

VIRGIN RECORDS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



VIRGIN RECORDS LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2018

CONTENTS	PAGES
Officers and professional advisers	1
Strategic report	2 to 3
Directors' report	4 to 5
Independent auditor's report to the members	6 to 8
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Notes to the financial statements	12 to 24

VIRGIN RECORDS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

AM Barker
EJ Berkeley
EJ Cockle
BJ Muir
DRJ Sharpe

COMPANY SECRETARY

A Abioye

REGISTERED OFFICE

4 Pancras Square
London
N1C 4AG

AUDITOR

Deloitte LLP
Statutory Auditor
Mountbatten House
1 Grosvenor Square
Southampton
SO15 2BZ
United Kingdom

VIRGIN RECORDS LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2018

The directors present their strategic report for the company for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was the sale and distribution of all forms of recorded music and merchandise.

The result of the company for the year ended 31 December 2018 and its position as at that date are set out in the statement of comprehensive income, statement of financial position and statement of changes in equity on pages 9, 10 and 11 respectively. The result and position of the company were in line with directors' expectations.

RESULTS AND DIVIDENDS

The company's profit for the financial year was £11,227,000 (2017 - profit £1,402,000). The increase in profit is due to a combination of turnover growth, and an increase in interest receivable resulting from an increase in the LIBOR rate.

The retained profit for the year has been transferred to reserves. The directors do not recommend a dividend payment for the year ended 31 December 2018 (2017 - £Nil).

KEY PERFORMANCE INDICATORS

The company uses a variety of performance indicators to review historical performance and plan for the future. The key indicators are turnover, gross profit margin and net assets as described below.

Turnover

Turnover grew by 11% compared to the previous year, driven by increasing demand for streaming services and a strong release schedule.

Gross profit margin

Gross profit margin remains strong, increasing slightly from 59% to 61%.

Net assets

Net assets increased to £1,002,450,000 (2017 - £991,223,000), driven by the company's continued profitability.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company uses a variety of financial instruments including cash, equity and other instruments such as artist advances, trade receivables and trade payables that arise directly from its operations.

The directors are of the view that the main risks arising from the company's financial instruments are interest rate risk and liquidity risk, as summarised below:

Interest rate risk

The company does not have any significant external borrowings and as such the directors consider the interest rate risk to be minimal at this stage.

Liquidity risk

The company manages its financial risk by ensuring liquidity is sufficient to meet future needs, and that sufficient funding is in place before any new commitments are entered into. Cash flow forecasts are monitored by management on a regular basis.

VIRGIN RECORDS LIMITED
STRATEGIC REPORT (continued)
YEAR ENDED 31 DECEMBER 2018

PRINCIPAL RISKS AND UNCERTAINTIES

The company is faced with similar risks and uncertainties as other companies operating in the recorded music business, broadly:

- competition from alternative entertainment products;
- price pressure from the increased presence of supermarkets in the music market and their threat to the survival of independent music retailers;
- the threat of a devalued product due to piracy and the illegal use of music; and
- uncertainty as to whether the growth in subscription services will continue in the longer term.

All risks and uncertainties are regularly monitored by the directors, including the following:

Brexit

Following the referendum held on 23rd June 2016 the United Kingdom is expected to leave the European Union ("Brexit").

The directors of the company are assessing the possible impact that this may have on its operations, including but not limited to:

- logistical challenges of potential delays at UK ports;
- new VAT and customs rules that may apply to trade with the EU; and
- changes in freight and duty charges for moving goods to and from the EU.

This assessment will continue until the terms of the United Kingdom's departure are known. However, the directors do not consider Brexit to represent a significant risk to the company's operations.

Climate change

At this stage the directors do not consider that the effects of climate change pose a significant risk to the company's operations.

FUTURE DEVELOPMENTS

Notwithstanding the risks and uncertainties outlined above, the directors do not anticipate any significant change in the activities and results of the company in the foreseeable future.

By order of the board



DRJ Sharpe
Director

Date: 17 May 2019

VIRGIN RECORDS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2018

The directors present their report, together with the financial statements and the auditor's report of the company for the year ended 31 December 2018.

They have included the following matters within the strategic report, otherwise required to be disclosed in the directors' report, as they are considered to be of strategic importance to the company.

- Financial risk management objectives and policies; and
- Future developments.

DIRECTORS

The directors who served the company during the year and subsequently were as follows:

AM Barker
EJ Berkeley
EJ Cockle
BJ Muir
DRJ Sharpe

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A qualifying third party indemnity provision remains in force as at the date of approving the directors' report, subject to the provisions of section 236 of the Companies Act 2006. Vivendi SA, headed by Bolloré Group, the ultimate parent undertaking, maintains a Directors & Officers Liability Programme which indemnifies directors' personal liabilities resulting from alleged wrongful acts committed in the line of their employment.

POLICY ON THE PAYMENT OF CREDITORS

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

DONATIONS

During the year the company made the following contributions:

	2018	2017
	£	£
Charitable donations	149	29,806
	<u>149</u>	<u>29,806</u>

VIRGIN RECORDS LIMITED
DIRECTORS' REPORT (continued)
YEAR ENDED 31 DECEMBER 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITOR

In so far as each of the directors at the date of approving this report are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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

By order of the board



A Abioye

Company Secretary

Date: 17 May 2019

Company Registration Number: 01070953

VIRGIN RECORDS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN RECORDS LIMITED YEAR ENDED 31 DECEMBER 2018

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Virgin Records Limited ('the company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 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.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Standard's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

VIRGIN RECORDS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN RECORDS LIMITED (continued)

YEAR ENDED 31 DECEMBER 2018

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

VIRGIN RECORDS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN RECORDS LIMITED (continued)

YEAR ENDED 31 DECEMBER 2018

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Use of our report

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.



Claire Siviter, FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP, Statutory Auditor, Southampton, United Kingdom

Date: 17 May 2019

Company Registration Number: 01070953

VIRGIN RECORDS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
TURNOVER	4	58,606	52,786
Cost of sales		(22,991)	(21,703)
GROSS PROFIT		35,615	31,083
Distribution costs		(1,328)	(1,270)
Administrative expenses		(17,144)	(17,836)
OPERATING PROFIT	5	17,143	11,977
Interest receivable and similar income	8	12,091	6,704
Interest payable and similar charges	9	(15,522)	(16,621)
PROFIT BEFORE TAXATION		13,712	2,060
Tax on profit	10	(2,485)	(658)
PROFIT FOR THE FINANCIAL YEAR		11,227	1,402

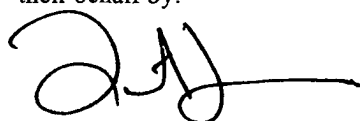
All of the activities of the company are classed as continuing operations.

The notes on pages 12 to 24 form part of these financial statements

VIRGIN RECORDS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
FIXED ASSETS			
Intangible assets	11	7,134	8,917
Property, plant & equipment	12	8,096	8,616
Investments	13	-	-
		<u>15,230</u>	<u>17,533</u>
CURRENT ASSETS			
Inventories	14	325	366
Debtors: Amounts falling due within one year	15	1,029,571	1,021,425
Cash at bank		31	13
		<u>1,029,927</u>	<u>1,021,804</u>
CREDITORS: Amounts falling due within one year	16	<u>(41,286)</u>	<u>(45,493)</u>
NET CURRENT ASSETS		<u>988,641</u>	<u>976,311</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,003,871</u>	<u>993,844</u>
PROVISIONS FOR LIABILITIES			
Deferred taxation	17	(70)	-
Provisions for liabilities and charges	18	(1,351)	(2,621)
NET ASSETS		<u>1,002,450</u>	<u>991,223</u>
CAPITAL AND RESERVES			
Called-up equity share capital	20	897,390	897,390
Share premium account		45,144	45,144
Profit and loss account		59,916	48,689
EQUITY SHAREHOLDERS' FUNDS		<u>1,002,450</u>	<u>991,223</u>

These financial statements were approved by the board of directors and authorised for issue on 17 May 2019 and are signed on their behalf by:



DRJ Sharpe
Director

Company Registration Number: 01070953

The notes on pages 12 to 24 form part of these financial statements

VIRGIN RECORDS LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2018

	Share capital £'000	Share premium account £'000	Profit & loss account £'000	Total shareholders' funds £'000
Balance brought forward 1 January 2017	897,390	45,144	47,287	989,821
Total comprehensive income				
Profit for the financial year	-	-	1,402	1,402
Balance brought forward 1 January 2018	897,390	45,144	48,689	991,223
Total comprehensive income				
Profit for the financial year	-	-	11,227	11,227
Balance carried forward at 31 December 2018	897,390	45,144	59,916	1,002,450

The notes on pages 12 to 24 form part of these financial statements

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

Virgin Records Limited is a private company limited by shares and incorporated in the UK under the Companies Act 2006 and registered in England and Wales. The registered office is 4 Pancras Square, London, N1C 4AG.

The principal activities of the company and the nature of its operations are set out in the strategic report on pages 2 to 3.

2. STATEMENT OF COMPLIANCE

The company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. ACCOUNTING POLICIES

Basis of preparation of financial statements

These financial statements have been prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in sterling, which is the functional currency of the company, and have been rounded to the nearest £'000.

FRS 102 - Qualifying exemptions

The company meets the definition of a qualifying subsidiary entity under FRS 102 and has therefore taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- from preparing a statement of cash flows and related notes;
- from preparing a reconciliation of the number of shares outstanding from the beginning to the end of the financial year;
- from disclosing related party transactions with wholly owned group companies;
- from disclosing key management personnel compensation; and
- from certain financial instrument disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instruments*.

This information is included in the consolidated financial statements of the company's parent undertaking, Vivendi SA, copies of which can be obtained from 42 Avenue de Friedland, 75380 Paris, Cedex 08, France.

Other qualifying exemptions

As the parent undertaking prepares publicly available consolidated financial statements and is incorporated within the European Union the company has taken advantage of the exemption under section 400 of the Companies Act 2006 from preparing consolidated financial statements. As such, these financial statements give information about the company as an individual undertaking and not about its group.

Going concern

The company's business activities, together with the factors likely to affect future developments, its financial exposures and its risk exposures are described in the strategic report.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future, and at least 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (continued)

Turnover

Turnover comprises the value of sales of physical goods, digital products, royalty income and services rendered during the year. It is stated net of VAT, discounts and returns.

Turnover from sales of goods is recognised when products are despatched, at which point the significant risks and rewards are considered to be transferred to the customer. Turnover relating to digital products and royalty income is recognised when the products are sold, or if it cannot be reliably estimated, on a receipts basis. Turnover relating to services rendered is recognised once the services have been performed. Royalties payable are charged against the relevant income of the same period.

Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

Expenditure on internally generated goodwill and brands is expensed as it is incurred. Other intangible assets are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets.

Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Goodwill	10% Straight line
Other Intangibles	10% Straight line

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date. Goodwill and other intangible assets are tested for impairment in accordance with FRS 102, Section 27 Impairment of assets, when there is an indication that goodwill or an intangible asset may be impaired.

Property, plant & equipment

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Land & Buildings	2% straight line on buildings. Land is not depreciated.
Leasehold Improvements	5% straight line
Plant & Machinery	10% - 33.33% straight line

Leasehold properties has been fully depreciated. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions of being 'basic' financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investments

Investments in subsidiaries are carried at cost less impairment.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Advances

Advances to unproven artists, where no discernible track record of activity is evidenced, are expensed. Advances to proven artists are written down to the estimated amount that will be recoverable from future royalty payments to the artist. Net advances are classified as falling due within one year, although elements may not be recovered until more than one year.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Impairment (excluding inventories and deferred tax assets)

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss previously recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable the company will have to settle and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Interest receivable and Interest payable

Interest receivable and payable relates to balances due from and to group undertakings, and are recognised in profit or loss in the statement of comprehensive income as they accrue.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised through profit or loss in the statement of comprehensive income 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 statement of financial position 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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, associated and joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

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 statement of financial position 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.

Foreign currencies

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position 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 transaction. Foreign exchange differences arising on translation are recognised through profit or loss in the statement of comprehensive income.

Critical accounting judgements and key sources of estimation uncertainty

The directors may make judgements in the application of the accounting policies above that have a significant impact on the amounts recognised, and may make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The directors have concluded there are no critical judgements to disclose.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

3. ACCOUNTING POLICIES (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Key source of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Impairment of intangible assets

The directors assess intangible assets for indicators of impairment at each reporting date. This involves reviewing recent financial performance as well as financial forecasts, the preparation of which involves an element of estimation. The carrying value of the assets potentially subject to this uncertainty is disclosed in note 11.

Intangible and Tangible assets - useful economic lives

The useful lives of intangible assets are determined by management at the time they are acquired, and then reassessed for reasonableness at each reporting date. Future developments or changes in their use may impact the lives in future periods.

Artist royalty provisions

The company holds a provision for artist royalty audits as disclosed in note 18. The value of the provision is an estimate and the actual costs and timing of cash flows are dependent on future events. Any differences between expectations and the actual future liability are accounted for in the period when such determination is made.

Artist advance provisions

The company makes provisions against artist advances based on an assessment of the likelihood of recovering the balance through future artist royalties, which involves an element of estimation. The actual artist royalties may differ from these estimates.

4. TURNOVER

Turnover by activity is as follows:

	2018 £'000	2017 £'000
Product Sales	23,410	21,806
Royalties	35,196	30,980
	<u>58,606</u>	<u>52,786</u>

Turnover by destination is as follows:

	2018 £'000	2017 £'000
United Kingdom	42,062	33,747
Rest of Europe	7,098	7,341
United States of America	5,867	7,808
Rest of World	3,579	3,890
	<u>58,606</u>	<u>52,786</u>

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

5. OPERATING PROFIT

Operating profit is stated after charging:

	2018 £'000	2017 £'000
Impairment of intangible assets	-	730
Amortisation of intangible assets	1,784	1,926
Depreciation of owned fixed assets	1,077	967
Cost of inventories recognised as an expense	1,612	998
Impairment of inventories	302	100
	<u> </u>	<u> </u>

6. AUDITOR'S REMUNERATION

The auditor's remuneration for the year ended 31 December 2018 was £22,500 (2017 - £22,500) and was borne by another group company in both years.

7. PARTICULARS OF EMPLOYEES

The company had no employees during the year ended 31 December 2018 (2017 - none). Emoluments for the directors of the company are paid for by a fellow group company. The fellow group company has not recharged any amount to the company (2017 - nil) on the basis that they are unable to make a reasonable apportionment of the portion of these total emoluments that relate to qualifying services provided by directors of the company.

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £'000	2017 £'000
Interest receivable from group undertakings	12,091	6,704
	<u> </u>	<u> </u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £'000	2017 £'000
Interest payable to group undertakings	15,522	16,621
	<u> </u>	<u> </u>

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

10. TAX ON PROFIT

(a) Analysis of tax charge in the year

	2018 £'000	2017 £'000
Current tax:		
UK Corporation tax based on the results for the year at 19.00% (2017 - 19.25%)	-	7
Adjustments in respect of previous years	(410)	(19)
Over/under provision in prior year	-	7
Group relief payable for losses claimed from other group undertakings	2,708	589
Double taxation relief	-	(7)
Total current tax	<u>2,298</u>	<u>577</u>
Deferred tax:		
Origination and reversal of timing differences	182	81
Adjustments in respect of prior periods	5	-
Total deferred tax	<u>187</u>	<u>81</u>
Tax on profit	<u>2,485</u>	<u>658</u>

(b) Factors affecting tax charge

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%).

Under the Finance (No.2) Act 2015, the main rate of corporation tax was reduced from 20% to 19% effective from 1 April 2017. A further reduction to 17% from 1 April 2020 will apply by virtue of the Finance Act 2016 s46 which was enacted on 15 September 2016. Deferred tax assets and liabilities are measured at the rate that is expected to apply to the accounting period when the asset is realised or the liability is settled, based on the above rates.

	2018 £'000	2017 £'000
Profit before taxation	<u>13,712</u>	<u>2,060</u>
Profit at the standard rate of UK Corporation tax of 19.00% (2017 - 19.25%)	2,606	397
Expenses not deductible for tax purposes	305	291
Adjustments in respect of previous periods	(405)	(19)
Double tax relief	-	(7)
Foreign tax suffered in the period	-	7
Impact of statutory rate change	(21)	(11)
Current tax charge for the financial year	<u>2,485</u>	<u>658</u>

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

11. INTANGIBLE ASSETS

	Goodwill £'000	Other Intangible £'000	Total £'000
COST			
At 1 January 2018	12,485	5,351	17,836
At 31 December 2018	12,485	5,351	17,836
AMORTISATION			
At 1 January 2018	6,251	2,668	8,919
Charge for the year	1,248	535	1,783
At 31 December 2018	7,499	3,203	10,702
NET BOOK VALUE			
At 31 December 2018	4,986	2,148	7,134
At 31 December 2017	6,234	2,683	8,917

12. PROPERTY, PLANT & EQUIPMENT

	Land & Buildings £'000	Leasehold Properties £'000	Leasehold Improve-ments £'000	Plant & Machinery £'000	Total £'000
COST					
At 1 January 2018	1,517	569	921	21,473	24,480
Additions	-	-	-	558	558
At 31 December 2018	1,517	569	921	22,031	25,038
DEPRECIATION					
At 1 January 2018	532	569	138	14,625	15,864
Charge for the year	34	-	46	998	1,078
At 31 December 2018	566	569	184	15,623	16,942
NET BOOK VALUE					
At 31 December 2018	951	-	737	6,408	8,096
At 31 December 2017	985	-	783	6,848	8,616

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

13. INVESTMENTS

	Shares in subsidiaries £'000	Total £'000
COST		
At 1 January 2018	877,449	877,449
Disposals	(41,874)	(41,874)
At 31 December 2018	835,575	835,575
PROVISION FOR IMPAIRMENT		
At 1 January 2018	877,449	877,449
Disposals	(41,874)	(41,874)
At 31 December 2018	835,575	835,575
NET BOOK VALUE		
At 31 December 2018	-	-
At 31 December 2017	-	-

During the year, the subsidiary companies Charisma Records Limited, Virgin EG Records Limited and VRL 1 Limited were dissolved, and the brought forward cost and provision for impairment have been disposed of.

Subsidiary undertakings

The principal subsidiaries of Virgin Records Limited, all incorporated in England and Wales as at 31 December 2018 were as follows:

Name	Shareholding type	%
Sacred Heart Records Limited	Ordinary shares	100
EMI UK Holdings	Ordinary shares	100
Mawlaw 388 Limited	Ordinary shares	100
EMI Limited	Ordinary shares	100
Jaydone Limited	Ordinary shares	100
Relentless 2006 Limited	Ordinary shares	100
EMI Group Electronics Limited*	Ordinary shares	100
Universal Music Direct Limited	Ordinary shares	100

All of the subsidiaries have a registered office address of 4 Pancras Square, London, N1C 4AG. They are all directly owned, except for those marked with an asterix, which are owned by another directly owned subsidiary.

The company is exempt from disclosure of the aggregate amount of capital and reserves, and profit or loss for each subsidiary undertaking by virtue of section 400 of the Companies Act 2006.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

14. INVENTORIES

	2018 £'000	2017 £'000
Finished goods	325	366

The difference between the purchase price of inventories and their replacement cost is not material.

15. DEBTORS: Amounts due within one year

	2018 £'000	2017 £'000
Trade debtors	63	615
Amounts due from group undertakings	1,023,295	1,015,972
Other taxation and social security	1	-
Other debtors	782	300
Prepayments and accrued income	5,430	4,421
Deferred taxation (note 17)	-	117
	1,029,571	1,021,425

All amounts due from fellow group undertakings are classified as current as they are repayable on demand. Interest rates on intercompany loans have been agreed between parties on a loan by loan basis.

16. CREDITORS: Amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	12,702	13,452
Amounts owed to group undertakings	25,247	27,689
VAT	24	74
Other creditors	41	154
Accruals and deferred income	3,272	4,124
	41,286	45,493

All amounts owed to fellow group undertakings are classified as current as they are repayable on demand. Interest rates on intercompany loans have been agreed between parties on a loan by loan basis.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

17. DEFERRED TAXATION

The movement in the deferred taxation balance during the year was:

	2018 £'000	2017 £'000
Balance brought forward	117	198
Deferred taxation on ordinary activities account movement arising during the year	(182)	(81)
Prior year adjustment	(5)	-
	<u>(70)</u>	<u>-</u>
Balance carried forward	<u>(70)</u>	<u>117</u>

Deferred taxation consists of the tax effect of timing differences in respect of:

	2018 £'000	2017 £'000
Excess of depreciation over taxation allowances	(7)	(41)
Other timing differences	(63)	158
	<u>(70)</u>	<u>117</u>

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Other provisions £'000	Total £'000
At 1 January 2018	2,621	2,621
Additions	270	270
Write off to profit and loss account	(1,540)	(1,540)
	<u>1,351</u>	<u>1,351</u>
At 31 December 2018	<u>1,351</u>	<u>1,351</u>

Provision is made against the outcome of artist royalty audits ongoing at the reporting date, and against additional artist royalty obligations anticipated by management at the reporting date, resulting from a past event likely to give rise to the transfer of economic benefit. Until such time as a formal audit notification is received, the liability is not expected to crystallise within 12 months of the reporting date and is therefore classified as a non-current provision.

VIRGIN RECORDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2018

19. ARTIST ADVANCE COMMITMENTS

At 31 December 2018 the company had contractual commitments in respect of artist advances of £498,000 (2017 - £76,000), of which £498,000 (2017 - £76,000) relate to the next financial year.

20. SHARE CAPITAL

Allotted, called up and fully paid:

	2018		2017	
	No	£'000	No	£'000
Ordinary shares of £1 each	897,389,961	897,390	897,389,961	897,390
	<u>897,389,961</u>	<u>897,390</u>	<u>897,389,961</u>	<u>897,390</u>

The company has one class of ordinary shares which have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

21. RESERVES

Profit & loss account

The profit and loss account reflect cumulative profits or losses, net of dividends and other adjustments.

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

22. ULTIMATE PARENT COMPANY

The immediate parent undertaking is Virgin Music Group. The ultimate parent undertaking and controlling party is Bolloré Group.

The smallest group in which the results of the company are consolidated is that headed by Vivendi SA, a company incorporated in France. Copies of its annual report in English may be obtained from its registered office at:

42 Avenue de Friedland
75380 Paris
Cedex 08
France

The largest group in which the results of the company are consolidated is that headed by Bolloré Group, a company incorporated in France. Copies of its annual report in English may be obtained from its registered office at:

Tour Bolloré
31-32 quai de Dion Bouton
92 811 Puteaux
France