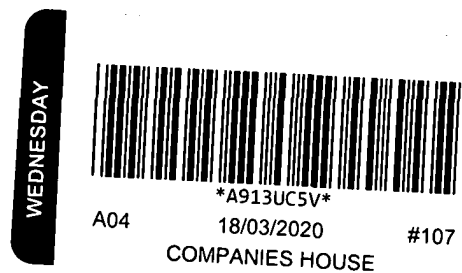


Company Registration No. 00946978

**BMG Rights Management Services (UK)
Limited**

Reports and Financial Statements

31 December 2019



BMG Rights Management Services (UK) Limited

Reports and Financial Statements 2019

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BMG Rights Management Services (UK) Limited

Reports and Financial Statements 2019

Officers and professional advisers

Directors

Jonathan Baker
David D'Urbano
Maximilian Dressendörfer
Benjamin Katovsky
Hartwig Masuch
Alistair Norbury

Registered Office

8th Floor
5 Merchant Square
London
United Kingdom
W2 1AS

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

BMG Rights Management Services (UK) Limited

Reports and Financial Statements 2019

Strategic report

The directors present their Strategic report for the year ended 31 December 2019 for BMG Rights Management Services (UK) Limited (the "Company").

Business review

The Company is a wholly-owned United Kingdom subsidiary of BMG Rights Management (UK) Limited. The Company provides a full suite of creative, marketing, distribution, royalty and administration services to its fellow group associates in the United Kingdom. It also provides certain royalty processing and collection services for BMG affiliates worldwide.

Strategy

The Company is part of an international group of companies focused on the management of music rights. At the core of the group's strategy is delivering a high quality rights administration service to artists and writers. The Company provides administration services to its fellow group associates.

Key Performance Indicators

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, gross profit and operating profit, Earnings Before Interest and Taxes; ("EBIT") and EBITDA (as adjusted for depreciation and amortisation). The Company is financed through intercompany funding from its group parent companies and through equity. The Company continues to perform in line with expectations.

Business performance

As shown in the Company's Statement of comprehensive income on page 9, the Company reported revenues of £25,731,000 (2018: £16,879,000), and profit from operations of £796,000 (2018: £309,000).

The Company reported EBITDA of £2,277,000 (2018: £425,000).

The net assets as at 31 December 2019 were £784,000 (2018: £223,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of BMG Rights Management (UK) Limited and its subsidiaries and are not managed separately. Accordingly, the principal risks and uncertainties of BMG Rights Management (UK) Limited, which include those of the Company, are discussed in those financial statements and does not form part of this report. BMG Rights Management (UK) Limited's financial statements are publicly available and can be accessed at Companies House.

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



David D'Urbano
Director

11 March 2020

BMG Rights Management Services (UK) Limited

Directors' report (continued)

The directors present their Directors' report and audited financial statements for the year ended 31 December 2019 for BMG Rights Management Services (UK) Limited (the "Company").

Principal activities

The principal business of the Company during the year ended 31 December 2019 was providing support services to affiliate companies.

The Company provides a full suite of creative, marketing, distribution, royalty and administration services to its fellow group associates in the United Kingdom. It also provides royalty processing and collection services to BMG affiliates worldwide.

Outlook

The directors do not anticipate any significant change in the activities of the Company.

Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business. The Company's exposure to financial instruments are discussed in the notes to the financial statements under the heading "Financial instruments".

Going concern

The directors have considered the financial resources available along with the future plans for the Company and the support provided by the ultimate parent company Bertelsmann SE & Co. KGaA, when considering the going concern status of the Company.

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.

Employees

Disabled employees

We confirm that BMG Rights Management Services (UK) 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 year, 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.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Jonathan Baker
David D'Urbano (appointed 1 May 2019)
Maximilian Dressendörfer
Benjamin Katovsky
Hartwig Masuch
Alistair Norbury
Paul Wilson (resigned 10 May 2019)

BMG Rights Management Services (UK) Limited

Directors' report (continued)

Dividends

The directors do not recommend a dividend for the year (2018: £nil).

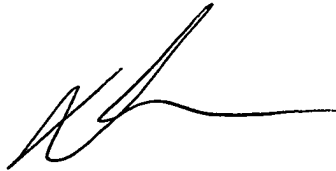
Political and charitable contributions

The Company made no political contributions or incurred any political expenditure during the year (2018: £nil). The Company made charitable contributions of £1,650 during the year (2018: £21,000).

Independent Auditors

The financial statements have been audited by PricewaterhouseCoopers LLP, who retire following the audit of these statutory financial statements.

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

A handwritten signature in black ink, appearing to be 'D'Urbano', with a long horizontal stroke extending to the right.

David D'Urbano
Director

11 March 2020

BMG Rights Management Services (UK) Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Reports and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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



David D'Urbano
Director

11 March 2020

BMG Rights Management Services (UK) Limited

Independent auditors' report to the members of BMG Rights Management Services (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, BMG Rights Management Services (UK) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Reports and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2019; the Statement of comprehensive income, the Statement of cash flows, and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the 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 the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

BMG Rights Management Services (UK) Limited

Independent auditors' report to the members of BMG Rights Management Services (UK) Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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 auditors' report.

BMG Rights Management Services (UK) Limited

Independent auditors' report to the members of BMG Rights Management Services (UK) Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

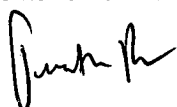
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Jonathan Ford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

11 March 2020

BMG Rights Management Services (UK) Limited

Statement of comprehensive income for the year ended 31 December 2019

		Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Continuing Operations	Note		
Revenue	2	25,731	16,879
Employee expenses		(17,899)	(13,640)
Rental and operating leases expenses		(882)	(383)
Administrative expenses		(2,446)	(1,306)
Consulting and audit fees		(1,680)	(953)
Advertising expenses		(419)	(152)
Sundry operating expenses		(126)	(17)
Loss on disposal of fixed asset	7	(3)	(2)
Depreciation of property, plant and equipment	7	(1,480)	(117)
Profit from operations	3	796	309
Taxation	6	(235)	(86)
Profit and total comprehensive income for the year		561	223

The accompanying notes on pages 13 to 29 are an integral part of this Statement of comprehensive income.
All results relate to continuing operations.

BMG Rights Management Services (UK) Limited

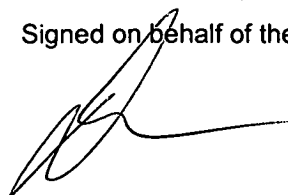
Statement of financial position as at 31 December 2019

		2019 £'000	Restated 2018 £'000
Non-current assets	Note		
Property, plant and equipment	7	6,986	1,294
Deferred tax asset	6	191	172
Total non-current assets		<u>7,177</u>	<u>1,466</u>
Current assets			
Trade and other receivables	8	10,887	10,761
Cash and cash equivalents	9	5	-
Total current assets		<u>10,892</u>	<u>10,761</u>
Total assets		<u>18,069</u>	<u>12,227</u>
Non-Current liabilities			
Leases	11	(5,276)	-
Total non-current liabilities		<u>(5,276)</u>	<u>-</u>
Current liabilities			
Trade and other payables	10	(10,718)	(12,004)
Leases	11	(1,291)	-
Total current liabilities		<u>(12,009)</u>	<u>(12,004)</u>
Total liabilities		<u>(17,285)</u>	<u>(12,004)</u>
Net assets		<u>784</u>	<u>223</u>
Equity			
Share capital	13	-	-
Retained earnings		784	223
Total equity		<u>784</u>	<u>223</u>

The accompanying notes on pages 13 to 29 are an integral part of this Statement of financial position.

The financial statements, on pages 9 to 29, of BMG Rights Management Services (UK) Limited, registered number 00946978, were approved by the Board of Directors on 11 March 2020.

Signed on behalf of the Board of Directors



David D'Urbano
Director

BMG Rights Management Services (UK) Limited

Statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2018	-	-	-
Profit and total comprehensive income for the year	-	223	223
As at 31 December 2018	-	223	223
Profit and total comprehensive income for the year	-	561	561
As at 31 December 2019	-	784	784

The accompanying notes on pages 13 to 29 are an integral part of this Statement of changes in equity.

BMG Rights Management Services (UK) Limited

Statement of cash flows for the year ended 31 December 2019

	2019 £'000	Restated 2018 £'000
Profit before taxation	796	309
Adjustment for:		
Depreciation of fixed assets	1,480	117
Losses on disposal of fixed assets	3	2
Movement in provisions	11	-
Leasing finance costs	185	-
Operating profit before movements in working capital and provisions	2,475	428
Increase in receivables	(456)	(10,933)
(Decrease)/increase in payables	(324)	11,916
Tax paid	(103)	-
Cash (used in)/generated from operations	(883)	983
Net cash generated from operating activities	1,592	1,411
Cash flows from investing activities		
Purchase of fixed assets	(389)	(1,411)
Cash flows used in investing activities	(389)	(1,411)
Cash flows from financing activities		
Lease payments	(1,329)	-
Net cash used in financing activities	(1,329)	-
Net change in cash and cash equivalents	(126)	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	(126)	-

The accompanying notes on pages 13 to 29 are an integral part of this Statement of cash flows.

BMG Rights Management Services (UK) Limited

Notes to the financial statements

Year ended 31 December 2019

1. Accounting policies

BMG Rights Management Services (UK) Limited (the "Company") is a private company limited by shares and incorporated in England and Wales. The address of its registered office is 8th Floor, 5 Merchant Square, London, United Kingdom, W2 1AS.

The financial statements have been restated for the year ended 31 December 2018 to incorporate the net down of a trade balance.

At 31 December 2018, this resulted in a reduction of trade and other receivables from group companies of £4,734,000 and a reduction in trade and other payables to group companies of £4,734,000.

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, rounded to the nearest thousand. They are prepared on the historical cost basis except for financial instruments which are recognised as per the measurement convention below.

The financial statements have been prepared in accordance with Companies Act 2006 and European Union ("EU") adopted International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

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 on-going 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 years if the revision affects both current and future years.

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 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 Strategic report and the Directors' report on pages 2 to 4. The directors have considered the financial resources available along with the future plans for the Company, and the support provided by the ultimate parent company Bertelsmann SE & Co. KGaA, through a letter of support for a period of at least 12 months from signing the financial statements, when considering the going concern of the Company. After making enquiries, the directors have a reasonable expectation that the Company will have access to adequate resources from its parent company, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2019**

1. Accounting policies (continued)

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 Statement of comprehensive income. 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.

Property, plant and equipment

Fixed assets that are acquired by the Company are stated at cost less accumulated depreciation.

Depreciation is charged to the Statement of comprehensive income on a straight-line basis over the estimated useful lives. The estimated useful lives are as follows:

Office Equipment	3 - 13 years
Leasehold improvements	5 - 20 years
Right-of-use: Leased office premises	Over the lease term

Leases and right of use assets

The Company leases its office premises. The lease term is between 3 and 10 years. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the financing guarantee provided by the ultimate parent company, Bertelsmann SE & Co. KGaA. This is due to the interest rate implicit in the lease not being readily determined, which is generally the case for leases in the Company.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Impairment excluding inventories and deferred tax assets

The carrying amounts of the Company's assets are reviewed at each Statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of comprehensive income.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2019**

1. Accounting policies (continued)

Calculation of recoverable amount

The recoverable amount of the Company's receivables earned at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment

An impairment loss in respect of receivables earned at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the Statement of cash flows.

Trade and other receivables

Trade and other receivables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility earns interest at a margin of 0.125% less the Bank of England base rate. Trade and other receivables at the Statement of financial position date are stated at amortised cost which approximates to cost less impairment losses.

Investments and other financial assets

The Company measures its financial assets at amortised cost. The Company's financial assets consist of trade receivables.

Financial assets are recognised on the trade date (the date the Company commits to purchase or sell the asset) and derecognised when the rights to receive cash flows from the financial assets have expired or the risks and rewards of ownership of those rights have been transferred to another party.

The Company measures a financial asset at the amount recognised at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognised in profit and loss. Changes in fair value are recognised in profit and loss when the asset is derecognised or reclassified.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2019**

1. Accounting policies (continued)

Investments and other financial assets (continued)

Impairment

The Company assesses the expected credit losses associated with its financial assets carried at amortised cost.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Trade and other payables

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 a margin of 1.25% above the Bank of England base rate. Trade and other payables at the Statement of financial position date are stated at amortised costs which approximates to cost less impairment.

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.

Employee benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. Obligations for contributions to the defined contributions pension plan are recognised as an expense in the Statement of comprehensive income as incurred.

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Tax 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 period, 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 Statement of financial position 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.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

1. Accounting policies (continued)

New standards, amendments and interpretations

IFRS 16 Leases

IFRS 16 Leases has replaced IAS 17 Leases for annual periods beginning on or after 1 January 2019.

IFRS 16 Leases provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 Leases substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained.

Below is an reconciliation of the adopted changes to leases following recognition of IFRS 16 in place of IAS 17:

	£'000
Operating lease commitments as at 31 December 2018 under IAS 17	8,266
The effect of discounting using the incremental borrowing rate at 1 January 2019	(948)
Lease liability as at 1 January 2019	<u>7,318</u>
Current	1,291
Non-current	6,027
	<u>7,318</u>

No other new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2019, have had a material impact on the Company.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

2. Revenue

An analysis of the Company's revenue is as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Geographical market		
United Kingdom	18,089	11,702
Europe	7,642	5,177
	<u>25,731</u>	<u>16,879</u>

The operations of the Company take place in the United Kingdom. Revenue was derived from recharges of expenses between the Company and its affiliates in the United Kingdom and in Germany. 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 2019 £'000	Year ended 31 December 2018 £'000
Auditors' remuneration in respect of the Company	27	24
Auditors' remuneration in respect of affiliates	218	96
Depreciation	1,480	117
Movement in provisions	11	-
Net foreign exchange (gain)/loss	(1)	1
Losses on disposal of fixed assets	3	2
Other operating cost and lease rentals		
- land and buildings	861	220
- plant and machinery	21	23
	<u>2,590</u>	<u>483</u>

Auditors' remuneration includes payment of audit fees on behalf of other subsidiaries of BMG Rights Management (UK) Limited. Audit fees of £27,000 (2018: £24,000) related to the audit of these financial statements.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

4. Staff numbers

Average number of employees per month

	Year ended 31 December 2019	Year ended 31 December 2018
	No.	No.
Management	22	14
Administration	204	136
	<u>226</u>	<u>150</u>

5. Staff costs

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Wages and salaries	14,655	11,480
Social security costs	1,746	1,223
Other pension costs	842	585
	<u>17,243</u>	<u>13,288</u>

Remuneration of directors

	Year ended 31 December 2019	Restated Year ended 31 December 2018
	£'000	£'000
Emoluments (excluding pension contributions)	3,115	1,538
Social security costs	389	201
Pension costs	147	79
	<u>3,651</u>	<u>1,818</u>

Remuneration of directors disclosure comprises remuneration paid by the UK for directors of all subsidiaries of BMG Rights Management (UK) Limited, borne by BMG Rights Management Services (UK) limited. Directors' emoluments include £152,000 for loss of office.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

5. Staff costs (continued)

Highest paid director

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Emoluments (excluding pension contributions)	683	387
Social security costs	93	52
Pension costs	25	17
	<u>801</u>	<u>456</u>

6. Taxation

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Current taxation		
UK corporation tax – current year	230	79
UK corporation tax – prior year	24	-
Total current tax charge	<u>254</u>	<u>79</u>
Deferred tax		
Deferred tax – current year	<u>(19)</u>	<u>7</u>
Total tax charge	<u>235</u>	<u>86</u>

The tax assessed for the year differs from the standard effective rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

6. Taxation (continued)

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit before taxation	796	309
Tax at 19% (2018: 19%)	151	59
Effects of:		
Non-deductible expenses	57	28
Difference in tax rate	3	(1)
UK corporation tax – prior year	24	-
Total tax charge	235	86

Recognised deferred tax assets

At 31 December 2019 a deferred tax asset has been recognised for the tax base in relation to property, plant and equipment to the extent that the future benefit is expected to be utilised by the Company or surrendered to other UK group companies.

	Accelerated capital allowances £'000	Total £'000
At 1 January 2018	-	-
Movement	(7)	(7)
Transfer	179	179
At 31 December 2018	172	172
Movement	19	19
At 31 December 2019	191	191

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

7. Property, plant and equipment

	Office equipment £'000	Leasehold improvements £'000	Right-of-use: Leased office premises £'000	Total £'000
Cost				
At 1 January 2018	-	-	-	-
Additions	96	301	-	397
Transfers	513	501	-	1,014
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	609	802	-	1,411
Additions	266	124	6,785	7,175
Disposals	(2)	(2)	-	(4)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	873	924	6,785	8,582
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated amortisation				
At 1 January 2018	-	-	-	-
Charge for the year	79	38	-	117
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	79	38	-	117
Charge for the year	201	235	1,044	1,480
Disposals	(1)	-	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	279	273	1,044	1,596
	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount				
At 31 December 2019	594	651	5,741	6,986
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	530	764	-	1,294
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

An analysis of the leased office premises in relation to the right-of-use asset can be found at note 11.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

8. Trade and other receivables

	2019 £'000	Restated 2018 £'000
Due within one year		
Trade and other receivables	1,780	1,757
Trade and other receivables from group companies	8,627	8,408
Prepayments	480	596
	<u>10,887</u>	<u>10,761</u>

Amounts due from group undertakings were receivable on demand, unsecured and due interest at the Bank of England rate less a margin of 0.125%.

9. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank	<u>5</u>	<u>-</u>

10. Trade and other payables

	2019 £'000	Restated 2018 £'000
Due within one year		
Trade and other payables	5,082	7,040
Trade and other payables to group companies	5,505	4,964
Bank overdraft	131	-
	<u>10,718</u>	<u>12,004</u>

Amounts due to group undertakings were repayable on demand, unsecured and due interest at the Bank of England rate plus a margin of 1.25%.

11. Leases

The lease liability in the statement of financial position is in relation to the leased office premises recognised as a right-of-use asset in note 7.

The balance sheet shows the following amounts relating to leases:

	2019 £'000	2018 £'000
Right-of-use assets		
Buildings	5,741	-
	<u>5,741</u>	<u>-</u>

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

11. Leases (continued)

	2019 £'000	2018 £'000
Lease liabilities		
Non-current	5,276	-
Current	1,291	-
	<u>6,567</u>	<u>-</u>

The statement of profit or loss shows the following amounts relating to leases:

	2019 £'000	2018 £'000
Depreciation charged on right-of-use assets	1,044	-
Finance costs	185	-
	<u>1,229</u>	<u>-</u>

12. Employee benefits

The Company operates a defined contribution pension scheme. The pension costs charge for the year represents contributions payable by the Company to the scheme and amounted to £842,000 (2018: £585,000).

As at 31 December 2019 there were no outstanding monies payable to the pension scheme (2018: £109,000).

13. Share capital

	2019 £	2018 £
Authorised, issued and fully paid:		
1 (2018: 1) Ordinary share of £1 each	<u>1</u>	<u>1</u>

14. Financial instruments

Exposure to credit, liquidity, 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.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

14. Financial instruments (continued)

(a) Fair values of financial instruments (continued)

Trade and other payables

The fair value of trade and other payables 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.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the Statement of financial position date.

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.

The fair value for each class of financial asset and financial liability together with their carrying amounts as shown in the Statement of financial position are as follows:

	2019		Restated 2018	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade and other receivables	1,780	1,780	1,757	1,757
Trade and other receivables from group companies	8,627	8,627	8,408	8,408
Cash and cash equivalents	(126)	(126)	-	-
Trade and other payables	(5,082)	(5,082)	(7,040)	(7,040)
Trade and other payables to group companies	(5,505)	(5,505)	(4,964)	(4,964)
	<u>5,199</u>	<u>5,199</u>	<u>(1,839)</u>	<u>(1,839)</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 customers. This risk is mitigated as balances are spread across multiple parties.

The Company's principal financial assets are bank balances and trade receivables which represent the Company's maximum exposure to credit risk in relation to financial assets. The Company bears the bad debt risk on all debtors.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2019

14. Financial instruments (continued)

(b) Credit risk (continued)

The Company's management make assessments on new customers before work is earned out, based on their knowledge of the industry and the customer's acceptance of imposed credit terms.

The amounts presented in the Statement of financial position are net of allowances for doubtful receivables after taking into consideration the amount of balances covered by the Company's credit insurance policy. These have been estimated by the Company's management based on prior experience and their assessment of the current economic environment.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the Statement of financial position date was £1,780,000 (2018: £1,757,000) being the total of the carrying amount of trade and other receivables, shown in the Fair value of financial instruments table.

Financial assets and impairment losses

The ageing of trade and other receivables at the Statement of financial position date was:

	2019			Restated 2018		
	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000
Not past due	1,780	-	1,780	1,757	-	1,757

Impairment of financial assets

The Company has trade receivables for royalty licensing that is subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

(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 the 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.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2019**

14. Financial instruments (continued)

(d) Market risk (continued)

Market risk - Foreign currency risk

A proportion of sales and purchases are invoiced in foreign currency and the Company bears the foreign currency risk on these debtors and creditors. The Company does not take out forward contracts on currency.

Sensitivity analysis — Foreign currency risk

A sensitivity analysis was not performed because the Company converts foreign currency bank balances into pounds sterling regularly and therefore exposure to foreign currency risk is minimal.

Market risk – interest rate risk

The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the Bank of England base rate plus a margin of 1.25%. 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.

Sensitivity analysis – interest rate risk (continued)

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 percent in the 3 month LIBOR market rate would increase the Company's profit before taxation by approximately £18,000 (2018: £nil).

(e) Capital risk management

The Company manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

15. Related parties

Identity of related parties

The Company's ultimate parent company and group is the international media company Bertelsmann SE & Co. KGaA.

The Company had a related party relationship in the year with subsidiaries of Bertelsmann SE & Co. KGaA, 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:

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2019

15. Related parties (continued)

Overhead expenses are incurred by the Company on behalf of the UK business and recharged amongst the revenue generating subsidiary entities of BMG Rights Management (UK) Limited. Costs are therefore borne by the UK intellectual property owners, and are recharged on an allocation basis of cost plus a margin.

	Sales/ (purchases) of services £'000		Trade balances receivable/ (payable) £'000	
	2019	2018	2019	2018
Arvato infoscore GmbH	-	(7)	-	(7)
Arvato systems GmbH	(87)	(43)	(13)	(6)
Arvato Systems S4M GmbH	(8)	(28)	-	-
BeAccounting Services GmbH	(69)	-	(6)	-
Berlesmann Accounting Services GmbH	(21)	-	(1)	-
Bertelsmann Corporate Services Limited	(118)	(81)	(13)	(38)
Bertelsmann SE & Co. KGaA	(50)	(14)	(2)	(5)
BMG Production Music (France) SAS	1	-	-	-
BMG Production Music (Germany) GmbH	3	-	-	-
BMG Production Music (UK) Limited	2,408	879	436	483
BMG Rights Management (Australia) Pty Ltd	-	-	-	13
BMG Rights Management (Benelux) B.V	-	-	1	-
BMG Rights Management (Hong Kong) Limited	11	-	-	-
BMG RIGHTS MANAGEMENT (UK) Limited	15,271	6,293	140	434
BMG Rights Management (US) LLC	-	-	67	-
BMG RIGHTS MANAGEMENT GmbH	2,059	5,177	659	972
BMG VM Music Limited	-	231	-	151
Cherry Westfield Limited	-	146	-	-
Chrysalis Copyrights Limited	-	51	-	-
Deep East Music Limited	-	303	-	(219)
FreemantleMedia Ltd	(39)	-	-	-
Hewrate Limited	-	100	-	-
Hornall Brothers Music Limited	-	33	-	-
Infectious Music Limited	511	319	88	27
Loaded Records Limited	159	84	69	29
Mute Records Limited	645	235	165	52
Ram Records Limited	243	77	86	22
Sanctuary Records Group Limited	2,871	1,447	935	499
Stage Three Music (Catalogues) Limited	102	484	-	266
Stage Three Music Publishing Limited	-	13	-	5
The Echo Label Limited	347	129	127	70
Union Square Copyrights Limited	-	52	-	-
Union Square Music Limited	946	630	355	488
World Circuit Limited	213	196	29	207
Total	25,398	16,706	3,122	3,444

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2019**

16. Dividends paid

There were no dividends paid in 2019 (2018: £nil).

17. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management (UK) Limited, a company incorporated in the United Kingdom. The ultimate parent company is Bertelsmann SE & Co. KGaA.

The results of the Company are included in the consolidated financial statements of Bertelsmann SE & Co. KGaA which is registered at Carl-Bertelsmann-Strasse 270, 33311 Gütersloh, Germany. These consolidated financial statements are publicly available.

No other group financial statements include the results of the Company.