

Company Registration No. 00946978

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

Reports and Financial Statements

31 December 2020



BMG Rights Management Services (UK) Limited

Reports and Financial Statements 2020

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BMG Rights Management Services (UK) Limited

Reports and financial statements 2020

Officers and professional advisers

Directors

Jonathan Baker
Thomas Coesfeld
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

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

BMG Rights Management Services (UK) Limited

Reports and Financial Statements 2020

Strategic report

The directors present their Strategic report for the year ended 31 December 2020 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). EBITDA is calculated by adjusting profit before tax for the following items: amortisation, depreciation, finance costs, and finance income. 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 11, the Company reported revenues of £26,635,000 (2019: £25,731,000), and profit from operations of £1,249,000 (2019: £796,000).

EBIT and EBITDA reconciliation:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before taxation	1,249	796
Adjustment for: Finance income	6	1
EBIT	1,255	797
Depreciation of tangible assets	1,535	1,480
EBITDA	2,790	2,277

The net assets as at 31 December 2020 were £280,000 (2019: £784,000).

BMG Rights Management Services (UK) Limited

Reports and Financial Statements 2020

Strategic report (continued)

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

10 March 2021

BMG Rights Management Services (UK) Limited

Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2020 for BMG Rights Management Services (UK) Limited (the "Company").

Principal activities

The principal activities of the Company during the year ended 31 December 2020 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.

The COVID pandemic has impacted the performance and physical markets in the music industry during the year, however, BMG Rights Management (UK) Ltd and its subsidiaries have been able to maintain their financial performance for the year through good cost control. The Company has implemented a number of measures to protect its staff, clients, and other stakeholders and will continue to monitor developments from the pandemic, including the potential financial impacts.

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.

BMG Rights Management Services (UK) Limited

Directors' report (continued)

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
Thomas Coesfeld (appointed on 1 February 2021)
David D'Urbano
Maximilian Dressendörfer
Benjamin Katovsky
Hartwig Masuch
Alistair Norbury

Dividends

The directors of the Company declared and paid dividends of £1,500,000 (2019: £nil).

Political and charitable contributions

The Company made no political contributions or incurred any political expenditure during the year (2019: £nil). The Company made charitable contributions of £3,000 during the year (2019: £1,650).

Independent Auditors

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

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

10 March 2021

BMG Rights Management Services (UK) Limited

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

BMG Rights Management Services (UK) Limited

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

Opinion

We have audited the financial statements of BMG Rights Management Services (UK) Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity and Statement of cash flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

BMG Rights Management Services (UK) Limited

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors and inspection of policy documentation as to the company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud; and
- reading Board minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the limited rationalisations and opportunities to fraudulently recognise revenue.

We did not identify any additional fraud risks.

We performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by specific users, those posted including specific words in their descriptions.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

BMG Rights Management Services (UK) Limited

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

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

BMG Rights Management Services (UK) Limited

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

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Rebecca Pett

Rebecca Pett (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

10 March 2021

BMG Rights Management Services (UK) Limited

Statement of comprehensive income for the year ended 31 December 2020

		Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Continuing Operations	Note		
Revenue	2	26,635	25,731
Employee expenses		(19,173)	(17,899)
Rental and operating leases expenses		(941)	(882)
Administrative expenses		(1,766)	(2,446)
Consulting and audit fees		(1,662)	(1,680)
Advertising expenses		(159)	(419)
Sundry operating expenses		(150)	(126)
Loss on disposal of fixed asset	7	-	(3)
Depreciation of property, plant and equipment	7	(1,535)	(1,480)
Profit from operations	3	1,249	796
Taxation	6	(253)	(235)
Profit and total comprehensive income for the year		996	561

The accompanying notes on pages 15 to 30 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 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	7	5,657	6,986
Deferred tax asset	6	215	191
Total non-current assets		<u>5,872</u>	<u>7,177</u>
Current assets			
Trade and other receivables	8	16,472	10,887
Cash and cash equivalents	9	8	5
Total current assets		<u>16,480</u>	<u>10,892</u>
Total assets		<u>22,352</u>	<u>18,069</u>
Non-Current liabilities			
Leases	11	(3,956)	(5,276)
Total non-current liabilities		<u>(3,956)</u>	<u>(5,276)</u>
Current liabilities			
Trade and other payables	10	(16,743)	(10,718)
Leases	11	(1,373)	(1,291)
Total current liabilities		<u>(18,116)</u>	<u>(12,009)</u>
Total liabilities		<u>(22,072)</u>	<u>(17,285)</u>
Net assets		<u>280</u>	<u>784</u>
Equity			
Share capital	13	-	-
Retained earnings		280	784
Total equity		<u>280</u>	<u>784</u>

The accompanying notes on pages 15 to 30 are an integral part of this Statement of financial position.

The financial statements, on pages 11 to 30, of BMG Rights Management Services (UK) Limited, registered number 00946978, were approved by the Board of Directors on 10 March 2021.

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 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2019	-	223	223
Profit and total comprehensive income for the year	-	561	561
As at 31 December 2019	-	784	784
Profit and total comprehensive income for the year	-	996	996
Dividend paid	-	(1,500)	(1,500)
As at 31 December 2020	-	280	280

The accompanying notes on pages 15 to 30 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 2020

	2020 £'000	2019 £'000
Profit before taxation	1,249	796
Adjustment for:		
Depreciation of fixed assets	1,535	1,480
Losses on disposal of fixed assets	-	3
Movement in provisions	-	11
Leasing finance costs	158	185
Operating profit before movements in working capital and provisions	2,942	2,475
Increase in receivables	(5,592)	(456)
Increase/(decrease) in payables	5,924	(324)
Tax paid	(230)	(103)
Cash generated/(used in) from operations	102	(883)
Net cash generated from operating activities	3,044	1,592
Cash flows from investing activities		
Purchase of fixed assets	(147)	(389)
Cash flows used in investing activities	(147)	(389)
Cash flows from financing activities		
Lease payments	(1,455)	(1,329)
Dividend paid	(1,500)	-
Net cash used in financing activities	(2,955)	(1,329)
Net change in cash and cash equivalents	(58)	(126)
Cash and cash equivalents at the beginning of the year	(126)	-
Cash and cash equivalents at the end of the year	(184)	(126)

The accompanying notes on pages 15 to 30 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 2020

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 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 international accounting standards in conformity with requirements of the Companies Act 2006.

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

Notwithstanding net current liabilities of £3,956K as at 31 December 2020 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. The Directors have considered the operating nature of the entity and expectations for future trading for a period of 12 months from the date of approval of these financial statements. It indicates that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA to realise its assets and settle its liabilities in the ordinary course of business for that period.

This is dependent upon Bertelsmann SE & Co. KGaA providing the required funding through this period through the cash pooling arrangement. Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the company. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Given the dependency on the Ultimate Parent the directors have also considered the work carried out by Group management in relation to the Group's going concern assessment focussing on cash flow, liquidity position and the ability of the Group to meet known and potential liabilities and concluded that having analysed the impact of COVID 19, the Group has sufficient headroom and will be able to provide support to the company.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

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. 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 2020**

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 0.175% less the ICE LIBOR rate (2019: 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 2020**

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 2.75% above the ICE LIBOR rate (2019: 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.

Revenue primarily comprises of management income in relation to the administration support services to affiliates.

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 2020

1. Accounting policies (continued)

New standards, amendments and interpretations

No other new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2020, have had a material impact on the Company.

2. Revenue

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Geographical market		
United Kingdom	17,531	18,089
Europe	9,104	7,642
	<u>26,635</u>	<u>25,731</u>

The operations of the Company take place wholly 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 is stated after charging/(crediting):

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Depreciation	1,535	1,480
Movement in provisions	-	11
Net foreign exchange (gain)	(6)	(1)
Losses on disposal of fixed assets	-	3
Other operating cost and lease rentals		
- land and buildings	936	861
- plant and machinery	5	21
	<u>936</u>	<u>861</u>

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

3. Profit from operations (continued)

Auditors' remuneration is charged as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Auditors' remuneration in respect of the Company	24	27
Auditors' remuneration in respect of affiliates	159	218

Auditors' remuneration includes payment of audit fees on behalf of other subsidiaries of BMG Rights Management (UK) Limited. Audit fees of £24,000 (2019: £27,000) related to the audit of these financial statements.

4. Staff numbers

Average number of employees per month

	Year ended 31 December 2020 No.	Year ended 31 December 2019 No.
Management	28	22
Administration	214	204
	241	226

5. Staff costs

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Wages and salaries	15,757	14,655
Social security costs	1,948	1,746
Other pension costs	933	842
	18,638	17,243

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

5. Staff costs (continued)

Remuneration of directors

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Emoluments (excluding pension contributions)	2,601	3,115
Social security costs	363	389
Pension costs	135	147
	<u>3,099</u>	<u>3,651</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 for 2019 include £152,000 for loss of office.

Highest paid director

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Emoluments (excluding pension contributions)	639	683
Social security costs	90	93
Pension costs	27	25
	<u>756</u>	<u>801</u>

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

6. Taxation

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Current taxation		
UK corporation tax – current year	277	230
UK corporation tax – prior year	-	24
Total current tax charge	277	254
Deferred tax		
Deferred tax – current year	(24)	(19)
Total tax charge	253	235

The tax assessed for both years differs from the standard effective rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

Taxation reconciliation

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before taxation	1,249	796
Tax at 19% (2019: 19%)	237	151
Effects of:		
Non-deductible expenses	38	57
Difference in tax rate	(22)	3
UK corporation tax – prior year	-	24
Total tax charge	253	235

Recognised deferred tax assets

At 31 December 2020 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.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the recognised deferred tax asset would have increased.

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

6. Taxation (continued)

	Accelerated capital allowances £'000	Total £'000
At 1 January 2019	172	172
Movement	19	19
At 31 December 2019	191	191
Movement	24	24
At 31 December 2020	215	215

7. Property, plant and equipment

	Office equipment £'000	Leasehold improvements £'000	Right-of-use: Leased office premises £'000	Total £'000
Cost				
At 1 January 2019	609	802	-	1,411
Additions	266	124	6,785	7,175
Disposal	(2)	(2)	-	(4)
At 31 December 2019	873	924	6,785	8,582
Additions	135	12	59	206
Disposals	(2)	-	-	(2)
At 31 December 2020	1,006	936	6,844	8,786
Accumulated amortisation				
At 1 January 2019	79	38	-	117
Charge for the year	201	235	1,044	1,480
Disposals	(1)	-	-	(1)
At 31 December 2019	279	273	1,044	1,596
Charge for the year	216	152	1,167	1,535
Disposals	(2)	-	-	(2)
At 31 December 2020	493	425	2,211	3,129
Net book amount				
At 31 December 2020	513	511	4,633	5,657
At 31 December 2019	594	651	5,741	6,986
At 31 December 2018	530	764	-	1,294

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 2020

8. Trade and other receivables

	2020 £'000	2019 £'000
Due within one year		
Trade and other receivables	1,782	1,780
Trade and other receivables from group companies	14,301	8,627
Prepayments	389	480
	<u>16,472</u>	<u>10,887</u>

Amounts due from group undertakings were receivable on demand, unsecured and due interest at the Bank of England rate less a margin of 0.175%.

9. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank	<u>8</u>	<u>5</u>

10. Trade and other payables

	2020 £'000	2019 £'000
Due within one year		
Trade and other payables	4,981	5,082
Trade and other payables to group companies	11,570	5,505
Bank overdraft	192	131
	<u>16,743</u>	<u>10,718</u>

Amounts due to group undertakings were repayable on demand, unsecured and due interest at the Bank of England rate plus a margin of 2.75%.

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:

	2020 £'000	2019 £'000
Right-of-use assets		
Buildings	<u>4,633</u>	<u>5,741</u>
	<u>4,633</u>	<u>5,741</u>

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

11. Leases (continued)

	2020 £'000	2019 £'000
Lease liabilities		
Non-current	3,956	5,276
Current	1,373	1,291
	<u>5,329</u>	<u>6,567</u>

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

	2020 £'000	2019 £'000
Depreciation charged on right-of-use assets	1,167	1,044
Finance costs	158	185
	<u>1,325</u>	<u>1,229</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 £933,000 (2019: £842,000).

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

13. Share capital

	2020 £	2019 £
Authorised, issued and fully paid:		
1 (2019: 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 2020

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:

	2020		2019 Restated	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade and other receivables	2,172	2,172	2,260	2,260
Trade and other receivables from group companies	14,301	14,301	8,627	8,627
Cash and cash equivalents	(184)	(184)	(126)	(126)
Trade and other payables	(4,981)	(4,981)	(5,082)	(5,082)
Trade and other payables to group companies	(11,570)	(11,570)	(5,505)	(5,505)
	<u>(262)</u>	<u>(262)</u>	<u>174</u>	<u>174</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 2020

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 £1,783,000 (2019: £1,780,000) 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:

	2020			2019		
	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	1,783	-	1,783	1,780	-	1,780

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 2020

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 ICE LIBOR rate plus a margin of 2.75% (2019: 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 ICE LIBOR rate (2019: Bank of England base 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 percent in the 3 month LIBOR market rate would decrease the Company's profit before taxation by approximately £75,000 (2019: Increase to profit of £18,000).

(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 2020

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	
	2020	2019	2020	2019
Arvato infoscore GmbH	-	-	-	-
Arvato systems GmbH	(101)	(87)	(13)	(13)
Arvato Systems S4M GmbH	-	(8)	-	-
BeAccounting Services GmbH	(57)	(69)	(5)	(6)
Berlesmann Accounting Services GmbH	(23)	(21)	(2)	(1)
Bertelsmann Corporate Services Limited	(70)	(118)	(19)	(13)
Bertelsmann SE & Co. KGaA	(46)	(50)	(1)	(2)
BMG Production Music (France) SAS	-	1	(2)	-
BMG Production Music (Germany) GmbH	-	3	-	-
BMG Production Music (UK) Limited	1,790	2,408	718	436
BMG Rights Management (Australia) Pty Ltd	-	-	-	-
BMG Rights Management (Benelux) B.V	-	-	-	1
BMG Rights Management (Hong Kong) Limited	69	11	35	-
BMG Rights Management (UK) Limited	16,292	15,271	(742)	140
BMG Rights Management (US) LLC	-	-	-	67
BMG Rights Management GmbH	519	2,059	-	659
FreemantleMedia Ltd	(18)	(39)	-	-
Infectious Music Limited	793	511	176	88
Loaded Records Limited	389	159	212	69
Mute Records Limited	803	645	310	185
Ram Records Limited	220	243	56	86
Sanctuary Records Group Limited	3,133	2,871	1,475	935
Stage Three Music (Catalogues) Limited	-	102	-	-
The Echo Label Limited	474	347	211	127
Union Square Music Limited	876	946	267	335
World Circuit Limited	371	213	110	29
Countdown Media GmbH	100	-	50	-
Bertelsmann Accounting Services Ltd.	(50)	-	(6)	-
The Random House Group Limited	(124)	-	(99)	-
Territory Content to Results GmbH	(15)	-	-	-
Total	25,325	25,398	2,731	3,122

BMG Rights Management Services (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2020

16. Dividends paid

The dividends declared and paid in 2020 and 2019 were £1,500,000 (£1,500,000 per share) and £nil respectively.

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.