

Company Registration No. 00940188

Warlock Music Limited

Report and Financial Statements

31 December 2010



Warlock Music Limited

Report and financial statements 2010

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Warlock Music Limited

Report and financial statements 2010

Officers and professional advisers

Directors

Donald Malter
Stanley Schneider
Hartwig Masuch
Maximilian Dressendorfer
John Dobinson

Secretary

Oyinwale Adeola Onile-Ere

Registered Office

50 Great Marlborough Street
London
United Kingdom
W1F 7JS

Bankers

National Westminster Bank
City of London Office
1 Princes Street
London
EC2R 8PA

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 2010 for Warlock Music Limited (the "Company" or "Warlock")

Principal activities

On 1 October 2010 Warlock was acquired by BMG Rights Management UK Limited from Rykomusic Holdings Limited, both members of the same group. The company has been a non-trading company since the acquisition and transfer of trade to BMG Rights Management UK Limited.

The principal business of the company during the year ended 31 December 2010 was music publishing.

Warlock music publishing business can be summarised as an intellectual property business focused on the exploitation of the copyright of songs. In return for promoting, placing, marketing and administering the creative output of a songwriter, Warlock retains a share of revenues generated from use of the song. The services described above are also carried out on behalf of other rights holders such as catalogue owners and other publishing companies.

Key performance indicators

The company's directors believe that further key performance indicators of the company are not necessary or appropriate for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

There are a number of market and business risks that could affect Warlock. We set out below management's view of the principal risks which, should any actually materialise, Warlock business, financial condition and return to stakeholders could be materially and adversely affected. Further risks and uncertainties which are not presently known to the directors at the date of this document, or that the directors currently deem less significant, may also have an adverse effect on the business, financial condition or results of the group.

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 businesses of recorded music and music publishing. Warlock relies on a number of third party business partners and shareholder affiliates to operate successfully. These include sub-publishers, who support Warlock in international rights management and license income collections.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 period, except as noted, were as follows:

David Schulhof	(resigned 1 October 2010)
Hartwig Masuch	(appointed 1 October 2010)
Tony Moss	(appointed 1 resigned 6 December 2010)
Maximilian Dressendorfer	(appointed 1 October 2010)
John Dobinson	(appointed 1 October 2010)
Donald Malter	(appointed 1 October 2010)
Stanley Schneider	(appointed 1 October 2010)
Richard Perna	(resigned 1 October 2010)
Glen Thomasson	(resigned 1 October 2010)
John Lippman	(resigned 1 October 2010)

Dividends

The directors do not recommend a dividend (2009 £nil)

Warlock Music Limited

Directors' report (continued)

Employees

Disabled employees

We confirm that Warlock Music Limited complies with the Disability Discrimination Act 1995, which replaced the Disabled Persons (Employment) Act 1944

Where existing employees become disabled, it is the company's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate

Employment involvement

During the period, the policy of providing employees with information about the company has continued and employees are encouraged to present their suggestions and views on the company's performance. Regular meetings are held between management and employees to allow a free flow of information and ideas

Political and charitable contributions

The company made no political or charitable contributions or incurred any political expenditure during the current period

Auditors

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

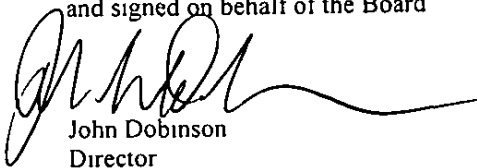
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that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

Prager and Fenton resigned on 21 January 2011 and Deloitte LLP were appointed to fill a casual vacancy

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



John Dobinson
Director

22/3 / 2011

Warlock Music Limited

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed 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.

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 2010 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Directors' Responsibilities Statements, 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 Practice Board's Ethical Standards for Auditors.

Scope of the audit of 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.

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 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed in the Companies Act 2006

In our opinion the information 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 (continued)

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

22 March 2011

Warlock Music Limited

Profit and Loss Account Year ended 31 December 2010

	Notes	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Turnover	2	240,492	427,299
Cost of sales		(166,347)	(281,150)
Gross profit		<u>74,145</u>	<u>146,149</u>
Administrative expenses		1,513,158	(195,601)
Operating profit/(loss)	3	<u>1,587,303</u>	<u>(49,452)</u>
Interest income	5	16,139	-
Profit/(loss) before taxation		<u>1,603,442</u>	<u>(49,452)</u>
Taxation	5	-	-
Profit/(loss) for the year		<u><u>1,603,442</u></u>	<u><u>(49,452)</u></u>

The accompanying notes are an integral part of this profit and loss account for the year ended 31 December 2010. All results relate to continuing operations.

All recognised gains or losses of the company in both years are dealt with in the profit and loss account presented above. Accordingly, no statement of total recognised gains and losses is presented.

Warlock Music Limited

Balance Sheet

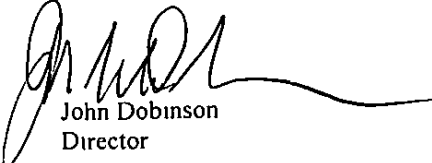
Year ended 31 December 2010

	Notes	31 December 2010 £	31 December 2009 £
Current assets			
Trade and other debtors	6	1,507,474	12,302
Cash at bank		-	20,810
Total current assets		<u>1,507,474</u>	<u>33,112</u>
Current liabilities			
Trade and other creditors	7	-	(129,080)
Net Assets/(Net Liabilities)		<u>1,507,474</u>	<u>(95,968)</u>
Capital and Reserves			
Share capital	8	-	-
Share premium	8	100	100
Retained earnings	8	1,507,374	(96,068)
Equity shareholders' surplus		<u>1,507,474</u>	<u>(95,968)</u>

The accompanying notes are an integral part of this balance sheet

The financial statements of Warlock Music Limited registered number 00940188 were approved by the Board of Directors on 22/3/2011

Signed on behalf of the Board of Directors


John Dobinson
Director

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2010

1. Accounting policies

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

The Company financial statements have been prepared and approved by the directors in accordance with the applicable United Kingdom Accounting Standards

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

The company is a wholly-owned subsidiary of BMG Rights Management UK Limited and, as such, has taken advantage of the exemption allowed by Financial Reporting Standard No 1 (revised) not to prepare a Cash Flow Statement

Basis of preparation

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis except for financial instruments as per measurement convention below

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

The preparation of financial statements in conformity with UK GAAP 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 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

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss or as available-for sale. Non-current assets and disposal groups held for sale are stated at the lower of previous 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 5. After making enquiries, the directors have a reasonable expectation that the company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The ultimate parent company has confirmed its continued support of the company

Foreign currency

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

Warlock Music Limited

Notes to the financial statements

Year ended 31 December 2010

1. Accounting policies (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

Trade and other debtors

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

Trade and other creditors

Trade and other payables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility bears interest at 1.875% above the 3 month LIBOR market rate. Trade and other creditors are stated at fair value which approximates to cost.

Employee benefits

The company does not have a pension scheme

Revenue

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and value added tax.

Where revenue streams have a forward visibility revenue is recognised on an accruals basis. If there is no or minimal forward visibility of revenue streams it is not possible to measure the revenue streams reliably until cash is collected.

Music publishing royalties

Music publishing royalties derived from the inclusion of the company's copyrights on recorded music products or from performance are recognised when they are earned by the company from the relevant collection society or record company. The company considers that it can most reliably measure such royalties following receipt of cash or a statement.

Where the company receives advances which are recoupable from future sales or profits, or are otherwise conditional on continued performance of duties by the company, these are recorded as liabilities. Revenue is recognised as it is earned.

Advance payments to artists are carried forward within other receivables where they relate to proven artists and where it is estimated that sufficient future income will be recouped against those advance payments. The advance payments should be written off if these are not covered by future income. In case of unproven contract the advance payments should be immediately written off.

Any other royalty/licensing income is recognised on a cash basis.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

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.

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2010

1. Accounting policies (continued)

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.

2. Turnover

An analysis of the company's revenue is as follows

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Sales of music rights	240,492	427,299

The operations of the company take place wholly in the United Kingdom and as such there are no overseas operations. All assets used by the company are held in the United Kingdom and therefore no disclosure is required in respect of segmental operations.

3. Operating profit/(loss)

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

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Net foreign exchange loss/(gain)	(3,010)	(9,116)
Profit on business transfer	(1,639,387)	-
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	-	4,170

The audit fee for the current year of £3,000 (2009: £4,170) is borne by another group company.

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2010

4. Interest expenses

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Interest income	(16,139)	-
	<u>(16,139)</u>	<u>-</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

5 Taxation

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Current taxation	-	-
UK corporation tax	-	-
Deferred taxation	-	-
Origination and reversal of temporary differences	-	-
Total tax expense	<u>-</u>	<u>-</u>

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2010

5 Taxation (continued)

	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Profit/(Loss) before taxation	1,603,442	(49,452)
Tax using the UK corporation tax rate of 28 % (2009 28%)	448,964	(13,847)
Effects of		
Exempt gains on transfers of assets	(459,028)	-
Tax losses surrendered for no consideration	9,950	-
Losses carried forward not recognised	-	13,847
Disallowable expenses	114	-
	<u>-</u>	<u>-</u>

The UK corporation tax rate will decrease to 27% from 1 April 2011

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.

No deferred tax asset has been recognised as future recovery is uncertain. The unrecognised deferred tax asset at 31 December 2010 has been calculated using the rate of 27% (2009 28%) applicable when the entity recovers the carrying value of the asset.

	Period ended 31 December 2009 £	Movement £	Year ended 31 December 2010 £
Tax losses carried forward	24,747	(24,747)	-
Total	<u>24,747</u>	<u>(24,747)</u>	<u>-</u>

6 Trade and other debtors

	2010 £	2009 £
Due within one year		
Trade receivables	-	12,302
Trade and other receivables from group companies	1,507,474	-
	<u>1,507,474</u>	<u>12,302</u>

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2010

7. Trade and other creditors

	2010 £	2009 £
Due within one year		
Trade and other payables	-	2,627
Trade and other payables to group companies	-	119,783
Other trade payables	-	5,280
Taxation and social security	-	1,390
	<u>-</u>	<u>129,080</u>

8 Share capital

	2010 £	2009 £
Issued and fully paid:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

9. Reserves

	Share capital £	Profit and loss account £	Total £
At 1 January	100	(96,068)	(95,968)
Loss for the year	-	1,603,442	1,603,442
At 31 December	<u>100</u>	<u>1,507,374</u>	<u>1,507,474</u>

10 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) See note 11 for further detail. The company had a related party relationship in the period with subsidiaries of the Bertelsmann AG group and the KKR group, and with its directors and executive officers.

Related party transactions.

The company is a wholly-owned subsidiary of BMG Rights Management GmbH and, as such, has taken advantage of the exemption allowed by Financial Reporting Standard No 8 to not disclose details of transactions and balances with other related entities of BMG Rights Management GmbH.

Warlock Music Limited

Notes to the financial statements Year ended 31 December 2010

11. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management UK Limited, a company incorporated in United Kingdom, which is owned by BMG Rights Management UK Limited of which the parent is BMG RM Investments Luxembourg Sarl, a company Incorporated in Luxembourg

BMG RM Investments Luxembourg Sarl is the Ultimate parent company which 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 For the year ended 31 December 2010, BMG RM Investments Luxembourg has no requirement to file consolidated accounts and has elected not to do so

No other group financial statements include the results of the company