

Report and Accounts
FFRR Records Limited

30 December 1999



FFRR Records Limited

Registered No. 1989940

DIRECTORS


J V Watson
N Phillips
K Mullock

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

REGISTERED OFFICE

Waldron House
57-63 Old Church Street
London SW3 5BS

 **ERNST & YOUNG**

DIRECTORS' REPORT

The directors submit their report and accounts for the period ended 30 December 1999.

RESULTS AND DIVIDENDS

The results for the period are set out on page 5. The directors recommend the payment of a dividend amounting to £8,632,791 (1998 – £nil) for the period under review.

REVIEW OF THE BUSINESS

The company's principal activity during the period was in the marketing of recorded music. No new artists were signed during this period. As of 1 January 1999 the company licensed all its recordings to London Records 90 Limited, a company within the same Divinestate Limited group. During part of the period, Universal Music UK Limited continued to perform certain accounting and administrative services for the company. Certain of these services are now performed by Warner Music UK Limited.

FUTURE DEVELOPMENTS

The directors aim to continue the current management policy of maintaining the existing roster of artists. No further investment in artists is anticipated.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period ended 30 December 1999 were as follows:

R Ames	(resigned 16 December 1999)
T M Bennett	(resigned 16 December 1999)
P J Lower	(resigned 16 December 1999)
J V Watson	
N Phillips	(appointed 30 December 1999)
K Mullock	(appointed 30 December 1999)

There are no directors' interests requiring disclosure under the Companies Act 1985.

SUBSTANTIAL SHAREHOLDER

On 30 December 1999, Universal Music UK Limited held 49 shares of £1 each (49% of the ordinary share capital) in the company.

YEAR 2000 COMPLIANCE

The directors are aware of the potential problems associated with Year 2000. The operation of the business is, in part, dependent on our computer systems and to some degree upon those of our suppliers and customers. We completed a company wide program which addressed the issue, however, we could be exposed to further risk in event that other parties fail to remedy their own Year 2000 and other date related issues.

The total cost of rectifying our systems was not significant and has been expensed where incurred.

AUDITORS

A resolution to reappoint Ernst & Young will be put to the members at the Annual General Meeting.

On behalf of the board

Director

J V Watson
Keith Mullock
26 July 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

REPORT OF THE AUDITORS
to the members of FFRR Records Limited

We have audited the accounts on pages 5 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

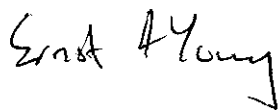
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 30 December 1999 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

3 August 2000

FFRR Records Limited

PROFIT AND LOSS ACCOUNT for the period ended 30 December 1999

		<i>Period ended 30 December 1999</i>	<i>Year ended 31 December 1998</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
TURNOVER	2	238	601
Cost of sales		1,814	(256)
Gross profit		2,052	345
Distribution Costs		-	(3)
Administration expenses		-	(105)
		-	(108)
OPERATING PROFIT	3,4	2,052	237
Interest (payable)/receivable	7	(121)	122
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,931	359
Tax on profit on ordinary activities	8	(573)	(131)
PROFIT FOR THE FINANCIAL PERIOD		1,358	228
Dividends: ordinary dividends on equity shares	9	(8,633)	-
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL PERIOD		(7,275)	228
Retained earnings brought forward		8,633	8,405
Retained earnings carried forward		1,358	8,633

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no gains or losses arising other than those recognised in the profit and loss account.

FFRR Records Limited

BALANCE SHEET at 30 December 1999

		30 December 1999	31 December 1998
	Notes	£000	£000
FIXED ASSETS			
Tangible assets	10	—	39
CURRENT ASSETS			
Debtors	11	7,192	12,592
CREDITORS: amounts falling due within one year	12	(5,834)	(3,998)
NET CURRENT ASSETS		1,358	8,594
TOTAL ASSETS LESS CURRENT LIABILITIES		1,358	8,633
		1,358	8,633
CAPITAL AND RESERVES			
Called up share capital	14,17	—	—
Profit and loss account	17	1,358	8,633
Equity shareholders' funds		1,358	8,633

Director

S V Watson

Keith Mulholland

26 July 2000

FFRR Records Limited

STATEMENT OF CASH FLOWS at 30 December 1999

		<i>Period ended 30 December 1999</i>	<i>Year ended 31 December 1998</i>
	<i>Notes</i>	<i>1999 £000</i>	<i>1998 £000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	8,542	16,886
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		121	301
Interest payable		(121)	-
		-	301
TAXATION			
UK Corporation tax paid		52	(1,801)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		-	(37)
Receipts from sales of tangible fixed assets		39	8
		39	(29)
EQUITY DIVIDENDS PAID		(8,633)	-
		-	15,357
FINANCING			
Net movement in borrowings	16	-	(15,357)
DECREASE IN CASH		-	-

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>1999 £000</i>	<i>1998 £000</i>
Decrease in cash	-	-
Cash inflow from change in debt financing	-	15,357
Change in net debt arising from cashflows	-	15,357
MOVEMENT IN NET DEBT	-	15,357
NET DEBT AT 1 JANUARY	-	(15,357)
NET DEBT AT 31 DECEMBER	-	-

NOTES TO THE ACCOUNTS
at 30 December 1999

1. ACCOUNTING POLICIES

These accounts are prepared under the historical cost convention, on a going concern basis and in accordance with applicable accounting standards.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Motor vehicles – 25% straight line basis

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated cost of disposal.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate ruling at that date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account in line with Statement of Standard Accounting Practice No. 20.

Royalties and advances

Royalties are accounted as and when earnings are notified. The result of this policy is that domestic royalties are in general accounted one quarter in arrears and overseas royalties two quarters in arrears.

Advances to artists are written down to the estimated amount that will be recovered from sub licence advances received and royalty receipts.

Deferred taxation

Deferred taxation is provided by the liability method on all timing differences which are expected to reverse in the foreseeable future, calculated at the current corporation tax rate.

2. TURNOVER

Turnover represents the invoiced value of licence fee income excluding value added tax. Turnover relates to the principal activity of the company and the geographical distribution of turnover is as follows:

	Period ended 30 December 1999 £000	Year ended 31 December 1998 £000
United Kingdom	12	169
Europe	116	234
United States of America	42	82
Other	68	116
	<u>238</u>	<u>601</u>

NOTES TO THE ACCOUNTS
at 30 December 1999

3. **OPERATING PROFIT**

This is stated after charging:

	<i>Period ended 30 December 1999 £000</i>	<i>Year ended 31 December 1998 £000</i>
Depreciation of tangible fixed assets	—	28
Auditors' remuneration – audit services	—	43

Auditors' remuneration is borne by London Records 90 Limited, another group undertaking.

4. **EXCEPTIONAL ITEMS**

Various commercial disagreements between the company and Universal Music UK Limited were settled during the year and as a result the company recognised an exceptional profit of £236,000.

5. **DIRECTORS' EMOLUMENTS**

Details of directors' emoluments, paid by other group undertakings and Universal Music UK Limited are set out below. The directors do not believe it is practicable to apportion these amounts between their services as directors of this company and their services as directors of the other group undertakings.

	<i>Period ended 30 December 1999 £000</i>	<i>Year ended 31 December 1998 £000</i>
Emoluments	2,330	3,915
Pension contributions	43	15

The amounts in respect of the highest paid director are as follows:

Emoluments	1,290	3,031
Pension contributions	19	2

6. **STAFF COSTS**

All staff within the Divinestate Limited group of companies are now remunerated through London Records 90 Limited. In 1998 all staff were employees of Universal Music UK Limited and were on secondment to the company. The average number of employees seconded during the 1998 was 11. A service charge of £3,628,907 (1997 – £3,834,631) was made by Universal Music UK Limited, which included directors' emoluments of £590,719 and £1,971,188 relating to the other staff seconded to the company. The majority of these costs have been recharged to other group undertakings.

7. **INTEREST PAYABLE AND RECEIVABLE**

Interest payable of £121,600 in 1999 related to Universal Music UK Limited. Interest receivable of £121,600 in 1998 was the proportion of interest due on the loan to Universal Music UK Limited which was recognised in FFRR Records.

NOTES TO THE ACCOUNTS
at 30 December 1999

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Period ended 30 December 1999 £000</i>	<i>Year ended 31 December 1998 £000</i>
Current period:		
UK corporation tax	573	-
Charge in respect of losses claimed as consortium relief from affiliated undertakings	-	131
	<u>573</u>	<u>131</u>

9. DIVIDENDS AND OTHER APPROPRIATIONS

	<i>Period ended 30 December 1999 £000</i>	<i>Year ended 31 December 1998 £000</i>
Equity dividends on ordinary shares:		
Final paid	8,633	-

10. TANGIBLE FIXED ASSETS

	<i>Motor Vehicles £000</i>	<i>Total £000</i>
Cost:		
At 1 January 1999	94	94
Additions	-	-
Disposals	-	-
Transfer to other group undertaking	(94)	(94)
At 30 December 1999	<u>-</u>	<u>-</u>
Depreciation:		
At 1 January 1999	55	55
Provided during the period	-	-
Disposals	-	-
Transfer to other group undertaking	(55)	(55)
At 30 December 1999	<u>-</u>	<u>-</u>
Net book value:		
At 30 December 1999	<u>-</u>	<u>-</u>
At 1 January 1999	<u>39</u>	<u>39</u>

NOTES TO THE ACCOUNTS
at 30 December 1999

11. DEBTORS

	30 December 1999 £000	31 December 1998 £000
Trade debtors	2	-
Other debtors	-	32
Loans to Universal Music UK Limited	-	1,393
Interest receivable from Universal Music UK Limited	-	121
Loan to group undertaking	7,190	11,028
Prepayments	-	18
	<u>7,192</u>	<u>12,592</u>

12. CREDITORS: amounts falling due within one year

	30 December 1999 £000	31 December 1998 £000
Trade creditors	377	2,380
Corporation tax	646	20
Loan from parent undertaking	4,657	322
Amounts payable to other group undertakings	87	87
Other creditors	67	-
Accruals and deferred income	-	1,189
	<u>5,834</u>	<u>3,998</u>

13. DEFERRED TAXATION
Not Provided

	30 December 1999 £000	31 December 1998 £000
Other timing differences which should provide future tax relief	<u>408</u>	<u>429</u>

14. SHARE CAPITAL

	30 December 1999 £	31 December 1998 £
Authorised: 1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid: 100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

NOTES TO THE ACCOUNTS
at 30 December 1999

15. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	30 December 1999 £000	31 December 1998 £000
Operating profit	2,052	237
Depreciation	-	28
Decrease in stocks	-	2
Decrease in debtors	5,279	15,845
Increase in operating creditors and accruals	1,211	774
	6,490	16,649
Net cash inflow from operating activities	8,542	16,886

16. ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 1999 £000	Cashflow 30 December 1999 £000	At 30 December 1999 £000
Debt due after one year	-	-	-

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT OF RESERVES

	Share Capital (note 14) £000	Profit & Loss £000	Total £000
At 1 January 1998	-	8,405	8,405
Profit for the year	-	228	228
At 31 December 1998	-	8,633	8,633
Profit for the period	-	1,358	1,358
Dividend	-	(8,633)	(8,633)
At 30 December 1999	-	1,358	1,358

NOTES TO THE ACCOUNTS
at 30 December 1999

18. RELATED PARTIES

FFRR Records Limited is a 51% owned subsidiary of Divinestate Limited (the parent undertaking) and as such has related party transactions and balances with the following undertakings:

Divinestate Limited

	30 December 1999 £000	31 December 1998 £000
Consortium relief payable	254	323
Dividend payable	4,403	-

London Records 90 Limited

London Records 90 Limited is a 100% owned subsidiary of Divinestate Limited. FFRR Records Limited and London Records 90 Limited are also subject to control from boards having a common controlling nucleus of directors.

	30 December 1999 £000	31 December 1998 £000
Amounts recharged to London Records 90 Limited for management services	-	5,927

This charge was in respect of administration costs including staff costs paid by FFRR Records on behalf of London Records 90 Limited.

	30 December 1999 £000	31 December 1998 £000
Assets (cars) transferred to related party at net book value	39	-
Loans owed by London Records 90 Limited	7,190	11,028

This loan is repayable within one year. There is no interest payable on this amount.

FFRR Music Limited

FFRR Music Limited is a 100% owned subsidiary of Divinestate Limited. FFRR Records Limited and FFRR Music Limited are also subject to control from boards having a common controlling nucleus of directors.

	30 December 1999 £000	31 December 1998 £000
Consortium relief payable	3	3

NOTES TO THE ACCOUNTS
at 30 December 1999

18. RELATED PARTIES (continued)

Laurel Records Limited

Laurel Records Limited is a 100% owned subsidiary of London Records 90 Limited which is, itself, a 100% owned subsidiary of Divinestate Limited. FFRR Records Limited and Laurel Records Limited are also subject to control from boards having a common controlling nucleus of directors.

	30 December 1999 £000	31 December 1998 £000
Consortium relief payable	84	84

Universal Music UK Limited

Universal Music UK Limited owns 49% of the ordinary share capital of FFRR Records Limited. The agreement between the two companies provided for the distribution of product and the provision of certain commercial services.

	30 December 1999 £000	31 December 1998 £000
Loan owed by Universal Music UK Limited	—	1,393

This loan was repayable within one year and carried interest calculated at a rate equivalent to the one month London Interbank Bid (LIBID) Rate.

	30 December 1999 £000	31 December 1998 £000
Service charge from Universal Music UK Limited	—	3,629

This charge formed part of the administrative expenses included in the accounts before recharges to other group undertakings. It included directors' emoluments and costs relating to the other staff seconded to the company.

Various commercial disagreements between the company and Universal Music UK Limited were settled during the year and as a result the company recognised an exceptional profit of £236,000.

19. CONTINGENT LIABILITY

At 30 December 1999 there was a royalty claim against the company by a former member of the band 'the Bluebells'. The directors believe the claim is without substance and as a result no provision has been made.

NOTES TO THE ACCOUNTS
at 30 December 1999

20. PARENT UNDERTAKING

The parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the company is a member is Divinestate Limited, registered in England. Copies of Divinestate Limited's accounts can be obtained from Waldron House, 57-63 Old Church Street, London SW3 5BS.

Time Warner Inc., a company incorporated in the United States of America, is the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company is a member and for which group accounts are drawn up. Copies of Time Warner Inc.'s accounts can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.