Group Corp., a company incorporated in The United States of America, which prepares a group cash flow statement.

INVESTMENTS

Investments in subsidiary and associated undertakings are stated at cost less, where relevant, a provision to reflect any impairment.

TAXATION

The charge for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

PROVISION FOR ROYALTY AUDIT CLAIMS

A provision is made for royalty audit claims when it is considered more likely than not that a successful claim will be made and the likely financial impact can be estimated with reasonable certainty.

RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under Financial Reporting Standard 8, "Related Party Disclosures" (FRS 8), not to disclose related party transactions between wholly owned group undertakings.

Parlophone Records Limited

Registered No. 68172

2. TURNOVER

Turnover, substantially all of which originates within a single class of business, represents the invoiced amount of goods sold less returns, royalties receivable and fees for other services stated net of valued added tax.

Sales by destination were as follows:

	2015 £000	2014 £000
United Kingdom	43,857	64,087
Rest of the World	44,725	–
	<u>88,582</u>	<u>64,087</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2015 £000	2014 £000
Auditors' remuneration	92	81
Depreciation	–	172
Exchange gain on foreign currency balances	5,399	6,050
Reorganisation costs	–	1,730
Impairment of investment	<u>31,924</u>	<u>–</u>

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Warner Music Group Corp.

4. DIRECTORS' EMOLUMENTS

The directors of the company are also directors of a number of subsidiaries of the ultimate parent undertaking. The directors do not believe that it is practicable to apportion the remuneration between remuneration as directors of the company and their remuneration as directors of the fellow subsidiary companies. The directors' remuneration is therefore disclosed in the financial statements of the subsidiaries that make the remuneration payments.

5. STAFF COSTS

	2015 £000	2014 £000
Salaries, Wages and Pension	10,087	11,696
Social security costs	<u>1,223</u>	<u>1,010</u>
	<u>11,310</u>	<u>12,706</u>

Average monthly number of employees, including directors	<u>95</u>	<u>119</u>
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6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £000	2014 £000
Interest receivable from group undertakings	15,106	8,624

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £000	2014 £000
Interest payable to group undertakings	3,230	3,217

8. TAXATION

	2015 £000	2014 £000
Profit on ordinary activities before tax	181,433	5,531
Tax on profit on ordinary activities	8,617	16,859

Analysis of tax charge in the period

	2015 £000	2014 £000
<i>UK corporation tax</i>		
Adjustments in respect of prior periods	–	719
Total current tax	–	719

Deferred tax

Origination/reversal of timing differences	9,493	9,381
Effect of increased/(decreased) tax rates	(233)	1,988
Adjustment in respect of prior years	(643)	4,771
Total deferred tax	8,617	16,140

Tax on profit on ordinary activities	8,617	16,859
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Registered No. 68172

8. TAXATION (CONTINUED)

Factors affecting the tax charge for the current period

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 20.5% (2014 - 22%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	2015 £000	2014 £000
Current tax reconciliation		
Profit on ordinary activities before tax	181,433	5,531
	<hr/>	<hr/>
Current tax at 20.5% (2014 – 22%)	37,201	1,217

Factors affecting charge:

Expenses not deductible for tax purposes	6,619	204
Other short term timing differences	(7,780)	(8,418)
Capital allowances in excess of depreciation	–	38
Group relief received for nil consideration	–	673
Tax losses carried forward	2,918	6,286
Adjustment to tax charge in respect of previous periods	–	719
Non taxable income	(38,958)	–
	<hr/>	<hr/>
Total current tax	–	719
	<hr/>	<hr/>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. These reductions will reduce the company's future current tax charge accordingly.

9. INTANGIBLE FIXED ASSETS

	Catalogue costs £000	Total £000
Cost:		
At 26 September 2014	-	-
Additions	13,934	-
	<hr/>	<hr/>
At 25 September 2015	13,934	13,934
	<hr/>	<hr/>
Amortisation:		
At 26 September 2014	-	-
Charged during the period	-	-
	<hr/>	<hr/>
At 25 September 2015	-	-
	<hr/>	<hr/>
Net book value:		
At 26 September 2014	-	-
	<hr/>	<hr/>
At 25 September 2015	13,934	13,934
	<hr/>	<hr/>

10. TANGIBLE ASSETS

	Fixtures and Fittings £000	Plant & Machinery £000	Total £000
Cost:			
At 26 September 2014	626	500	1,126
Disposals	(626)	(500)	(1,126)
	<hr/>	<hr/>	<hr/>
At 25 September 2015	-	-	-
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 26 September 2014	153	19	17
Charged during the period	-	-	-
Disposals	(153)	(19)	(172)
	<hr/>	<hr/>	<hr/>
At 25 September 2015	-	-	-
	<hr/>	<hr/>	<hr/>
Net Book Value:			
At 26 September 2014	473	481	954
	<hr/>	<hr/>	<hr/>
At 25 September 2015	-	-	-
	<hr/>	<hr/>	<hr/>

All fixed assets were transferred to another group undertaking at the start of the financial year.

11. INVESTMENTS

	2015 £000	2014 £000
Cost	49,213	49,213
Impairment of investment	(31,924)	-
Net Book Value	17,289	49,213

The impairment of investment relates to the write down of the investment to recoverable value.

The company's principal subsidiary undertakings at 25 September 2015 were:

	Nature of business	Proportion of ordinary shares owned
<u>Subsidiary Undertakings:</u>		
Parlophone Music International Services Limited	Service Company	100%
Chrysalis Records Limited*	Record Company	100%
Chrysalis Records International Limited	Dormant	100%
Food Limited	Dormant	100%
Erato Record Classics Limited	Dormant	100%
Music for Pleasure Limited	Dormant	100%
Ensign Records Limited*	Dormant	100%
Trooper Enterprises Limited	Dormant	75%

* Held by a subsidiary undertaking

The income assignment agreement between Parlophone Music International Services Limited and Parlophone Records Limited was terminated at the start of 2015.

12. DEBTORS

Amounts falling due within one year:

	2015	2014
	£000	£000
Trade debtors	1,278	851
Amounts owed by group undertakings	350,943	678,755
Other debtors, prepayments and accrued income	-	197
Artist advances	9,769	5,430
Income tax receivable	70	-
	<u>362,060</u>	<u>685,233</u>
<i>Amounts falling due after one year:</i>		
Deferred tax asset (Note 15)	1,817	10,434
	<u>1,817</u>	<u>10,434</u>

As at 25 September 2015, all amounts owed by fellow group undertakings were due on demand and hence considered to be due within one year. The deferred tax asset is expected to be realised after a year.

13. CREDITORS

Amounts falling due within one year:

	2015	2014
	£000	£000
Trade creditors	7,386	9,324
Amounts payable to group undertakings:	11,787	318,848
Royalties payable	65,195	45,469
Accruals and deferred income	13,608	17,259
Other taxes including VAT and social security costs	142	113
Bank overdraft	22	159
	<u>98,140</u>	<u>391,172</u>

All the above are actuals except for accruals and deferred income.

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Reorganisation £000	Artist Audit claims £000	Total £000
Provision at 26 September 2014	177	9,604	9,781
Utilised during the period	(177)	(788)	(965)
Released during the period	-	(1,848)	(1,116)
Additions during the period	-	2,117	2,117
Provisions at 25 September 2015	-	9,085	9,084

The majority of the royalty audit claims provisions will be utilised in the short term.

15. DEFERRED TAX

	£
At 26 September 2014	(10,434)
Charge/credit to the profit and loss for the year	9,260
Adjustment in respect of prior years	(643)
At 25 September 2015	(1,817)

No provision has been made for deferred tax on losses carried forward on the basis that there is not sufficient certainty that these amounts will be recovered in the foreseeable future. The unrecognised deferred tax asset is £12,621k (2014: £14,801k).

16. SHARE CAPITAL

	2015 £	2014 £
<i>Allotted, called up and fully paid:</i>		
312,605,563 ordinary shares of £1 each	312,605,563	312,605,563

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Profit and loss account £000	Total £000
At 26 September 2013	312,605	43,781	356,386
Loss for the period	-	(11,328)	(11,328)
At 26 September 2014	312,605	32,453	345,058
Profit / (Loss) for the year	-	172,815	171,593
Dividend paid	-	(230,000)	(230,000)
At 25 September 2015	312,605	(24,730)	287,875

18. CONTINGENT LIABILITIES

Within the music industry a variety of claims arise from time to time in the normal course of business. Some have little or no foundation in fact or law and others cannot be quantified. Provisions have been made in the financial statements for those claims against the company which the directors consider are likely to result in significant liabilities.

19. PARENT UNDERTAKING AND CONTROLLING PARTY

The company is 100% owned by PLG Holdco Limited, the immediate parent undertaking.

As at 25 September 2015, Access Industries LLC was the ultimate parent undertaking. Warner Music Group Corp. was the parent undertaking of the smallest group of undertakings of which the company was a member and for which group financial statements are drawn up. Copies of Warner Music Group Corp.'s financial statements can be obtained from 1209 Orange Street, Wilmington, DE 19801, USA.