

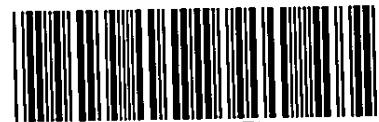
Company Registration No. 06705101

BMG Rights Management (UK) Limited

Report and Financial Statements

31 December 2010

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BMG Rights Management (UK) Limited

Report and financial statements 2010

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BMG Rights Management (UK) Limited

Report and financial statements 2010

Officers and professional advisers

Directors

Mark Ranyard
Hartwig Masuch
Maximilian Dressendoerfer
John Dobinson

Secretary

Oyinwale Adeola Onile-Ere

Registered Office

50 Great Marlborough Street
London
United Kingdom
W1F 7JS

Bankers

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

Solicitors

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

Auditor

Deloitte LLP
Chartered Accountants and statutory auditor
London, United Kingdom

BMG Rights Management (UK) Limited

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2010 for BMG Rights Management (UK) Limited (the "Company" or "BMG UK")

Principal activities

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

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

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, BMG UK retains a share of revenues generated from the use of the recording.

Outlook

BMG UK continues to assume strong growth in revenues and operating EBITDA in fiscal year 2011. The Company acquired Stage Three Music Publishing Limited in 2010 and Chrysalis Plc in early 2011. The business continues to undergo review to identify further optimisation potential, and cost structures are likewise being optimised and brought into alignment with business expectations. BMG UK believes that its diversified portfolio of businesses and the measures already introduced or prepared will mitigate the impact of the financial crisis and economic downturn.

Business review

BMG UK is the United Kingdom subsidiary of BMG Rights Management GmbH, which trades as BMG, one of the world's leading independent music content groups. BMG ranks among the largest independent music publishers in Europe and in the United States and is one of the largest owners of master recordings among the independent recorded music companies in Europe.

BMG UK 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

BMG UK is part of an international group of companies focused on the management of music rights. BMG UK covers the entire range of rights administration, development and exploitation, placing the needs of songwriters and artists at the core of its business model. Since its founding in late 2008, BMG UK has established a presence in its core music markets and now represents rights to numerous songs and recordings. At the core of BMG UK's strategy is delivering a high quality rights administration service to artists and writers.

Business performance

As shown in the Company's Statement of Comprehensive Income on page 9, BMG UK reported revenues of £5,932k and gross profit of £3,311k. Operating loss of £3,657k during the year of operations converts to £2,446k EBITDA loss, when adjusted for amortisation movements of £1,104k (note 7). The loss for the period principally reflects the start up and acquisition costs of the business.

BMG Rights Management (UK) Limited

Directors' report (continued)

Key performance indicators

The directors monitor the company's performance in a number of ways including key performance indicators such as reported revenue, gross margin which comprises Net Publisher Share, operating loss (Earnings Before Interest and Taxes, EBIT) and EBITDA (as adjusted for depreciation and amortisation) BMG UK is financed through intercompany funding from its group parent companies and through equity

Principal risks and uncertainties

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

Market risks

Global economic outlook

BMG UK 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 BMG UK's business. BMG UK 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 BMG UK.

Music industry regulatory and business legal risk

The music publishing industry is regulated, with mechanical and performance royalty rates are set by industry bodies, over which BMG UK 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 BMG UK'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 BMG UK. 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 BMG UK. BMG UK's business is highly dependent upon copyright ownership, a subject which has encountered increased litigation in recent years. If BMG UK 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 BMG UK, regardless of the merits of the claim. If BMG UK 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 BMG UK's business.

BMG Rights Management (UK) Limited

Directors' report (continued)

Business risks

If BMG UK 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 BMG UK's business. The future success of BMG UK therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions.

Client retention and performance of releases

BMG UK'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 BMG UK or decisions of existing clients to remain with BMG UK are complex and involve considerations of many factors. As such it is uncertain how many new clients BMG UK will sign and what proportion of existing clients will extend their agreements. Equally, BMG UK has no control over the release schedule of partnering record companies and the phasing of album releases can impact BMG UK's results on an annual basis.

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. BMG UK relies on a number of third party business partners and shareholder affiliates to operate successfully. These include sub-Publishers, who support BMG UK in international rights management and license income collections. BMG UK is also supported through licensing and commercial joint venturing arrangements with Sony for a portion of its Recorded Music business.

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

Going concern

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

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

Directors

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

Mark Gardiner	(resigned 2 nd June 2010)
Hartwig Masuch	
Tony Moss	(resigned 6 th December 2010)
Maximilian Dressendoerfer	(appointed 15 th January 2010)
John Dobinson	(appointed 15 th January 2010)
Mark Ranyard	(appointed 1 st October 2010)

Dividends

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

Directors and officers insurance

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

BMG Rights Management (UK) Limited

Directors' report (continued)

Employees

Disabled employees

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

Political and charitable contributions

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

Auditor

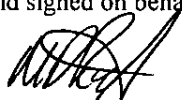
Each of the persons who is a director at the date of approval of this report confirms that

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

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

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

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



M Ranyard
Director

28/3 / 2011

BMG Rights Management (UK) Limited

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors

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

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

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

We have audited the financial statements of BMG Rights Management (UK) Limited for the year ended 31 December 2010 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in shareholder's equity, the statement of cash flows and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed in the Companies Act 2006

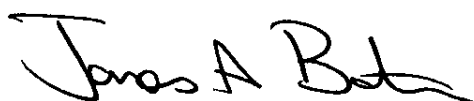
In our opinion the information in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

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

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



James Bates (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 March 2011

BMG Rights Management (UK) Limited

Statement of comprehensive income Year ended 31 December 2010

		Year ended 31 December 2010 £'000	Period from 23 September 2008 to 31 December 2009 £'000
	Notes		
Continuing operations			
Revenue	2	5,932	1,677
Cost of sales		(2,621)	(721)
Gross profit		<u>3,311</u>	<u>956</u>
Administrative expenses		(6,968)	(1,656)
Loss from operations	3	<u>(3,657)</u>	<u>(700)</u>
Finance income/(costs)	5	234	(101)
Loss before taxation		<u>(3,423)</u>	<u>(801)</u>
Taxation	6	-	-
Loss for the year attributable to equity shareholder		<u><u>(3,423)</u></u>	<u><u>(801)</u></u>

The accompanying notes are an integral part of this statement of comprehensive income for the year ended 31 December 2010, the company did not have any items of other comprehensive income All results relate to continuing operations

BMG Rights Management (UK) Limited

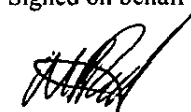
Statement of financial position Year ended 31 December 2010

		31 December 2010 £'000	23 September 2008 to 31 December 2009 £.000
	Notes		
Non-current assets			
Intangible assets	7	11,473	10,475
Fixed assets	8	203	-
Investments	9	15,459	-
		<u>27,135</u>	<u>10,475</u>
Current assets			
Trade and other receivables	10	32,651	8,157
Cash and cash equivalents	11	2,815	2,344
		<u>35,466</u>	<u>10,501</u>
Total current assets			
		<u>35,466</u>	<u>10,501</u>
Total assets		<u>62,601</u>	<u>20,976</u>
Equity			
Share capital	14	-	-
Share premium		36,567	18,566
Retained earnings		(4,224)	(801)
		<u>32,343</u>	<u>17,765</u>
Total shareholder's equity			
		<u>32,343</u>	<u>17,765</u>
Current liabilities			
Trade and other payables	12	30,258	3,211
		<u>30,258</u>	<u>3,211</u>
Total current liabilities			
		<u>30,258</u>	<u>3,211</u>
Total equity and liabilities		<u>62,601</u>	<u>20,976</u>

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

The financial statements of BMG Rights Management (UK) Limited registered number 06705101 were approved by the Board of Directors on 28/3/2011

Signed on behalf of the Board of Directors



M Ranyard
Director

BMG Rights Management (UK) Limited

Statement of changes in shareholder's equity Year ended 31 December 2010

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Opening shareholder's funds at 1 January 2010	-	18,566	(801)	17,765
Loss for the period	-	-	(3,423)	(3,423)
Shares issued	-	18,001	-	18,001
Closing shareholder's funds at 31 December 2010	-	36,567	(4,224)	32,343

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

BMG Rights Management (UK) Limited

Statement of cash flows Year ended 31 December 2010

		Year ended 31 December 2010 £'000	Period from 23 September 2008 to 31 December 2009 £'000
	Notes		
Net cash from operating activities	18	1,469	(4,970)
Cash flows from investing activities			
Proceeds from disposal of intangible assets		-	4,382
Acquisition of intangible assets		(2,102)	(15,533)
Acquisition of fixed assets		(220)	-
Investments		(16,910)	-
Net cash from investing activities		(19,232)	(11,151)
Cash flows from financing activities			
Interest (paid) / received		234	(101)
Proceeds from issue of share capital		18,000	18,566
Loan Payable to Group Company		(25,000)	-
Loan Receivable from Group Companies		25,000	-
Net cash from financing activities		18,234	18,465
Net increase in cash and cash equivalents		471	2,344
Cash and cash equivalents at the beginning of the period		2,344	-
Cash and cash equivalents at 31 December 2010	11	2,815	2,344

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

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

1. Accounting policies

BMG Rights Management (UK) Limited (the "Company") is a company incorporated in the UK

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

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

The company has taken exemption from preparing consolidated accounts afforded by section 400 of the Companies Act 2006, because it is a wholly owned subsidiary of BMG RM Investments Sarl which prepares consolidated accounts which are publically available (refer to note 17)

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 as per measurement convention below

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

The preparation of financial statements in conformity with 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 2 to 5. After making enquiries, the directors have a reasonable expectation that the company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The ultimate parent company has confirmed its continued support of the company.

Foreign currency

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the 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.

BMG Rights Management (UK) Limited

Notes to the financial statements **Year ended 31 December 2010**

1. Accounting policies (continued)

Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each statement of financial position date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows

Music catalogue	10 years
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Fixed assets

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	4 years
Leasehold improvements	5 years

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

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in the equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss

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

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

1. Accounting policies (continued)

Reversal of impairment

An impairment loss in respect of receivable 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 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 1.875% above the 3 month LIBOR market rate. Trade and other payables are stated at amortised cost which approximates to cost

Employee benefits

The company operates a non-contributory 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

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 licensing is recognised in accordance with IAS 18. Where revenue streams have a forward visibility revenue is recognised on an accruals basis. If there is no or minimal forward visibility of revenue streams it is not possible to measure the revenue streams reliably until cash is collected

Music publishing royalties

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

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

BMG Rights Management (UK) Limited

Notes to the financial statements **Year ended 31 December 2010**

1. Accounting policies (continued)

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

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

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 period as reported by licensees. Based on the matching principle, royalties payable are accrued at the time the revenue is recognised.

Expenses

Operating lease payments

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

Net financing costs

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

Taxation

Tax on the loss 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.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at the fair value at the acquisition date, except that deferred tax assets or liabilities are measured in accordance with IAS 12 *Income Taxes*.

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Adopted IFRS not yet applied

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

- IFRS 9-*Financial Instruments*
- IAS 24 (amended)-*Related Party Disclosures*
- IAS 32 (amended)-*Classification of Rights Issues*
- IFRIC 19-*Extinguishing Financial Liabilities with Equity Instruments*
- IFRIC 14 (amended)-*Prepayments of a Minimum Funding Requirement*
- Improvements to IFRSs (May 2010)

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

2 Turnover

An analysis of the company's revenue is as follows

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Exploitation of music rights	5,932	1,677

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

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

3 Loss from operations

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

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Amortisation of intangible assets	1,104	676
Depreciation of assets	17	-
Net foreign exchange loss/(gain)	24	(22)
Staff costs (see note 4)	720	200
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	22	9

4 Employee costs and directors' remuneration

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

Number of employees

	Year ended 31 December 2010	Period ended 31 December 2009
Management and administration	10	3

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Wages and salaries	634	177
Social security costs	73	21
Pension costs	13	2
	720	200

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

4 Employee costs and directors' remuneration (continued)

Remuneration of directors

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Emoluments (excluding pension contributions)	314	58
Social security costs	34	6
Pension costs	9	-
	<u>357</u>	<u>64</u>

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Highest paid director		

The above amounts for remuneration include the following in respect of the highest paid director

	<u>140</u>	<u>58</u>
Emoluments	140	58

5. Financial expenses

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Interest income	(661)	-
Interest charges	427	101
	<u>(234)</u>	<u>101</u>

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

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

6. Taxation

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Current taxation		
UK corporation tax	-	-
Deferred taxation	-	-
Origination and reversal of temporary differences	-	-
Total tax expense	-	-

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

Tax reconciliation

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Loss before taxation	(3,423)	(801)
Tax using the UK corporation tax rate of 28% (2009 28%)	(958)	(224)
Effects of		
Tax losses surrendered for no consideration	-	182
Impairment of investments	405	-
Expenses not deductible	181	-
Other temporary differences	(10)	-
Losses carried forward	382	42
	-	-

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

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

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

BMG Rights Management (UK) Limited

Notes to the financial statements **Year ended 31 December 2010**

6. Taxation (continued)

	Period ended 31 December 2009 £'000	Movement £'000	Year ended 31 December 2010 £'000
Tax losses carried forward	42	357	399
Total	42	357	399

7. Intangible fixed assets

	Music catalogues £'000	Total £'000
Cost		
At 31 December 2009	11,039	11,039
Additions	2,102	2,102
At 31 December 2010	13,141	13,141
Amortisation		
At 31 December 2009	564	564
Charge for the year	1,104	1,104
At 31 December 2010	1,668	1,668
Net book value		
At 31 December 2010	11,473	11,473
At 31 December 2009	10,475	10,475

The amortisation charge is recognised in the statement of comprehensive income under the line administrative expenses. Additions in the year mainly relate to the purchase of music catalogues from two subsidiaries, Warlock Music Limited and Rykomusic Limited, as part of a business transfer agreement.

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

8. Tangible fixed assets

	Office Equipment £'000	Leasehold Improvement £'000	Total £'000
Cost			
At 31 December 2009	-	-	-
Additions	50	170	220
At 31 December 2010	50	170	220
Depreciation			
At 31 December 2009	-	-	-
Charge for the year	3	14	17
At 31 December 2010	3	14	17
Net book value			
At 31 December 2010	47	156	203
At 31 December 2009	-	-	-

The depreciation charge is recognised in the statement of comprehensive income under the line administrative expenses

9. Investment in subsidiaries

The movement in the year was as follows

	2010 £'000	2009 £'000
Cost		
Beginning of the year	-	-
Subscription for shares	16,911	-
End of year	16,911	-
Amounts provided		
Beginning of year	-	-
Amounts provided for impairment during the year	1,452	-
End of year	1,452	-
Net book value		
Beginning of year	-	-
End of year	15,459	-

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

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

9. Investments in subsidiaries (continued)

On 10 August 2010 the Company acquired the 100% of the share capital of Stage Three Music Publishing for total consideration of £43,500,000 and was settled in cash

On 1 October 2010 the Company's acquired the 100% of the share capital of Evergreen Copyright Acquisitions (London) Limited from another BMG group company. Following this investment, its fair value was reviewed and the Company made a provision against its investment

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 %
Stage Three Music Publishing Limited	Great Britain	Holding company and music publishing	1 ordinary shares of £1 each (100%)
Evergreen Copyright Acquisitions (London) Limited	Great Britain	Holding company and music publishing	1 ordinary share of £1,118,501 each (100%)

10. Trade and other receivables

	2010 £'000	2009 £'000
Due within one year		
Trade receivables	20	402
Other receivables	3,629	3,280
Trade and other receivables from group companies	28,940	4,473
Prepayments and accrued income	62	2
	<u>32,651</u>	<u>8,157</u>

An allowance has been made against other receivables for estimated irrecoverable amounts of £673,382 (2009 £190,000). Intercompany loans are interest-bearing and repayable on demand.

11. Cash and cash equivalents

	2010 £'000	2009 £'000
Cash and cash equivalents	<u>2,815</u>	<u>2,344</u>

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

12. Trade and other payables

	2010 £'000	2009 £'000
Due within one year		
Trade and other payables	2,879	951
Trade and other payables to group companies	27,099	2,240
Other payables	277	18
Retirement benefit obligation (see note 13)	3	2
	<u>30,258</u>	<u>3,211</u>

Trade and other payables to group companies include the group cash pooling facility balance with the parent company. Intercompany loans are interest-bearing and repayable on demand.

13. Employee benefits

Defined contribution plan

The company operates a non-contributory defined contribution pension scheme. The pension costs charge for the year represents contributions payable by the company to the scheme and amounted to £13,315.

At the statement of financial position date, contributions amounting to £2,410 were payable to the fund, which represented one month's total contributions collected.

14. Share capital

	2010 £'000	2009 £'000
Issued and fully paid:		
5 ordinary shares of £1 each	<u>5</u>	<u>4</u>

During the period, the company issued 1 ordinary £1 share for a consideration of £18,000,000.

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.

15. Financial instruments

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

(a) Fair values of financial instruments

Trade and other receivables

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

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.

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

15. Financial Instruments (continued)

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.

Fair values

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

	2010		2009	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	20	20	402	402
Other receivables	3,574	3,574	3,280	3,280
Other financial assets*	55	55	-	-
Trade and other receivables from group companies	28,940	28,940	4,473	4,473
Cash and cash equivalents	2,815	2,815	2,344	2,344
Trade and other payables	(3,199)	(3,199)	(951)	(951)
Trade and other payables to group companies	(27,099)	(27,099)	(2,240)	(2,240)
Trade and other payables to other related parties	(71)	(71)	(18)	(18)
	<u>5,035</u>	<u>5,035</u>	<u>7,290</u>	<u>7,290</u>
Unrecognised gains/losses				<u>-</u>

*FX Forward contracts were entered into during 2010. The amount payable at maturity in 2011 is £45,000,000.

(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.

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. 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.

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

15 Financial instruments (continued)

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 £19,819, being the total of the carrying amount of trade receivables, shown in the table above.

Financial assets and impairment losses

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

	Gross trade receivables £'000	2010 Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	2009 Doubtful debt provision £'000	Net trade receivables £'000
Not past due	4,322	(673)	3,649	3,872	(190)	3,682

(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

A proportion of sales and purchases are invoiced in foreign currency (Euros) and the company bears the foreign currency risk on these debtors and creditors.

Sensitivity analysis — Foreign currency risk

Company did not issued many foreign currency invoices in the year 2010 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.

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

15. Financial instruments (continued)

At the period end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would increase the company's profit before taxation by approximately £7,400 (2009 £34,000)

16. Related parties

Identity of related parties

The company's parent company and group is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co (KKR) See note 18 for further detail. The company had a related party relationship in the period with subsidiaries of the Bertelsmann AG group and the KKR group, and with its directors and executive officers

Related party transactions

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

	Sales/ (purchases) of goods £'000	Sales/ (purchases) of assets £'000	Trade Balances receivable/ (payable) £'000	Loan Balances receivable/ (payable) £'000
BMG Rights Management GmbH	291	-	120	(23,756)
BMG Rights Management (US) LLC	99	-	-	-
BMG Rights Administration (Spain) B V	4	-	2	-
BMG Rights Management (Netherlands) B V	72	-	20	-
BMG Rights Management (Scandinavia) B V	1	-	2	-
BMG Rights Management (France) SARL	14	-	3	-
Stage Three Music Publishing – Cash pooling	22	-	1,028	-
Stage Three Music Publishing	126	-	148	7,558
Stage Three Music (Catalogues) Ltd	328	-	328	19,662
Evergreen Copyrights Inc	42	-	42	-
Evergreen Copyrights Acquisitions London Ltd	-	-	21	-
Arvato services (East Riding) Limited	(81)	-	(37)	-
Freemantle Media Group Limited	(23)	-	-	-
Total	895	-	1,677	3,464

17. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management GmbH, a company incorporated in Germany, which is in turn part of a holding group structure of which the parent is BMG RM Investments Luxembourg Sarl, a company incorporated in Luxembourg

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

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

No other group financial statements include the results of the company

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2010

18 Notes to the cash flow statement

Cash flows from operating activities

	Year ended 31 December 2010 £'000	Period ended 31 December 2009 £'000
Loss before taxation	(3,423)	(801)
Adjustment for		
Amortisation	1,104	676
Investment impairment	1,452	-
Depreciation	17	-
Finance costs /(income)	(234)	101
Operating loss before movements in working capital and provisions	(1,084)	(24)
Decrease in receivables	506	(8,157)
Increase in payables	2,047	3,211
Cash generated from operations	1,469	(4,970)
Tax paid	-	-
Net cash from operating activities	1,469	(4,970)

19. Post balance sheet event

On 26 November 2010, the Board of BMG Rights Management GmbH, the immediate parent company of BMG Rights Management (UK) Limited, announced the recommended cash offer for Chrysalis PLC for the entire issued and to be issued share capital of Chrysalis PLC

On 4 February 2011 BMG acquired 100% of the voting equity interests in Chrysalis plc. Chrysalis plc is a music publishing group headquartered in the United Kingdom and operates across geographies which complement those of BMG. The acquisition provides BMG with further opportunity to develop and grow BMG's core music publishing business, whilst supporting Chrysalis plc's business through a more modern administrative and financial IT platform.

Chrysalis plc shares were registered on the Official List of the main market of the London Stock Exchange in the United Kingdom. On 26 November 2010 BMG and Chrysalis plc jointly announced a Scheme of Arrangement intended to secure the sale of 100% of voting equity interests to BMG at a price of GBP160 pence per ordinary share (GBP107.4million to acquire 100% of voting equity interests) and subsequent delisting of Chrysalis plc shares.

On 10 January 2011 Forte Bidco 2 Limited was incorporated and became a wholly owned subsidiary of BMG Rights Management (UK) Limited. On 31 January 2011 UK Courts approved the Scheme of Arrangement, resulting in BMG through its wholly owned subsidiary Forte Bidco 2 Limited, taking legal ownership of Chrysalis plc on 4 February.

On 7 February 2011 the shares of Chrysalis plc were removed from the Official list. On 16 February 2011 BMG deposited all required monies to cash settle payments to former Chrysalis plc shareholders with the

BMG Rights Management (UK) Limited

Notes to the financial statements **Year ended 31 December 2010**

19. Post balance sheet event (Continued)

Chrysalis Registrar Full and final payment to shareholders will be made by the Registrar on 18 February 2011

The latest available financial information for Chrysalis plc is as at 30 September 2010 as follows

GBP'000s	30 Sept 2010
Total non-current assets	21,635
Total current assets	57,737
Total Assets	79,372
Total non-current liabilities	45,693
Total current liabilities	44,106
Total equity	(10,427)
Total Liabilities	79,372