Company Registration No. 02713513

The Echo Label Limited

Reports and Financial Statements

31 December 2013

The Echo Label Limited

Reports and financial statements 2013

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The Echo Label Limited

Reports and financial statements 2013

Officers and professional advisers

Directors

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

Secretary

Julian French

Registered Office

33 Wigmore Street
London
United Kingdom
W1U 1QX

Bankers

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

Solicitors

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

Independent Auditors

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

The Echo Label Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2013 for The Echo Label Limited (the "Company")

Business review

The Echo Label Limited is a United Kingdom subsidiary of BMG Rights Management (UK) Ltd ("BMG UK") The Echo Label Limited owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use It additionally contracts as a sub-publisher for collection and transfer of monies to other affiliated companies within the BMG Group

Strategy

The Echo Label Limited is part of an international group of companies focused on the management of music rights The Company covers the entire range of rights administration, development and exploitation, placing the needs of songwriters and artists at the core of its business model At the core of the Company's strategy is delivering a high quality rights administration service to artists and writers

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 loss (Earnings Before Interest and Taxes, "EBIT") The Company is financed through intercompany funding from its group parent companies and through equity

Business performance 2013

As shown in the Company's Statement of comprehensive income on page 9, the Company reported revenues of £425,000 (2012 £398,000) and gross profit of £387,000 (2012 £766,000) The Company has performed consistently well in the year reflecting the quality of the back catalogue The operating loss for the year was £1,124,000 (2012 profit £11,000) and is primarily driven by an impairment charge in respect of an investment, realised as part of an ongoing Group-wide company rationalisation process

Principal risks and uncertainties

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

Market risks

Global economic outlook

The Echo Label Limited received income from worldwide sources and is susceptible to changes in the global economy Failure to adjust to changes in the global economy could have a material adverse effect on the Company's business The Echo Label Limited is part of a broader group of rights administration companies which are actively building a business presence in the European, US and UK territories as a strategy to diversify this risk

Music industry growth

The music industry is experiencing a period of ongoing financial challenge due to the changing means by which consumers choose to access music, retail piracy, industrial piracy and a corresponding decline in the sale of physical product, which may not be offset completely by new digital and internet-based revenue streams

Intense competition in the music industry could result in higher artist and writer acquisition costs or failure to attract and retain key talent Such competition may affect customer choices and options available to them for music publishing and administration contracts These changes could materially and adversely affect the business of The Echo Label Limited

The Echo Label Limited

Strategic report (continued)

Music industry regulatory and business legal risk

The music publishing industry is regulated, with mechanical and performance royalty rates set by industry bodies, over which the company has no control Any significant change to the payment structures operated within the music industry or any decrease in current mechanical or performance royalty rates could have a material adverse effect on the company's business Also, future copyright royalty rate arbitration and other industry wide regulations can change the relationships between record labels, artists and music publishers/writers Such change in regulations could materially and adversely affect the business of the company Copyright royalties are either collected or controlled by third parties, such as collection societies, ceding control over royalty collections to such entities This diminishes control and might result in lower revenues, if collection fees were revised upwards or collection scope was narrowed, thus affecting the business of the company

The company also operates in the master rights business and is susceptible to further contraction of recorded music sales Failure to adjust to external changes could have a material effect on the Company's business The company has diversified its revenues through balances contributions from copyrights and master rights The company's business is highly dependent upon copyright ownership, a subject which has encountered increased litigation in recent years If the company is alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management of the company, regardless of the merits of the claim If the company were to lose a litigation relating to intellectual property, it could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology Any of the foregoing may adversely affect the company's business

Business risks

Failure to fully exploit organic and acquisition growth opportunities

If The Echo Label Limited fails to keep pace with industry trends and developments, it may experience competitive disadvantage, which may result in lower margins and loss of market share Failure to directly or indirectly exploit new growth areas, such as the use of music individual media, could have a material adverse effect on the Company's business The future success of The Echo Label Limited therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions

Financial risks

Exchange rate fluctuation risk

The Company transacts and accounts in local currency, which is converted into the Group reporting currency, creating an exposure to movements in foreign exchange rates The company manages its foreign exchange exposure through matching of cash flows from investments, financing and operations The Company actively manages its residual foreign exchange exposures through use of foreign exchange forward instruments, as appropriate, to manage future foreign exchange rates

Interest rate fluctuation risk

The Company is financed through intercompany borrowings which bear interest at short-term LIBOR rates plus a margin The Company is therefore opposed to fluctuations in interest rates These exposures are not hedged

Client retention and performance of releases

The Echo Label Limited's prospects may be adversely impacted if the business fails to identify, sign and retain songwriters and artists and by the absence of superstar releases The decisions of potential clients to sign with The Echo Label Limited or decisions of existing clients to remain with The Echo Label Limited are complex and involve considerations of many factors As such it is uncertain how many new clients The Echo Label Limited will sign and what proportion of existing clients will extend their agreements Equally, The Echo Label Limited has no control over the release schedule of partnering record companies and the phasing of album releases can impact the Company's results on an annual basis

The Echo Label Limited

Strategic report (continued)

Dependency on third party service partners and shareholder affiliates

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

Additionally, The Echo Label Limited outsources information technology infrastructure, certain finance, tax and human resources functions and other back-office functions to affiliates operating as service providers in the respective functions

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

M Ranyard
Director

6 March 2014

The Echo Label Limited

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2013 for The Echo Label Limited (the "Company")

Principal activities

The principal businesses of the Company during the year ended 31 December 2013 was the collection and payment of royalties The directors do not expect any significant changes in the activities of the Company

On a selective basis, the Company also signs self-contained artists for new recordings, typically in combination with the signing of a publishing deal In return for the licensing and administering the creative output of a recording artist, The Echo Label Limited retains a share of revenues generated from the use of the recording

Outlook

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

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements The ultimate parent company has confirmed its continued support of the Company

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

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

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

Dividends

The directors do not recommend a dividend (2012 £nil)

Directors and officers insurance

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

Employees

The Company had no employees in the current year or prior year

Political and charitable contributions

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

Directors' report (continued)

Statement of disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Auditors

Deloitte LLP resigned as auditors on 13 May 2013 PricewaterhouseCoopers LLP were subsequently appointed

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

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

M Ranyard
Director

6 March 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report to the members of The Echo Label Limited

We have audited the financial statements of The Echo Label Limited for the year ended 31 December 2013 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of The Echo Label Limited (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

- the financial statements are not in agreement with the accounting records and returns, or

- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

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

6 March 2014

The Echo Label Limited

Statement of comprehensive income
Year ended 31 December 2013

	Notes	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Continuing operations			
Revenue	2	425	398
	3	(38)	368
Cost of sales		(106)	(170)
Adjustments to historical royalty expenses		68	538
Gross profit		387	766
Distribution costs		-	(1)
Administrative expenses		(234)	(754)
Impairment of investments		(1,277)	-
(Loss)/profit from operations	4	(1,124)	11
Investment revenue	6	40	10
Finance costs	6	(46)	(1)
(Loss)/profit before taxation		(1,130)	20
Taxation	7	(9)	-
(Loss)/profit for the year attributable to equity shareholder		(1,139)	20

The accompanying notes are an integral part of this Statement of comprehensive income for the year ended 31 December 2013 and the Company did not have any items of other comprehensive income All results relate to continuing operations

The Echo Label Limited

Statement of financial position
Year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Non-current assets			
Investments	8	8,981	-
Long term loans	10	6,713	163
Total non-current assets		15,694	163
Current assets			
Trade and other receivables	9	2,533	641
Cash and cash equivalents	11	-	-
Total current assets		2,533	641
Total assets		18,227	804
Equity			
Share capital	13	8,201	8,201
Share premium		17,985	11,475
Retained deficit		(21,515)	(20,376)
Total equity		4,671	(700)
Non-current liabilities			
Long term loans	10	10,949	40
Total non-current liabilities		10,949	40
Current liabilities			
Trade and other payables	12	2,607	1,464
Total current liabilities		2,607	1,464
Total equity and liabilities		18,227	804

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

The financial statements of The Echo Label Limited, registered number 02713513, were approved by the Board of Directors on 6 March 2014

Signed on behalf of the Board of Directors

M Ranyard
Director

The Echo Label Limited

Statement of changes in equity
Year ended 31 December 2013

	Share capital £'000	Share premium £'000	Retained deficit £'000	Total £'000
Opening shareholder's deficit at 1 January 2012	8,201	11,475	(20,396)	**(720)**
Profit and total comprehensive income for the year	-	-	20	**20**
Opening shareholder's deficit at 1 January 2013	8,201	11,475	(20,376)	**(700)**
Loss and total comprehensive income for the year	-	6,510	(1,139)	**5,371**
Closing shareholder's deficit at 31 December 2013	8,201	17,985	(21,515)	**4,671**

The accompanying notes are an integral part of this Statement of changes in equity

The Echo Label Limited

Statement of cash flows
As at 31 December 2013

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
(Loss)/profit before taxation		(1,130)	20
Other non-cash movements		282	525
Finance costs		46	1
Impairment of investment		1,277	-
Investment revenue		(40)	(10)
Operating profit before movements in working capital and provisions		435	536
(Decrease) in receivables		(1,890)	(401)
Increase/(decrease) in payables		168	(156)
Cash used in operations		(1,287)	(21)
Net cash used in operating activities		(1,287)	(21)
Cash flows from investing activities			
Cash inflow from investing activities		1,284	-
Net cash from investing activities		1,284	-
Net decrease in cash and cash equivalents		(3)	(21)
Cash and cash equivalents at the beginning of the year		-	21
Cash and cash equivalents at the end of the year	11	(3)	-

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

Notes to the financial statements
Year ended 31 December 2013

1. **Accounting policies**

The Echo Label Limited (the "Company") is a company incorporated in the United Kingdom

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

Basis of preparation

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

These financial statements have been prepared in accordance with the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards ("IFRS") as issued by the European Union ("EU")

The preparation of financial statements in conformity with IFRS which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods

Measurement convention

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

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 5 to 6 The directors have considered the financial resources available along with the future plans for the company and the support provided by the intermediate holding company Bertelsmann UK Limited 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 to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet On disposal of investments in subsidiaries the difference between disposal proceeds and the carrying amounts of the investments are recognised in the statement of comprehensive income

The Echo Label Limited

Notes to the financial statements (continued)
Year ended 31 December 2013

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

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 cash flow statement

Trade and other receivables

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

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 above the 3 month LIBOR market rate Trade and other payables are stated at amortised cost which approximates to cost

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 from royalty licencing is recognised in accordance with IAS 18 According to IAS 18 29 revenue from royalties shall be recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably Where revenue streams have a forward visibility revenue is recognised on an accruals principle If there is no or minimal forward visibility of revenue streams, it is not possible to measure the revenue streams reliably until cash is collected

Master record royalties

Record royalties derived from the exploitation of the Company's master record rights is included on a receivable and/or due basis calculated on sales of records arising during each accounting year as reported by licensees Based on the matching principle, royalties payable are accrued at the time the revenue is recognised

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

Advance payments to artists are carried forward within other receivables where they relate to proven artists and where it is estimated that sufficient future income will be recouped against those advance payments

Advance payments should be written off if these are not covered by future income In case of unproven contract the advance payments should be immediately written off Any other royalty licensing income is recognised on a cash basis

Notes to the financial statements (continued)
Year ended 31 December 2013

1. **Accounting policies (continued)**

Expenses

Net financing costs

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

Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

The Echo Label Limited

Notes to the financial statements (continued)
Year ended 31 December 2013

1. **Accounting policies (continued)**

New and amended standards adopted by the company

The following standards have been adopted by the company for the first time for the financial year beginning 1 January 2013, but do not have a material impact on the company

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments)

Amendment to IFRS 7, 'Financial instruments Disclosures', on asset and liability offsetting This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements None of these is expected to have a significant effect on the financial statements of the company

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost The determination is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch

Notes to the financial statements (continued)
Year ended 31 December 2013

2. Revenue

An analysis of the Company's revenue is as follows

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Geographical market		
UK	312	238
Europe	78	91
North America	34	21
Rest of World	1	48
	425	398

3. Cost of Sales

Royalty expenses directly related to current year revenue is £106,000 (2012 £170,000) In addition, cost of sales includes a credit of £68,000 (2012 £538,000) in relation to previously estimated royalty accruals, that have been subsequently settled

4 (Loss)/profit from operations

(Loss)/profit from operations has been arrived at after crediting

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Net foreign exchange gain	(20)	(1)

The audit fee of £7,000 (2012 £7,000) for the year was borne by the intermediate parent company, BMG Rights Management (UK) Limited

5. Employee costs and directors' remuneration

The directors received no remuneration from the Company for services during the current year (2012 £nil)

The Company did not have any other employees and as a result incurred no staff costs (2012 £nil)

Notes to the financial statements (continued)
Year ended 31 December 2013

6. Finance costs/investment revenue

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Interest costs on intercompany balances	(46)	(1)
Investment revenue	40	10
	6	9

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

7. Taxation

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Current taxation		
UK corporation tax – current year	9	-
Total tax expense	9	-

Notes to the financial statements (continued)
Year ended 31 December 2013

7. Taxation (continued)

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

Tax reconciliation

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
(Loss)/Profit before taxation	(1,130)	20
Tax using the UK corporation tax rate of 23 25% (2012 24 5%)	(263)	5
Effects of		
Utilisation of unprovided tax losses	(18)	(5)
Non-deductible impairment of investments	290	-
Current tax charge for the year	9	-

The standard rate of corporation tax in the United Kingdom changed from 24% to 23% with effect from 1 April 2013 Accordingly the company's profits / losses are taxed at an effective rate of 23 25%

During the year changes to the UK main corporation tax rate were enacted The tax rate has fallen to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015

A deferred tax asset of £2,800,000 (2012 £3,300,000) arises in the UK on tax losses which have not been recognised in the financial statements as these assets can only be deducted against future suitable tax profits There is currently insufficient evidence that suitable tax profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised

Notes to the financial statements (continued)
Year ended 31 December 2013

8 Investments

The movement in the year was as follows

	2013 £'000	2012 £'000
Cost		
At beginning of the year	-	-
Acquisitions	10,258	-
Impairment of investment	(1,277)	-
At the end of the year	8,981	-
Amounts provided		
At beginning of the year	-	-
Charge in year	-	-
At end of the year	-	-
Net book value at end of year	8,981	-
Net book value at beginning of year	-	-

Investments in subsidiaries shown above represent the cost of the shares of the wholly-owned subsidiary undertakings, less provisions made for any impairment in value

On 30th April 2013 the Company acquired the 100% of the share capital of the Mute Records Group from Universal International Music B V In August 2013, the Company acquired Mute Records Limited from Mute Holdco Limited, the acquisition vehicle for the Mute Records Group Following this acquisition, the remaining subsidiaries of the Mute Records Group namely Mute Holdco Limited and Administration International Limited were liquidated This is part of a BMG Group initiative to rationalise the wider group structure

Details of the principal investments of the Company are as follows

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %
Mute Records Limited	United Kingdom	Master Catalogue	100%

Notes to the financial statements (continued)
Year ended 31 December 2013

9. Trade and other receivables

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Due within one year		
Trade receivables	31	104
Other receivables	234	162
Trade and other receivables from group companies	2,268	375
	2,533	641

Trade and other receivables to group companies include the group cash pooling facility balance with the parent company

10. Long term loans

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Loans to group companies	6,713	163
Loans from group companies	(10,949)	(40)
	(4,236)	123

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

11. Cash and cash equivalents

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Cash at bank	-	-

Notes to the financial statements (continued)
Year ended 31 December 2013

12 Trade and other payables

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Due within one year		
Trade and other payables	357	345
Trade and other payables to group companies	1,818	632
Other taxes and social security costs	3	3
Group tax relief creditor	9	-
Bank overdraft	3	-
Accruals and deferred income	417	484
	2,607	1,464

13. Share capital

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Authorised:		
82,011,111 ordinary shares of £0 10 each	8,201	8,201
Allotted, called up and fully paid equity:		
82,010,000 ordinary shares of £0 10 each	8,201	8,201

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

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

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

Notes to the financial statements (continued)
Year ended 31 December 2013

14. Fınancıal Instruments (contınued)

Interest-bearıng borrowıngs

Faır value, whıch after ınıtıal recognıtıon ıs determıned for dısclosure purposes only, ıs calculated based on the present value of future prıncıpal and ınterest cash flows, dıscounted at the market rate of ınterest at the statement of financıal posıtıon date

Faır values

The faır values for each class of financıal assets and financıal lıabılıtıes together wıth theır carryıng amounts shown ın the statement of financıal posıtıon are as follows

	2013		2012	
	Carryıng amount £'000	Faır value £'000	Carryıng amount £'000	Faır value £'000
Trade receıvables	31	31	104	104
Other receıvables	234	234	162	162
Trade and other receıvables from group companıes	2,268	2,268	375	375
Loans to group companıes	6,713	6,713	163	163
Cash and cash equıvalents	(3)	(3)	-	-
Trade and other payables	(357)	(357)	(345)	(345)
Trade and other payables to group companıes	(1,818)	(1,818)	(632)	(632)
Other taxes and socıal securıty costs	(3)	(3)	(3)	(3)
Group tax relıef receıvable	(9)	(9)	-	-
Loans from group companıes	(10,949)	(10,949)	(40)	(40)
	(3 893)	(3 893)	(213)	(213)
Unrecognısed gaıns/losses				-

(b) Credit risk

Fınancıal rısk management

Credıt rısk ıs the rısk of financıal loss to the Company ıf a customer or counterparty to a financıal ınstrument faıls to meet ıts contractual oblıgatıons, and arıses prıncıpally from the Company's receıvables from customers Thıs rısk ıs mıtıgated as balances are spread across multıple partıes

The Company's prıncıpal financıal assets are bank balances and trade receıvables whıch represent the Company's maxımum exposure to credıt rısk ın relatıon to financıal assets The Company bears the bad debt rısk on all debtors The Company's management make assessments on new customers before work ıs carrıed out based on theır knowledge of the ındustry and the customer's acceptance of ımposed credıt terms

The amounts presented ın the statement of financıal posıtıon are net of allowances for doubtful receıvables after takıng ınto consıderatıon the amount of balances covered by the Company's credıt ınsurance polıcy These have been estımated by the Company's management based on prıor experıence and theır assessment of the current economıc envıronment

Exposure to credıt rısk

The carryıng amount of financıal assets represents the maxımum credıt exposure Therefore, the maxımum exposure to credıt rısk at the statement of financıal posıtıon date was £31,000, beıng the total of the carryıng amount of trade receıvables, shown ın the table above

Notes to the financial statements (continued)
Year ended 31 December 2013

14. Financial Instruments (continued)

Financial assets and impairment losses

The ageing of trade receivables at the statement of financial position date was

	2013			2012		
	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	31	-	31	111	(7)	104

(c) Liquidity risk

Financial risk management

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

Liquidity is managed by group via the cash pooling facility

(d) Market risk

Financial risk management

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

Market risk - Foreign currency risk

The Company has no exposure to foreign currency risk

Sensitivity analysis – Foreign currency risk

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

Market risk – interest rate risk

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

Sensitivity analysis – interest rate risk

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

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

At the year-end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would decrease the Company's loss before taxation by approximately £20,000 (2012 increase £1,000)

Notes to the financial statements (continued)
Year ended 31 December 2013

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

	Trade balances receivable/ (payable) £'000		Loan balances receivable/ (payable) £'000	
	2013	**2012**	**2013**	**2012**
Chrysalis Group Limited	-	-	33	32
Chrysalis Music Limited	-	10	93	91
Chrysalis Copyrights Limited	-	43	-	-
Chrysalis Holdings Limited	-	-	6,545	-
Mute Records Limited	(259)	-	(4,363)	-
BMG Rights Management (UK) Limited	696	(310)	(6,545)	-
BMG Rights Management Italy	11	-	-	-
Total	448	(257)	(4,237)	123

As part of the Group's ongoing reorganisations, the immediate parent company, Chrysalis Holdings Limited subscribed in further shares in the Company

16. Ultimate parent company and controlling party

The immediate parent company is Chrysalis Holdings Limited, a company incorporated in the United Kingdom, which is in turn part of a holding group structure of which the parent 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