

Company Registration No. 00940188

Warlock Music Limited

Report and Financial Statements

31 December 2011

TUESDAY



A163ECL7

A32

03/04/2012

#24

COMPANIES HOUSE

Warlock Music Limited

Report and financial statements 2011

Contents	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditor's report	5
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in shareholder's equity	9
Statement of cash flows	10
Notes to the financial statements	11

Warlock Music Limited

Report and financial statements 2011

Officers and professional advisers

Directors

Mark Ranyard
Hartwig Masuch
Maximilian Dressendoerfer
John Dobinson
Alexi Cory-Smith

Secretary

Simon Harvey

Registered Office

c/o Davenport Lyons
30 Old Burlington Street
London
United Kingdom
W1S 3NL

Bankers

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
EC2N 2DB

Solicitors

Russell's Solicitors
1-4 Warwick Street
Regency House
London
W1B 5LJ

Auditor

Deloitte LLP
Chartered Accountants and statutory auditor
London, United Kingdom

Warlock Music Limited

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2011 for Warlock Music Limited (the "Company")

Principal activities

The principal activity of the Company during the year ended 31 December 2011 was to hold certain music copyrights

Business review

Warlock Music Limited is the United Kingdom subsidiary of BMG Rights Management (UK) Ltd ("BMG UK")

On 1 October 2010, the trade and assets of the Company was transferred to BMG Rights Management (UK) Limited. The company has not traded since that date and continues to hold certain music copyrights, which it licences to other group companies at no charge

As shown in the Company's Statement of Comprehensive Income on page 7, the Company reported an operating profit of £72k

Dependency on third party service partners and shareholder affiliates

Emerging channels for music distribution could significantly change the operational setting/configuration and financial performance/returns in the business. Warlock Music Limited relies on a number of third party business partners and shareholder affiliates to operate successfully. These include sub-Publishers, who support Warlock Music Limited in international rights management and license income collections.

Additionally, Warlock Music Limited outsources information technology infrastructure, certain finance and accounting functions and other back-office functions to affiliates operating as service providers in the respective functions.

Going concern

As detailed above in the business review section of this Directors' report, the company ceased to trade. The directors have formed a judgement at the time of approving the financial statements that the company is required to prepare these accounts on a basis other than that of a going concern as further detailed in note 1 of the accounts. No material adjustments arose as a result of this change in the basis of preparation.

Further details regarding the adoption of the going concern basis can be found in Note 1 to the financial statements.

Directors

The directors who held office during the year, except as noted, were as follows:

Andy Mollett	(resigned 31 March 2011)
Chris Wright	(resigned 4 February 2011)
Mark Ranyard	(appointed 4 February 2011)
Hartwig Masuch	(appointed 4 February 2011)
Maximilian Dressendoerfer	(appointed 4 February 2011)
John Dobinson	(appointed 4 February 2011)
Alexi Cory-Smith	(appointed 31 March 2011)

Dividends

The directors do not recommend a dividend (2010: £nil)

Directors and officers insurance

The Company maintains liability insurance for directors and officers of the Company.

Employees

The Company has no employees.

Political and charitable contributions

The Company made no political or charitable contributions or incurred any political expenditure during the current year or prior year.

Warlock Music Limited

Directors' report (continued)

Auditor

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board



M Ranyard
Director

01 March 2012

Warlock Music Limited

Statement of directors' responsibilities

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern

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.

Independent auditor's report to the members of Warlock Music Limited

We have audited the financial statements of Warlock Music Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of changes in Equity, the Statement of Cash Flows and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Warlock Music Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

James Bates (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

Date **2** March 2012

Warlock Music Limited

Statement of comprehensive income Year ended 31 December 2011

		Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
	Notes		
Continuing operations			
Revenue	2	-	240
Cost of sales		-	(166)
		<hr/>	<hr/>
Gross profit		-	74
Administration income		-	1,510
Net foreign exchange gain		3	3
		<hr/>	<hr/>
Profit from operations	3	3	1,587
Investment revenue	5	79	16
Finance costs	5	(10)	-
		<hr/>	<hr/>
Profit before taxation		72	1,603
Taxation	6	-	-
		<hr/>	<hr/>
Profit for the year attributable to equity shareholder		72	1,603
		<hr/>	<hr/>

The accompanying notes are an integral part of this statement of comprehensive income for the year ended 31 December 2011 and the Company did not have any items of other comprehensive income. All results relate to continuing operations.

Warlock Music Limited

Statement of financial position Year ended 31 December 2011

	Notes	31 December 2011 £'000	31 December 2010 £'000
Non-current assets			
Loans to group companies	8	1,562	1,491
Total non-current assets		1,562	1,491
Current assets			
Trade and other receivables	7	17	16
Total current assets		17	16
Total assets		1,579	1,507
Equity			
Share capital	9	-	-
Retained earnings		1,579	1,507
Total shareholder's equity		1,579	1,507
Total equity and liabilities		1,579	1,507

The accompanying notes are an integral part of this statement of financial position

The financial statements of Warlock Music Limited registered number 00940188 were approved by the Board of Directors on 01 March 2012

Signed on behalf of the Board of Directors



M Ranyard
Director

Warlock Music Limited

Statement of changes in shareholder's equity Year ended 31 December 2011

	Share capital £'000	Retained earnings £'000	Total £'000
Opening shareholder's funds at 1 January 2010	-	1,507	1,507
Profit for the year	-	72	72
Shares issued	-	-	-
Closing shareholder's funds at 31 December 2011	-	1,579	1,580

The accompanying notes are an integral part of this statement of changes in shareholder's equity

Warlock Music Limited

Statement of cash flows Year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Operating profit before movements in working capital and provisions		72	1603
Finance Income		(79)	(16)
Finance Cost		10	
Foreign exchange gain		(2)	
(Increase)/decrease in receivables		(1)	12
Decrease in payables		-	(129)
Net cash from operating activities		-	1,470
Cash flows from investing activities			
Net movement in loans		-	(1,491)
Net cash utilised in investing activities		-	(1,491)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		-	21
Cash and cash equivalents at 31 December 2011		-	-

The accompanying notes are an integral part of this statement of cash flows

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

1. Accounting policies

Warlock Music Limited (the "Company") is a company incorporated in the UK

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("EU")

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Basis of preparation

The financial statements are presented in pounds sterling They are prepared on the historical cost basis

Non current assets are stated at the lower of carrying amount and fair value less costs to sell

These financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the European Union ("EU") The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards The first date at which IFRS was applied was 1 October 2010

Line-by-line reconciliations to show the effect of the transition from UK GAAP to IFRS are not presented as there was no impact on equity, earnings and comprehensive income and the statement of financial position as at 31 December 2010, 31 December 2009 and 1 January 2008 and the income statement and statement of comprehensive income for the year ended 31 December 2010 The company has not complied with the requirement to disclose the opening financial position of the first period of adoption of IFRS as there has been no impact on the financial position as a result of this adoption

The preparation of financial statements in conformity with IFRS which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources 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 year in which the estimate is revised if the revision affects only that year or in the year of the revision and future year if the revision affects both current and future years

During the year, the Directors clarified with the related counter parties, the nature of the intercompany loans held at the respective year ends and have determined that all intercompany loan balances are long term in nature This classification has been adopted in the year and the comparatives have been reclassified to aid comparability

Measurement convention

The financial statements are prepared on the historical cost basis except financial instruments classified as fair value through the profit or loss Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 3 As explained in the Directors' Report the company has ceased to trade As such in preparing the financial statements, the directors have adopted a basis other than a going concern No material adjustment arose as a result of this change in the basis of preparation

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

1. Accounting policies (continued)

Trade and other receivables

Trade and other receivables at the statement of financial position date are stated at amortised cost which approximates to cost less impairment losses

Expenses

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the statement of comprehensive income. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

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

Current tax is the expected tax payable on the taxable income 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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

The Company uses estimates to calculate the writer royalties due for the second half of the year for all the royalty receipts and company used industry standard rates estimate the royalties' accruals.

Writer advances provisions were made during the year based on calculation used across the BMG group.

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

1. Accounting policies (continued)

Adopted IFRS not yet applied

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets¹</i>
IFRS 9	<i>Financial Instruments²</i>
IFRS 10	<i>Consolidated Financial Statements²</i>
IFRS 11	<i>Joint Arrangements²</i>
IFRS 12	<i>Disclosure of Interests in Other Entities²</i>
IFRS 13	<i>Fair Value Measurement²</i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income³</i>
Amendments to IAS 12	<i>Deferred Tax – Recovery of Underlying Assets⁴</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits²</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements²</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures²</i>

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2012

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods

2. Revenue

An analysis of the Company's revenue is as follows

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Geographical market		
Sale of music rights	-	240

The operations of the Company take place wholly in the United Kingdom and as such there are no overseas operations. Revenue was derived principally from activities conducted within the United Kingdom. The Company does not have any separable operating segments. All assets used by the Company are held in the United Kingdom.

3. Profit from operations

Profit from operations has been arrived at after charging/(crediting)

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Net foreign exchange gain	(3)	(3)
Profit on business transfer	-	(1,639)

The audit fee of £1k was borne by the intermediate parent UK holding company, BMG Rights Management (UK) Limited

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

4. Employee costs and directors' remuneration

The directors received no remuneration from the Company for services during the current year (2010: £nil)

The Company did not have any other employees and as a result incurred no staff costs (2010: £nil)

5. Investment revenue/finance costs

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Interest costs	(10)	-
Investment revenue	79	16
	<u>69</u>	<u>16</u>

Interest charges and income represent interest charged and received from the parent company and other related parties in respect of cash pooling and loan facilities provided

6. Taxation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Current taxation		
UK corporation tax	-	-
Deferred taxation	-	-
Total tax expense	<u>-</u>	<u>-</u>

The charge for the year can be reconciled to the loss per the statement of comprehensive Income as follows

Tax reconciliation

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Profit before taxation	72	1,603
Tax using the UK corporation tax rate of 26.5% (2010: 28%)	19	449
Effects of Tax losses claimed for no consideration	(19)	(449)
Current tax charge for the year	<u>-</u>	<u>-</u>

The standard rate of Corporation Tax in the United Kingdom changed from 28% to 26% with effect from 1 April 2011. Accordingly the Company's profits are taxed at an effective rate of 26.5%.

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

6. Taxation (continued)

During the year there was a change in the UK main corporation tax rate to 25% that was substantively enacted on 5 July 2011 and that will be effective from 1 April 2012

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. It is proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements

7. Trade and other receivables

	31 December 2011 £'000	31 December 2010 £'000
Due within one year		
Trade and other receivables from group companies	17	16
	<u>17</u>	<u>16</u>

8. Long term loans

	31 December 2011 £'000	31 December 2010 £'000
Loans to group companies	1,562	1,491
	<u>1,562</u>	<u>1,491</u>

Intercompany loans are interest-bearing and have no fixed repayment terms

The prior year comparatives have been reclassified, refer Note 1 for further details

9. Share capital

	31 December 2011 £	31 December 2010 £
Allotted, called up and fully paid equity:		
100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

10. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business.

(a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the statement of financial position date.

Fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the statement of financial position are as follows

	2011		2010	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	17	17	16	16
Loans to group companies	1,562	1,562	1,491	1,491
	<u>1,579</u>	<u>1,579</u>	<u>1,507</u>	<u>1,507</u>
Unrecognised gains/losses				-

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from group companies

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. There was no exposure to credit risk at the year end.

(c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity is managed by group via the cash pooling facility.

(d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

Market risk - Foreign currency risk

The Company has no foreign currency risk.

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

10. Financial Instruments (continued)

Sensitivity analysis — Foreign currency risk

The Company did not issue any foreign currency invoices during the period and so exposure to foreign currency risk is minimal

Market risk – interest rate risk

The Company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the Bank of England base rate. The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the 3 month LIBOR market rate.

Sensitivity analysis – interest rate risk

A change of one percent in interest rates at the statement of financial position date would have increased the loss by the amounts shown below. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remains constant and considers the effect of financial instruments with variable interest rates.

At the year end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would increase the Company's profit before taxation by approximately £16k (2010: £15k).

11. Related parties

Identity of related parties

The Company's parent company and group is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co (KKR). The Company had a related party relationship in the period with subsidiaries of the Bertelsmann AG group, and with its directors and executive officers.

Related party transactions

During the year the Company entered into the following transactions with related parties. The transactions were priced on an arm's length basis.

	31 December 2011 Loan balances receivable/ (payable) £'000	31 December 2010 Loan balances receivable/ (payable) £'000
BMG Rights Management (UK) Limited	<u>1,562</u>	<u>1,491</u>

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2011

12. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management (UK) Limited, a company incorporated in the United Kingdom, which is in turn part of a holding group structure of which the parent is BMG RM Investments Luxembourg Sarl, a company incorporated in Luxembourg

BMG RM Investments Luxembourg Sarl is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co

The results of the Company are included in the consolidated financial statements of BMG RM Investments Luxembourg Sarl which is registered at 63, Rue Rollingergrund, L-2440 Luxembourg. These consolidated accounts are publicly available.

No other group financial statements include the results of the Company