

## **A+E Records Limited**

### **Report and Financial Statements**

29 September 2017

Registered No. 01736204

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COMPANIES HOUSE

**A+E Records Limited**

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Registered No. 01736204

**DIRECTORS**

C J Ancliff (resigned 16 May 2018)

R D Booker

P D Breeden

K Le Gassick (appointed 21 June 2018)

**SECRETARY**

CMS Cameron McKenna Nabarro Olswang LLP

Cannon Place

78 Cannon Street

London

EC4N 6AF

**AUDITOR**

KPMG LLP

15 Canada Square

London E14 5GL

**REGISTERED OFFICE**

Cannon Place

78 Cannon Street

London

EC4N 6AF

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## **DIRECTORS' REPORT**

The directors present their report and financial statements for the year ended 29 September 2017.

### **PRINCIPAL ACTIVITIES**

Under a License Agreement, which was implemented from 1<sup>st</sup> October 2014, Warner Music UK Limited, the immediate parent undertaking, accepted the benefit and burden of the company's rights and obligations under its current and future contracts with third parties. Following signature of this Agreement, all receivables and payables in relation to the company's rights and obligations were transferred to Warner Music UK Limited in exchange for an annual royalty consideration of £625,000 per annum until either party terminates the agreement. The royalty fee will be reduced from 1 October 2018 to reflect the sale of part of the catalogue.

### **RESULTS AND DIVIDENDS**

The profit for the year, after tax, amounted to £1,793,363 (2016 - £500,000). The directors have proposed a final ordinary dividend in respect of the current financial year of £30.00 per share. This has not been included within creditors as it was not approved before the year end, (2016 - £nil).

### **DIRECTORS AND THEIR INTERESTS**

The directors who served during the year ended 29 September 2017 were as follows:

C J Ancliff  
R D Booker  
P D Breeden

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

### **GOING CONCERN**

The financial statements are prepared on the going concern basis because the Company is profitable and will continue to be profitable for the foreseeable future due to the license agreement it has entered into with Warner Music UK Limited. The license agreement can be terminated upon 60 days' notice. Should the license agreement be terminated, all rights will revert back to A+E Records Limited who will continue to derive revenue from it. There are no plans by either party to terminate the license agreement in the foreseeable future. The company has a net asset position and is expected to be able to meet its debts as they fall due for the foreseeable future.

### **STRATEGIC REPORT**

The company qualifies as small entity under section 382 of the Companies Act 2006. The company therefore has taken advantage of the exemption available under section 414B (a) of the Companies Act 2006 and not presented a strategic report.

### **DISCLOSURE OF INFORMATION TO AUDITOR**

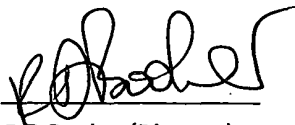
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's 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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

Signed   
R D Booker (Director)

Cannon Place  
78 Cannon Street  
London  
EC4N 6AF

Date 22<sup>nd</sup> June 2018

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

The directors are responsible for preparing 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 A+E RECORDS LIMITED**

### **Opinion**

We have audited the financial statements of A+E Records Limited for the year ended 29 September 2017 which comprise the Balance Sheet, the Profit and Loss Account and Other Comprehensive Income, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **Directors' report**

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF A+E RECORDS LIMITED (CONTINUED)

- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

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.

Signed

  
Kevin Hall (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

Date 23 June 2018



**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 29 SEPTEMBER 2017**

|  | Notes | 2017<br>£000        | 2016<br>£000      |
|--|-------|---------------------|-------------------|
| <b>TURNOVER</b>                                      | 2     | 625                 | 625               |
| <b>GROSS PROFIT</b>                                  |       | <u>625</u>          | <u>625</u>        |
| <b>OPERATING PROFIT</b>                              | 3     | 625                 | 625               |
| Other Income   | 5     | 1,604               | –                 |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b> |       | <u>2,229</u>        | <u>625</u>        |
| Tax on profit on ordinary activities                 | 6     | (436)               | (125)             |
| <b>PROFIT FOR THE YEAR</b>                           | 11    | <u><u>1,793</u></u> | <u><u>500</u></u> |

All amounts are derived from continuing activities.

**OTHER COMPREHENSIVE INCOME**

The company had no other comprehensive income for the year ended 29 September 2017 (2016 – nil).


Notes on pages 9 to 15 form part of the financial statements.

**BALANCE SHEET AT 29 SEPTEMBER 2017**

|                             | Notes | 2017<br>£000  | 2016<br>£000  |
|-----------------------------|-------|---------------|---------------|
| <b>CURRENT ASSETS</b>       |       |               |               |
| Debtors                     | 8     | 19,420        | 17,627        |
| <b>NET ASSETS</b>           |       | <u>19,420</u> | <u>17,627</u> |
| <b>CAPITAL AND RESERVES</b> |       |               |               |
| Called up share capital     | 10    | 600           | 600           |
| Profit and loss account     | 11    | 18,820        | 17,027        |
| <b>SHAREHOLDERS' FUNDS</b>  | 11    | <u>19,420</u> | <u>17,627</u> |

Notes on pages 9 to 15 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)

Cannon Place  
78 Cannon Street  
London  
EC4N 6AF

Date 22<sup>nd</sup> June 2018

## STATEMENT OF CHANGES IN EQUITY AT 29 SEPTEMBER 2017

|  | Share<br>capital<br>£000 | Profit and<br>loss account<br>£000 | Total<br>£000 |
|--|--------------------------|------------------------------------|---------------|
| At 25 September 2015                               | 600                      | 16,527                             | 17,127        |
| Profit and total comprehensive income for the year | —                        | 500                                | 500           |
| At 30 September 2016                               | 600                      | 17,027                             | 17,627        |
| At 30 September 2016                               | 600                      | 17,027                             | 17,627        |
| Profit and total comprehensive income for the year | —                        | 1,793                              | 1,793         |
| At 29 September 2017                               | 600                      | 18,820                             | 19,420        |

Notes on pages 9 to 15 form part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS AT 29 SEPTEMBER 2017

### 1. ACCOUNTING POLICIES

A+E Records Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102, *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking includes the Company in its consolidated financial statements, and is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following exemptions:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of the ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS102 available in respect of:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

### BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention.

### ACCOUNTING PERIOD

The company prepares accounts for either 52 or 53 week periods ending within one week of 29 September (2016 – 30 September 2016).

### GOING CONCERN

The financial statements are prepared on the going concern basis because the Company is profitable and will continue to be profitable for the foreseeable future due to the license agreement it has entered into with Warner Music UK Limited. The license agreement can be terminated upon 60 days' notice. Should the license agreement be terminated, all rights will revert back to A+E Records Limited who will continue to derive revenue from it. There are no plans by either party to terminate the license agreement in the foreseeable future. The company has a net asset position and is expected to be able to meet its debts as they fall due for the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS AT 29 SEPTEMBER 2017 (CONTINUED)

### 1. ACCOUNTING POLICIES CONTINUED

#### RELATED PARTIES

The company has taken advantage of the exemption available under FRS 102 not to disclose details of transactions between fellow wholly-owned group undertakings.

#### BASIC FINANCIAL INSTRUMENTS

##### *Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

##### *Investments in subsidiaries*

These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment.

#### LICENSE AGREEMENT

A license agreement with effective date 1 October 2014 has been established between A+E Records Limited ('Licensor') and Warner Music UK Limited ('Licensee'). It is entered into with reference to the following facts:

- Licensee has accepted the benefits and burden of the company's rights and obligations under its current and future contracts with third parties.
- Licensor has rights to certain music recordings and wishes to license the same to Licensee on the terms of the agreement.
- Licensee is engaged amongst other things in the management of certain aspects of the UK operations of the Warner Music Group business including the curation of music repertoire, campaigns and projects, ownership of associated assets including trademarks, the strategic direction of that business and the management of artists and repertoire in the territory.
- In consideration of the rights granted to the Licensee, the licensee shall pay an annual royalty of the sum of £625,000, which shall continue until terminated by either party on 60 day's notice.

## NOTES TO THE FINANCIAL STATEMENTS AT 29 SEPTEMBER 2017 (CONTINUED)

### 1. ACCOUNTING POLICIES CONTINUED

#### TAXATION

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 2. TURNOVER

Turnover represents the royalty income received from the immediate parent undertaking as detailed in the license agreement.

Sales by destination were as follows:

|                | 2017<br>£000 | 2016<br>£000 |
|----------------|--------------|--------------|
| United Kingdom | 625          | 625          |
|                | <u>625</u>   | <u>625</u>   |

### 3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Audit fees of £500 (2016 – £500) have been borne by Warner Music UK Limited, the immediate parent undertaking.

The company has no direct employees. All employees performing services for the company are remunerated by the parent undertaking and the remuneration disclosed in the financial statements of the parent.

## NOTES TO THE FINANCIAL STATEMENTS AT 29 SEPTEMBER 2017 (CONTINUED)

### 6. TAXATION (CONTINUED)

#### b. Reconciliation of tax charge

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 19.5% (2016 – 20%). The current tax charge for the year is as follows:

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Profit before tax for the year                | 2,229        | 625          |
| Current tax at 19.5% (2016 – 20%)             | 435          | 125          |
| <i>Factors affecting charge:</i>              |              |              |
| Timing differences                            | 1            | –            |
| Total tax expense included in profit and loss | 436          | 125          |

#### c. Tax rate changes

The reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction from 18% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these financial statements.

### 7. INVESTMENTS

Details of the investments in which the Company holds any class of share capital are as follows:

| <u>Name of company</u>     | <u>Registered address</u>   | <u>Holding</u>  | <u>Proportion of voting rights and shares held</u> | <u>Nature of business</u> |
|----------------------------|---|-----------------|--|---------------------------|
| Infectious Records Limited | Cannon Place<br>78 Cannon Street<br>London<br>England<br>EC4N 6AF | Ordinary shares | 100%   | Record company            |
| Funghi Records Limited     | Cannon Place<br>78 Cannon Street<br>London<br>England<br>EC4N 6AF | Ordinary shares | 100%   | Dormant                   |

All of the investments are in unlisted companies and have been impaired to nil.

## NOTES TO THE FINANCIAL STATEMENTS AT 29 SEPTEMBER 2017 (CONTINUED)

### 8. DEBTORS

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| Deferred tax asset (Note 9)                 | 1             | 2             |
| Amount owed by immediate parent undertaking | 19,419        | 17,625        |
|   | <u>19,420</u> | <u>17,627</u> |

### 9. DEFERRED TAX ASSET

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| At beginning of year                               | 2            | 2            |
| Charge/ credit to the profit and loss for the year | (1)          | –            |
|  | <u>1</u>     | <u>2</u>     |

*Deferred tax assets/(liabilities) are attributable to the following:*

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 1            | 2            |

The net deferred tax asset expected to reverse in 2018 is £1k. This relates to the reversal of the timing differences on capital allowances.

### 10. SHARE CAPITAL

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| <i>Allotted, called up and fully paid:</i> |              |              |
| 600,001 ordinary shares of £1 each         | 600          | 600          |
|  | <u>600</u>   | <u>600</u>   |

### 11. RESERVES

Share capital – represents the nominal value of shares that have been issued.

Profit and loss account – includes all current and prior period retained profits and losses.



## **NOTES TO THE FINANCIAL STATEMENTS AT 29 SEPTEMBER 2017 (CONTINUED)**

### **12. DIVIDENDS**

Dividends of £18m were declared and approved by the board of directors on 5 June 2018 and will be accounted for in the year ended 28 September 2018.

### **13. PARENT UNDERTAKING AND CONTROLLING PARTY**

The company is 100% owned by Warner Music UK Limited, the immediate parent undertaking.

On 29 September 2017 AI Entertainment Holdings LLC a company incorporated in Delaware in the United States of America, was the ultimate parent undertaking. Warner Music Group Corp. was the parent undertaking of the smallest and largest 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.