

Parlophone Records Limited

Report and Financial Statements

27 September 2019

Registered No. 00068172

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COMPANIES HOUSE

Parlophone Records Limited

Registered No. 68172

DIRECTORS

J H Radice (appointed 30 September 2019)

R D Booker (resigned 30 September 2019)

S V Bergen

P D Breeden

K Le Gassick (resigned 15 January 2020)

SECRETARY

Olswang Cosec Limited

Cannon Place

78 Cannon Street

London

EC4N 6AF

AUDITOR

KPMG LLP

15 Canada Square

London

E14 5GL

United Kingdom

REGISTERED OFFICE

Cannon Place

78 Cannon Street

London

EC4N 6AF

Parlophone Records Limited

Registered No. 68172

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Parlophone Records Limited

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STRATEGIC REPORT

The directors present their Strategic Report for the year ended 27 September 2019.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The company's principal activity during the year ended 27 September 2019 was the sale and distribution of recorded music.

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

	2019 £000	2018 £000	Change %
Turnover	102,611	89,693	+14%
Profit after tax	7,885	11,839	-33%
Shareholders' funds	35,486	27,601	+29%

Turnover has increased by 14% and gross profit has increased by 22% for the year ended 27 September 2019. The increase is partially driven by an increased demand for streaming services and from new releases from some of Company's largest artists. Also during the year, the company identified a method to make a reliable accounting estimate of certain revenues relating to the transactions in the year but not reported to the company until after year end. As a result current year revenue has been increased by £14,132k and related costs by £8,894k compared to the previous years.

Profit after tax has decreased by 33% for the year ended 27 September 2019, this is due to an increase in distribution costs in 2019 and dividend income received in 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

The main risks and uncertainties facing the company relate to intense competition from other record labels to sign and market successful artists and the speed with and extent to which new digital revenue streams can replace traditional income based on physical and download sales.

On 31 January 2020 the United Kingdom left the European Union and is in the process of negotiating a future relationship with the EU. The withdrawal agreement specifies that the transition period will last until 31st December 2020 and as at the date of signing there is no certainty over trading agreements after that date. UK management has been continually assessing the potential outcomes of the negotiations (including the possible outcome of leaving the EU with no deal) and have plans in place to enable the company to continue to operate in any of the potential outcomes.

Since March 2020, the impact of Covid-19 and lockdown measures put in place have been recognised by the directors as having an adverse impact to company performance in 2020. In particular revenue streams of physical product, merchandise, passive live and broadcast revenue have been affected. However, the directors consider that the company will be well placed due to the continued growth in streaming revenue which to date has been resilient to the impact of Covid-19, combined with lockdown driven cost savings in areas such as travel, entertainment, industry events and marketing.

By order of the Board

Signed 
P D Breeden (Director)

Cannon Place
78 Cannon Street
London
EC4N 6AF

Date 28th September 2020

Parlophone Records Limited

Registered No. 68172

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 27 September 2019.

RESULTS

The profit for the year ended 27 September 2019, after taxation, was £7,885k (2018 - £11,839k). The directors do not recommend the payment of a dividend (2018 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year ended 27 September 2019 were as follows:

J H Radice (appointed 30 September 2019)

R D Booker (resigned 30 September 2019)

S V Bergen

P D Breeden

K Le Gassick (resigned 15 January 2020)

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

GOING CONCERN

Directors considered the operating nature of the entity where all transactions are conducted with inter-company. Directors also assessed the outstanding inter-company payables and inter-company receivables for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its ultimate parent Warner Music Group Corp and repayment of outstanding balances from fellow subsidiaries to meet its liabilities as they fall due for that period.

Warner Music Group Corp. has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Parlophone Records Limited

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DIRECTORS' REPORT CONTINUED

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.

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 
178A5E7E335F437...
P D Breeden (Director)

Cannon Place
78 Cannon Street
London
EC4N 6AF

Date 28th September 2020

Parlophone Records Limited

Registered No. 68172

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), 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 PARLOPHONE RECORDS LIMITED

Opinion

We have audited the financial statements of Parlophone Records Limited ("the company") for the year ended 27 September 2019 which comprise the Profit and Loss Account, Other Comprehensive Income, Balance Sheet, 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 27 September 2019 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

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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

Strategic report and directors' report

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

Our responsibility is to read the strategic report and 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 strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, 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.

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

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.

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 29 September 2020

Parlophone Records Limited

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PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 27 SEPTEMBER 2019

	Notes	2019 £000	2018 £000
TURNOVER	2	102,611	89,693
Cost of sales		(63,030)	(57,192)
GROSS PROFIT		<u>39,581</u>	<u>32,501</u>
Administrative expenses		(26,818)	(21,952)
Distribution expenses		(5,914)	(2,206)
OPERATING PROFIT	3	<u>6,849</u>	<u>8,343</u>
Other Income/ (Expense)	6	0	(248)
Interest receivable and similar income	7	3,227	3,485
Interest payable and similar expenses	8	(235)	(124)
PROFIT BEFORE TAXATION		<u>9,841</u>	<u>11,456</u>
Tax (charge)/ credit on profit	9	(1,956)	383
PROFIT FOR THE YEAR		<u><u>7,885</u></u>	<u><u>11,839</u></u>

All amounts are derived from continuing activities.

OTHER COMPREHENSIVE INCOME

The company had no other comprehensive income for the year ended 27 September 2019 (2018 – £nil).

Notes on pages 11 to 24 form part of these financial statements.

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BALANCE SHEET AT 27 SEPTEMBER 2019

	Notes	2019 £000	2018 £000
FIXED ASSETS			
Intangible assets	10	2,787	5,577
Investments	11	6,543	6,543
		<u>9,330</u>	<u>12,120</u>
CURRENT ASSETS			
Debtors (including £2,426k (2018: £37,915k) due after more than one year)	12	155,327	133,530
Cash in bank and in hand		-	23
		<u>155,327</u>	<u>133,553</u>
CURRENT LIABILITIES			
Creditors: Amounts falling due within one year	13	(119,166)	(108,841)
		<u>36,161</u>	<u>24,712</u>
NET CURRENT ASSETS			
Provisions for liabilities and charges	14	(10,005)	(9,231)
		<u>35,486</u>	<u>27,601</u>
NET ASSETS			
		<u><u>35,486</u></u>	<u><u>27,601</u></u>
CAPITAL AND RESERVES			
Called up share capital	16	2,000	2,000
Profit and loss account	19	33,486	25,601
		<u>35,486</u>	<u>27,601</u>
SHAREHOLDERS' FUNDS	19	<u><u>35,486</u></u>	<u><u>27,601</u></u>

The notes on pages 11 to 24 form part of these financial statements.

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

Signed 
P D Breeden (Director)

Cannon Place
78 Cannon Street
London
EC4N 6AF

Date 28th September 2020

Parlophone Records Limited

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STATEMENT OF CHANGES IN EQUITY AT 27 SEPTEMBER 2019

	Share capital £000	Profit and loss account £000	Total £000
At 30 September 2017	2,000	13,762	15,762
Profit and total comprehensive income for the year	—	11,839	11,839
At 29 September 2018	2,000	25,601	27,601
Profit and total comprehensive income for the year	-	7,885	7,885
At 28 September 2019	2,000	33,486	35,486

The notes on pages 11 to 24 form part of these financial statements.

Parlophone Records Limited

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019

1. ACCOUNTING POLICIES

Parlophone 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
- Disclosure of related party transactions between wholly-owned subsidiaries and parents within a group

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 27 September (2018 – 28 September 2018).

GOING CONCERN

The company is profitable and had net current assets at the year end. The directors have prepared forecasts and also assessed the outstanding inter-company payables and inter-company receivables for a period of 12 months from the date of approval of these financial statements which indicate which indicate that, taking account of reasonably possible downsides, the company will the company will have sufficient funds through funding from its ultimate parent Warner Music Group Corp and repayment of outstanding balances from fellow subsidiaries to meet its liabilities as they fall due for that period.

Parlophone Records Limited

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)****1. ACCOUNTING POLICIES CONTINUED****GOING CONCERN CONTINUED**

Warner Music Group Corp. has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in 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.

RELATED PARTIES

The company has taken advantage of the exemption in FRS 102 not to disclose related party transactions with fellow wholly-owned group undertakings.

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019 (CONTINUED)

1. ACCOUNTING POLICIES CONTINUED

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.

INTANGIBLE ASSETS

Purchased recording rights are capitalised and amortised by equal annual instalments over their estimated useful lives, but not exceeding 20 years.

Purchased programme rights are capitalised and amortised by equal annual instalments over their estimated useful lives. Programme rights are now fully amortised.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

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. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Investments in subsidiaries

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

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019 (CONTINUED)

PROVISIONS

A provision is recognised in the balance sheet when a Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

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.

ARTIST AUDIT CLAIMS

Provisions are calculated based on management's best estimate of the likely outcome of artist royalty audit claims. This includes the royalty earnings during the audit period and any known issues. Uncertainty arises where sections of the artists' contracts are subject to legal interpretation.

ONEROUS CONTRACTS

Provisions are calculated based on management's best estimate of the likely revenues and costs resulting from contractually committed album releases. This includes advances contractually due to artists as well as the costs associated with an album release. Uncertainty arises from the timing of album delivery and the exact level of costs incurred.

IMPAIRMENTS

Financial assets (excluding trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in the profit and loss account. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit and loss account.

Parlophone Records Limited

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)***Non-financial assets*

The carrying amount of the entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the profit and loss account.

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, 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:

	2019 £000	2018 £000
United Kingdom	47,200	38,898
Rest of the World	55,411	50,795
	<u>102,611</u>	<u>89,693</u>

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)****3. OPERATING PROFIT**

This is stated after charging:

	2019	2018
	£000	£000
Auditor's remuneration – audit of these financial statements	101	99
Exchange gain on foreign currency balances	62	46
	<u>163</u>	<u>145</u>

4. DIRECTORS' EMOLUMENTS

The directors of the company are also directors of a number of subsidiaries of the ultimate parent undertaking. The directors 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 based on qualifying services provided to each subsidiary.

Parlophone Records Ltd director remuneration payments are as follows:

	2019	2018
	£000	£000
Emoluments	344	148
	<u>344</u>	<u>148</u>
Company contributions paid to defined contribution pension schemes	10	8
	<u>10</u>	<u>8</u>
	No.	No.
Members of defined contribution pension schemes	2	2
	<u>2</u>	<u>2</u>

The highest paid director received emoluments of £182,000 and pension contributions of £6,000. Directors' emoluments include compensation for loss of office of £26k (2018: £nil).

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019 (CONTINUED)

5. STAFF COSTS

	2019 £000	2018 £000
Salaries, Wages and Pension	12,989	11,980
Social security costs	1,648	1,570
	<u>14,637</u>	<u>13,550</u>
Average monthly number of employees, including directors	<u>99</u>	<u>98</u>

6. OTHER INCOME/ (EXPENSE)

	2019 £000	2018 £000
(Expense)/ Income relating to the sale of artist catalogues	-	(248)
	<u>-</u>	<u>(248)</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £000	2018 £000
Interest receivable from group undertakings	3,227	3,485
	<u>3,227</u>	<u>3,485</u>

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £000	2018 £000
Interest payable to group undertakings	235	124
	<u>235</u>	<u>124</u>

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)****9. TAXATION****a. Total tax expense recognised in the profit and loss account**

	2019 £000	2018 £000
<i>Current tax</i>		
UK corporation tax on income for the period	961	1,049
Adjustment in respect of prior periods	(86)	-
	<u>875</u>	<u>1,049</u>
<i>Deferred tax</i>		
Origination/ reversal of timing differences	953	(974)
Impact of change in tax rate	110	24
Adjustments in respect of prior periods	18	(482)
	<u>1,081</u>	<u>(1,432)</u>
 Total tax	 <u>1,956</u>	 <u>(383)</u>

The full tax charge for the year is recognised in the Profit and Loss account.

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% (2018: 19%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	2019 £000	2018 £000
Profit before tax for the year	9,841	11,456
	<u>1,870</u>	<u>2,177</u>
Current tax at 19.0% (2018 – 19.0%)		
<i>Factors affecting charge:</i>		
Expenses not deductible for tax purposes	44	105
Recognition of previously unrecognised tax losses	-	(962)
Losses for which no deferred tax asset was recognised	-	(1,245)
Charge in tax rate impact on deferred tax balances	110	24
Adjustment to tax charge in respect of previous periods	(68)	(482)
 Total tax expense/ (credit) included in profit and loss	 <u>1,956</u>	 <u>(383)</u>

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019 (CONTINUED)

9. TAXATION (CONTINUED)

c. Tax rate changes

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 27 September 2019 has been calculated based on this rate. The March 2020 Budget announced that the rate of 19% would continue to apply with effect from 1 April 2020, and this was substantively enacted on 17 March 2020. This will increase the company's future current tax charge accordingly and increase the deferred tax asset by £133k.

10. INTANGIBLE FIXED ASSETS

	Catalogue costs total £000
Cost:	
At 27 Sept 2019 and Sept 2018	13,934
Amortisation:	
At 28 September 2018	(8,360)
Charged during the period	(2,787)
At 27 September 2019	(11,147)
Net book value:	
At 28 September 2018	5,577
At 27 September 2019	2,787

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)**

11. INVESTMENTS

	Investments £000	Total £000
Cost:		
At 28 September 2018 & 27 September 2019	50,627	50,627
Amounts provided:		
At 28 September 2018 & 27 September 2019	(44,084)	(44,084)
Net book value:		
At 28 September 2018	6,543	6,543
At 27 September 2019	6,543	6,543

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)****11. INVESTMENTS (CONTINUED)**

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Registered office</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Warner Music Artist Services International Limited (f.k.a: Parlophone Music International Services Limited)	Cannon Place 78 Cannon Street London, EC4N 6AF	Ordinary shares	100%	Dormant
Food Limited	Cannon Place 78 Cannon Street London, EC4N 6AF	Ordinary shares	100%	Dormant
Erato Record Classics Limited	Cannon Place 78 Cannon Street London, EC4N 6AF	Ordinary shares	100%	Dormant
Music for Pleasure Limited	Cannon Place 78 Cannon Street London, EC4N 6AF	Ordinary shares	100%	Dormant
Trooper Enterprises Limited	Cannon Place 78 Cannon Street London, EC4N 6AF	Ordinary shares	75%	Dormant
PLG Classics Germany GmbH	c/o WARNER MUSIC Group Germany Holding GmbH Alter Wandrahm 14 20457 Hamburg Germany	Ordinary shares	100%	Trading
Chrysalis Records International Limited	Cannon Place 78 Cannon Street London, EC4N 6AF	Ordinary shares	100%	Dormant

The investment value of £6,543k (2018 - £6,543k) relates to Parlophone Music International Services Limited. All other investments have nil net book value (2018 - £nil).

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)

12. DEBTORS

Amounts falling due within one year:

	2019	2018
	£000	£000
Trade debtors	14,301	1,286
Amounts owed by group undertakings	137,948	93,967
Artist advances	639	362
Taxation and social security	13	-
	<u>152,901</u>	<u>95,615</u>

Amounts falling due after one year:

Deferred tax asset (Note 15)	2,426	3,507
Amounts owed by group undertakings	-	34,408
	<u>2,426</u>	<u>37,915</u>

13. CREDITORS

Amounts falling due within one year:

	2019	2018
	£000	£000
Trade creditors	4,242	3,354
Amounts payable to group undertakings	24,670	18,334
Royalties payable	70,019	68,998
Accruals and deferred income	12,013	11,113
Group relief payable	7,471	6,990
Corporation Tax and Social Security	394	52
Bank overdraft	357	-
	<u>119,166</u>	<u>108,841</u>

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NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019 (CONTINUED)

14. PROVISION FOR LIABILITIES AND CHARGES

	Onerous Contracts £000	Artist Audit claims £000	Total £000
Provision at 28 September 2018	3,209	6,022	9,231
Utilised during the period	-	(285)	(285)
Released during the period	-	(75)	(75)
Additions during the period	-	1,134	1,134
Provisions at 27 September 2019	3,209	6,796	10,005

Onerous Contracts: amounts represent the estimated cost of fulfilling long term contractual commitments to artists and will be paid out once the terms of the contract have been met at the value stipulated in the contract.

Artist Audit Claims: amounts represent the estimated cost to arise from claims known at the period end. The value of the provision is based on the latest information available relating to the claim and will be paid out once the settlement value has been agreed by both parties.

15. DEFERRED TAX

	2019 £000	2018 £000
At 28 September 2018	(3,507)	(2,075)
Charge to the profit and loss for the year	1,063	(951)
Adjustment in respect of prior years	18	(481)
	2,426	(3,507)

Deferred tax assets are attributable to the following:

	2019 £000	2018 £000
Tax losses	921	1,753
Other timing differences	1,505	1,754
	2,426	3,507

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**NOTES TO THE FINANCIAL STATEMENTS AT 27 SEPTEMBER 2019
(CONTINUED)****16. SHARE CAPITAL**

	2019	2018
	£	£
<i>Allotted, called up and fully paid:</i>		
312,605,563 ordinary shares of £0.0064 each	2,000,676	2,000,676

17. 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.

18. DEBENTURE

There an outstanding registered charge against all credit balances in the company by Barclays Bank Ltd dated 2008. This charge is a standard procedure and was been registered as security for Barclays Bank Ltd for the operation by the bank of the company's facilities with the bank. The company no longer has a bank account with Barclays Bank and has no outstanding debt to Barclays Bank. The company is working with the Bank to have the charge removed.

19. RESERVES

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

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

20. PARENT UNDERTAKING AND CONTROLLING PARTY

The company is 100% owned by WMG Finance Limited (formerly known as PLG Holdco Limited), the immediate parent undertaking.

As at 27 September 2019, 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.