

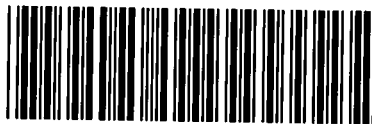
**Company Registration No. 06705101**

**BMG Rights Management (UK) Limited**

**Reports and Financial Statements**

**31 December 2016**

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

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

## **Reports and financial statements 2016**

### **Officers and professional advisers**

#### **Directors**

Alexi Cory-Smith  
Maximilian Dressendörfer  
Hartwig Masuch  
Paul Wilson

#### **Company Secretary**

Erika Brennan

#### **Registered Office**

8<sup>th</sup> Floor  
5 Merchant Square  
London  
United Kingdom  
W2 1AS

#### **Bankers**

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

#### **Solicitors**

Simons Muirhead & Burton  
8-9 Frith Street  
London  
W1D 3JB

#### **Independent Auditors**

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

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

## **Strategic report**

The directors present their Strategic report for the year ended 31 December 2016 for BMG Rights Management (UK) Limited (the "Company").

### **Business review**

BMG Rights Management (UK) Limited is a United Kingdom subsidiary of Bertelsmann SE & Co. KGaA, 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 Rights Management (UK) 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.

### **Strategy**

BMG Rights Management (UK) 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, operating loss (Earnings Before Interest and Taxes; "EBIT") and EBITDA (as adjusted for depreciation and amortisation). The Company is financed through intercompany funding from its group parent companies and through equity.

### **Business performance 2016**

As shown in the Company's Statement of comprehensive income on page 10, the Company reported revenues of £78,683,000 (2015: £39,178,000) and gross profit of £21,387,000 (2015: £11,901,000). Royalties on copyrights are typically received with a six to twelve months lag of distributions to collections by intermediating collection societies. Therefore, the Company's 2014 and 2015 investments in signings have contributed towards the organic growth seen in 2016 revenue and gross profit. Contracts entered into in 2016 will contribute towards 2017 income. Throughout 2016 the Company continued to invest in music rights.

Loss from operations of £117,847,000 (2015: £107,970,000) is due mainly to impairment of investments driven by legal entity restructuring, detailed in note 10. Profit before tax was £84,679,000 (2015: loss of £83,937,000).

As part of a Group wide restructuring exercise, the Company received dividends from its subsidiaries to the value of £209,062,000 (2015 £30,384,000).

The net assets as at 31 December 2016 were £41,736,000 (2015: net liabilities of £43,095,000).

### **Principal risks and uncertainties**

There are a number of market and business risks that could affect BMG Rights Management (UK) Limited. We set out below the Company's view of the main risks which could 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.

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

## **Strategic report (continued)**

### **Market risks**

#### ***Global economic outlook***

BMG Rights Management (UK) Limited receives 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. BMG Rights Management (UK) 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 on-going 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 the 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 Rights Management (UK) Limited.

#### ***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 operating 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 BMG Rights Management (UK) Limited. 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 Rights Management (UK) Limited. 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 BMG Rights Management (UK) Limited, regardless of the merits of the claim. If BMG Rights Management (UK) Limited 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.

### **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 the 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 exposed to fluctuations in interest rates. These exposures are not hedged.

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

## **Strategic report (continued)**

### **Business risks**

If BMG Rights Management (UK) 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 BMG Rights Management (UK) Limited therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions.

### **Client retention and performance of releases**

BMG Rights Management (UK) Limited's prospects may be adversely impacted if the business fails to identify, sign and retain songwriters and artists and by the absence of successful releases. The decisions of potential clients to sign with BMG Rights Management (UK) Limited or decisions of existing clients to remain with BMG Rights Management (UK) Limited are complex and involve considerations of many factors. As such it is uncertain how many new clients BMG Rights Management (UK) Limited will sign and what proportion of existing clients will extend their agreements. Equally, BMG Rights Management (UK) 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.

### **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 Rights Management (UK) Limited relies on a number of third party business partners and shareholders' affiliates to operate successfully. These include sub-Publishers, who support BMG Rights Management (UK) Limited in international rights management and licence income collections. BMG Rights Management (UK) Limited is also supported through licensing and commercial joint venturing arrangements with Sony for a portion of its Recorded Music business.

Additionally, BMG Rights Management (UK) Limited outsources information technology infrastructure, certain finance and accounting 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



Paul Wilson  
Director

17 March 2016

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

## **Directors' report**

The directors present their Directors' report and audited financial statements for the year ended 31 December 2016 for BMG Rights Management (UK) Limited (the "Company").

### **Principal activities**

The principal business of the Company during the year ended 31 December 2016 was the collection and payment of royalties.

The Company'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, the Company 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 Rights Management (UK) Limited retains a share of revenues generated from the use of the recording.

### **Outlook**

BMG Rights Management (UK) Limited continues to show strong growth in revenues and operating EBIT in fiscal year 2016. 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.

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

Alexi Cory-Smith  
Maximilian Dressendörfer  
Hartwig Masuch  
Paul Wilson

### **Dividends**

The directors do not recommend a dividend (2015: £nil).

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

### **Political and charitable contributions**

The Company made no political contributions or incurred any political expenditure during the year (2015: £nil). The Company made charitable contributions of £1,000 during the year (2015: £13,000).

### **Statement of disclosure of information to auditors**

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

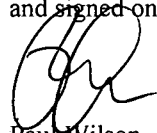
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that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

### **Independent auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors 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



Paul Wilson  
Director

17 March 2016



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

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 judgements 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.

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

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

### **Report on the financial statements**

#### **Our opinion**

In our opinion, BMG Rights Management (UK) Limited's Financial Statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **What we have audited**

The financial statements, included within the Reports and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

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

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

### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

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) ("ISAs (UK & 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.

#### **What an audit of financial statements involves**

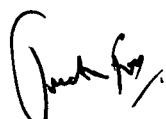
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

17 March 2017

## BMG Rights Management (UK) Limited

### Statement of comprehensive income Year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue	2	78,683	39,178
Cost of sales		(57,296)	(27,277)
<b>Gross profit</b>		<b>21,387</b>	<b>11,901</b>
Administrative expenses		(16,596)	(15,021)
Impairment of investments	10	(122,638)	(104,850)
<b>Loss from operations</b>	3	<b>(117,847)</b>	<b>(107,970)</b>
Finance income	5	1,259	1,170
Dividend income		209,062	30,384
Other income		848	-
Gain on disposal of investments		190	-
Finance expenses	6	(8,833)	(7,363)
Loss on disposal of fixed assets		-	(158)
<b>Profit/(loss) before taxation</b>		<b>84,679</b>	<b>(83,937)</b>
Taxation	7	152	1,664
<b>Profit/(loss) and total comprehensive income/(expense) for the year attributable to equity shareholder</b>		<b>84,831</b>	<b>(82,273)</b>

The accompanying notes are an integral part of this Statement of comprehensive income for the year ended 31 December 2016 and 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 As at 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	176,109	150,593
Property, plant and equipment	9	1,239	1,204
Investments	10	205,146	226,468
Long term loans	15	59,032	43,832
<b>Total non-current assets</b>		<u>441,526</u>	<u>422,097</u>
<b>Current assets</b>			
Trade and other receivables	11	166,079	84,777
Cash and cash equivalents	12	68	-
<b>Total current assets</b>		<u>166,147</u>	<u>84,777</u>
<b>Total assets</b>		<u>607,673</u>	<u>506,874</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other non-current payables	14	33,897	2,809
Long term loans	15	8,921	85,290
<b>Total non-current liabilities</b>		<u>42,818</u>	<u>88,099</u>
<b>Current liabilities</b>			
Trade and other payables	13	523,119	461,870
<b>Total current liabilities</b>		<u>523,119</u>	<u>461,870</u>
<b>Net assets/(liabilities)</b>		<u>41,736</u>	<u>(43,095)</u>
<b>Equity</b>			
Share capital	17	-	-
Retained earnings/(accumulated losses)		41,736	(43,095)
<b>Total equity</b>		<u>41,736</u>	<u>(43,095)</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 17 March 2016

Signed on behalf of the Board of Directors



Paul Wilson  
Director

## BMG Rights Management (UK) Limited

### Statement of changes in equity Year ended 31 December 2016

	Share capital £'000	Share premium £'000	Retained earnings/ (accumulated losses) £'000	Total shareholders' funds/(deficit) £'000
As at 1 January 2015	-	97,000	(57,822)	39,178
Share capital reduction	-	(97,000)	97,000	-
Loss and total comprehensive expense for the year	-	-	(82,273)	(82,273)
As at 31 December 2015	-	-	(43,095)	(43,095)
Profit and total comprehensive income for the year	-	-	84,831	84,831
As at 31 December 2016	-	-	41,736	41,736

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

# BMG Rights Management (UK) Limited

## Statement of cash flows

Year ended 31 December 2016

		Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
	Note(s)		
<b>Net cash generated from operating activities</b>	21	23,507	63,399
<b>Cash flows from investing activities</b>			
Acquisition of investments		(101,576)	(117,743)
Acquisition of intangible assets		(38,764)	(42,020)
Acquisition of fixed assets		(375)	(1,319)
Proceeds from disposal of intangible assets		6,939	-
Proceeds from disposal of investments		450	-
Dividend income		209,062	30,383
<b>Net cash generated from/(used in) investing activities</b>		75,736	(130,699)
<b>Cash flows from financing activities</b>			
Movement in loans from group companies		(91,569)	67,270
Interest paid		(8,833)	-
Interest received		1,259	-
<b>Net cash (used in)/generated from financing activities</b>		(99,143)	67,270
<b>Net increase/(decrease) in cash and cash equivalents</b>		100	(30)
Cash and cash equivalents at the beginning of the year		(32)	(2)
<b>Cash and cash equivalents at end of the year</b>		68	(32)

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 2016**

### **1. Accounting policies**

BMG Rights Management (UK) 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 years presented in these financial statements.

The Company has taken exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006, because it is a wholly owned subsidiary of Bertelsmann SE & Co. KGaA which prepares consolidated financial statements which are publicly available (refer to note 22).

#### **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.

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") and in accordance with IFRS Interpretations Committee (IFRS IC) interpretations.

The preparation of financial statements in conformity with IFRS 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 year in which the estimate is revised if the revision affects only that year or in the year of the revision and future year if the revision affects both current and future years.

#### **Measurement convention**

The financial statements are prepared on the historical cost basis except financial instruments classified as fair value through the profit or loss. Non-current assets 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 Strategic report and Directors' report on pages 2 to 6. The directors have considered the financial resources available along with the future plans for the Company when considering the going concern of the Company. After making enquiries, the directors have a reasonable expectation that the Company will have access to adequate resources from its parent company, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### **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 (continued)** **Year ended 31 December 2016**

### **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 catalogues	15 - 25 years
------------------	---------------

#### **Property, plant and equipment**

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

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

Office equipment	3 years
Leasehold improvements	5 years

#### **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.

#### **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.

#### **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 (continued)**

**Year ended 31 December 2016**

### **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.

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.

#### **Loan receivables and payables**

Long term loans are measured at fair value net of transaction costs.

#### **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.

#### **Employee benefits**

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

#### **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.

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

## **Notes to the financial statements (continued)**

**Year ended 31 December 2016**

### **1. Accounting policies (continued)**

#### **Music publishing royalties**

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

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

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

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

#### **Master record royalties**

Record royalties derived from the exploitation of the Company's master record rights are 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.

#### **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.

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

## **Notes to the financial statements (continued)**

### **Year ended 31 December 2016**

#### **1. Accounting policies (continued)**

##### **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*.

##### **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 uses industry standard rates to estimate the royalty accruals.

Writer advances provisions were made during the year based on calculation used in the Company and across other affiliated companies.

##### **New standards, amendments and interpretations**

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the group or parent company.

##### **New standards, amendments 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 2016, 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 group or parent company, except the following, set out below:

IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the implementation of the expected loss model although full quantification of this impact is still underway.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, subject to EU endorsement. The impact of IFRS 15 is being assessed by management. Implementation of IFRS15 requires a thorough review of existing contractual arrangements. At present, the directors anticipate there may be some changes in the recognition of royalty income leading to earlier recognition of some income although the amounts involved are relatively immaterial. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

### Year ended 31 December 2016

#### 1. Accounting policies (continued)

##### New standards, amendments and interpretations not yet adopted (continued)

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed.

#### 2. Revenue

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
UK	33,501	17,414
North America	25,979	17,071
Europe	9,768	4,559
Other	9,435	134
	<u>78,683</u>	<u>39,178</u>

The operations of the Company take place wholly in the United Kingdom. Revenue was derived principally from activities conducted within the United Kingdom and North America. 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 (continued) Year ended 31 December 2016

### 3. Loss from operations

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Amortisation of intangible assets	7,302	5,433
Auditors' remuneration	373	353
Depreciation	340	332
Net foreign exchange (gain)/loss	(73)	994
Gain on disposal of intangibles	993	-
Operating lease rentals		
- land and buildings	1,399	1,453
- plant and machinery	95	40
	<u>1,399</u>	<u>1,453</u>

The auditors' remuneration shown above includes costs borne on behalf of all of subsidiary undertakings as listed in Note 10.

### 4. Employee costs and directors' remuneration

The monthly 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 2016	Year ended 31 December 2015
Management and administration	<u>144</u>	<u>106</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Wages and salaries	10,259	7,764
Social security costs	1,183	939
Other pension costs	480	319
	<u>11,922</u>	<u>9,022</u>

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued) Year ended 31 December 2016

### 4. Employee costs and directors' remuneration (continued)

#### Remuneration of directors

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Emoluments (excluding pension contributions)	705	898
Severance benefits	-	556
Social security costs	86	163
Pension costs	36	46
	<u>827</u>	<u>1,663</u>

#### Highest paid director

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Emoluments (excluding pension contributions)	500	500
Social security costs	65	65
Pension costs	23	20
	<u>588</u>	<u>585</u>

### 5. Finance income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest receivable on intercompany balances	<u>1,259</u>	<u>1,170</u>

Finance income represents interest received from the parent company and other related parties in respect of cash pooling and loan facilities provided.

### 6. Finance expenses

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest payable on intercompany balances	(8,715)	(6,769)
Discount on deferred consideration	(100)	(174)
Interest payable to third parties	(18)	(420)
	<u>(8,833)</u>	<u>(7,363)</u>

Interest charges on intercompany balances represent interest charged by 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 (continued)

### Year ended 31 December 2016

#### 7. Taxation

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Current taxation</b>		
UK corporation tax credit – current year	(414)	(2,001)
UK corporation tax credit – prior year	(494)	(322)
Foreign tax charge	756	659
<b>Total tax credit</b>	<u>(152)</u>	<u>(1,664)</u>

The current tax credit represents amounts receivable from fellow UK subsidiaries of Bertelsmann SE & Co. KGaA in respect of current year tax profits surrendered in the United Kingdom.

The credit for the year can be reconciled to the profit/(loss) per the Statement of comprehensive income as follows:

#### Tax reconciliation

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit/(loss) before taxation	84,679	(83,937)
Tax using the UK corporation tax rate of 20% (2015: 20.25 %)	16,936	(16,997)
Effects of:		
UK corporation tax credit – prior year	(494)	(322)
Dividends from wholly owned UK subsidiaries	(41,812)	(6,153)
Foreign tax	756	659
Non-deductible impairment of investments	24,528	21,234
Non-deductible expenses	(69)	(16)
Other temporary differences	3	68
Losses not recognised now utilised	-	(137)
	<u>(152)</u>	<u>(1,664)</u>

The standard rate of corporation tax in the United Kingdom is 20%. Accordingly the Company's profits are taxed at an effective rate of 20% (2015: 20.25%).

During 2016 changes to the UK corporation tax rate were enacted. The tax rate has fallen to 19% with effect from 1 April 2017 and to 17% from 1 April 2020.



# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

Year ended 31 December 2016

### 7. Taxation (continued)

A deferred tax asset of £1,750,000 (2015: £1,799,000) in respect of tax losses and other temporary differences has arisen in the UK and has 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.

	2015 £'000	Movement £'000	2016 £'000
<b>Unrecognised deferred tax asset</b>			
Tax losses	1,600	-	1,600
Other temporary differences	199	(49)	150
	<u>1,799</u>	<u>(49)</u>	<u>1,750</u>

### 8. Intangible assets

	<b>Music catalogues £'000</b>
<b>Cost</b>	
At 31 December 2015	166,738
Additions	38,764
Disposals	(6,398)
At 31 December 2016	<u>199,104</u>
<b>Accumulated amortisation</b>	
At 31 December 2015	16,145
Disposals	(452)
Charge for the year	7,302
At 31 December 2016	<u>22,995</u>
<b>Net book amount</b>	
At 31 December 2016	<u>176,109</u>
At 31 December 2015	<u>150,593</u>

The amortisation charge is recognised in the Statement of comprehensive income under the line administrative expenses.

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

Year ended 31 December 2016

### 9. Property, plant and equipment

	Office equipment £'000	Leasehold improvements £'000	Total £'000
<b>Cost</b>			
At 31 December 2015	563	1,111	1,674
Additions	302	73	375
Disposals	(64)	-	(64)
At 31 December 2016	801	1,184	1,985
<b>Accumulated depreciation</b>			
At 31 December 2015	336	134	470
Disposals	(64)	-	(64)
Charge for the year	121	219	340
At 31 December 2016	393	353	746
<b>Net book amount</b>			
At 31 December 2016	408	831	1,239
At 31 December 2015	227	977	1,204

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

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued) Year ended 31 December 2016

### 10. Investments

The movement in the year was as follows:

	2016 £'000	2015 £'000
<b>Cost</b>		
At 1 January	338,408	220,665
Acquisitions	101,576	117,743
Disposals	(260)	-
At 31 December	<u>439,724</u>	<u>338,408</u>
<b>Amounts provided</b>		
At 1 January	(111,940)	(7,090)
Charge in year	(122,638)	(104,850)
At 31 December	<u>(234,578)</u>	<u>(111,940)</u>
<b>Net book amount at the end of the year</b>	<u>205,146</u>	<u>226,468</u>
<b>Net book amount at the beginning of the year</b>	<u>226,468</u>	<u>213,575</u>

The investments shown above represent the cost of the shares; less provisions made for any impairment in value.

During the year, the Company acquired the remaining share capital of the following entities at fair value. These entities became 100% direct subsidiaries of the Company.

- On 28 July 2016, the Company acquired the remaining shares in Chrysalis Music Publishing Limited from Chrysalis Music Limited for consideration of £4,262,000.
- On 28 July 2016, the Company acquired the remaining shares in The Echo Label Limited from Chrysalis Holdings Limited for consideration of £25,546,000.
- On 28 November 2016, the Company acquired the remaining shares in Redpoint Music Limited from Chrysalis Holdings Limited for consideration of £nil.
- On 28 November 2016, the Company acquired the remaining shares in Chrysalis Music Limited from Chrysalis Holdings Limited and Chrysalis Investments Limited for consideration of £46,092,000.
- On 28 November 2016, the Company acquired the remaining shares in Chrysalis Copyrights Limited from Chrysalis Investments Limited for consideration of £92,000.
- On 28 November 2016, the Company acquired the remaining shares in Chrysalis Songs Limited from Chrysalis Investments Limited for consideration of £nil.
- On 28 November 2016, the Company acquired 99% of the share capital in Tom Jones (Enterprises) Limited from Chrysalis Investments Limited for consideration of £nil.
- On 28 November 2016, the Company acquired the remaining shares in GW Mills Limited from Chrysalis Investments Limited for consideration of £nil.
- On 28 November 2016, the Company acquired the remaining shares in Chrysalis Holdings Limited from Chrysalis Investments Limited for consideration of £nil.
- On 28 November 2016, the Company acquired 100% of the share capital of Cavalcade Records Limited from Minder Music Limited for consideration of £nil.

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

### **Notes to the financial statements (continued)**

**Year ended 31 December 2016**

#### **10. Investments (continued)**

During the year the Company acquired the following companies:

- On 29 January 2016, the Company acquired 100% of the share capital of Ram Records Limited for consideration of £1,634,000.
- On 30 July 2016, the Company acquired 100% of the share capital of Altitude Music Limited and on 26 September 2016, the company name was changed to BMG Production Music (UK) Limited for consideration of £2,850,000.
- On 30 July 2016, the Company indirectly acquired 100% of the share capital of Must Save Jane Limited via the investment held in BMG Production Music (UK) Limited.
- On 13 December 2016, the Company acquired 100% of the share capital of Hewrate Limited for consideration of £18,700,000.

During the year the following legal entity re-structuring took place:

- On 17 March 2016, the Company indirectly acquired the remaining share capital of 360 Music Limited.
- On 29 March 2016, BMG VM Songs Limited was dissolved.
- On 5 July 2016, Air Management Services Limited was dissolved.
- On 5 July 2016, Sanctuary Visual Entertainment Limited was dissolved.
- On 18 October 2016, Redemption Songs Limited was dissolved.
- On 1 November 2016, 360 Music Limited was dissolved.
- On 28 November 2016, the Company disposed of its shareholding in Air Records Limited to Chrysalis Holdings Ltd.
- On 6 December 2016, BMG FM Music Limited was dissolved.
- On 16 December 2016, the Company capitalised its investment in Infectious Music Limited by way of a share subscription of 1 Ordinary share of £1 for £2,400,000.

During the year the following disposals of investments took place:

- On 12 August 2016, the Company disposed of its 50% holding of the share capital of Phrased Differently Music Limited for consideration of £450,000.

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

Year ended 31 December 2016

### 10. Investments (continued)

Details of all the investments of the Company are as follows:

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %	Direct or indirect investment
Stage Three Music Publishing Ltd	United Kingdom	Music publishing	100%	Direct
Chrysalis Copyrights Ltd	United Kingdom	Recorded Music	100%	Direct
Chrysalis Group Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Holdings Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Music Ltd	United Kingdom	Music publishing	100%	Direct
Chrysalis Music Publishing Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Songs Ltd	United Kingdom	Dormant	100%	Direct
The Echo Label Ltd	United Kingdom	Recorded Music	100%	Direct
Redpoint Music Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Investments Ltd	United Kingdom	Dormant	100%	Direct
G W Mills Ltd	United Kingdom	Dormant	100%	Direct
Tom Jones (Enterprises) Ltd	United Kingdom	Dormant	99%	Direct
Bug Music Ltd	United Kingdom	Dormant	100%	Direct
Windswept Music (London) Ltd	United Kingdom	Music publishing	100%	Direct
Sanctuary Records Group Ltd	United Kingdom	Recorded Music	100%	Direct
Skint Records Ltd	United Kingdom	Dormant	100%	Direct
Loaded Records Ltd	United Kingdom	Recorded Music	100%	Direct
Infectious Music Limited	United Kingdom	Recorded Music	100%	Direct
Union Square Music Holdings Ltd	United Kingdom	Holding company	100%	Direct
Minder Music Ltd	United Kingdom	Music publishing	100%	Direct
Cavalcade Records Ltd	United Kingdom	Dormant	100%	Direct
Kyboside Ltd	United Kingdom	Dormant	100%	Direct
RAM Records Ltd	United Kingdom	Recorded Music	100%	Direct
BMG Production Music (UK) Ltd	United Kingdom	Production Music	100%	Direct
Hewrate Ltd	United Kingdom	Music Publishing	100%	Direct
Stage Three Music (Catalogues) Ltd	United Kingdom	Music publishing	100%	Indirect
Air Records Ltd	United Kingdom	Dormant	100%	Indirect
Oxford Street Studios Ltd	United Kingdom	Dormant	100%	Indirect
BMG VM Music Ltd	United Kingdom	Music publishing	100%	Indirect
BMG 10 Music Ltd	United Kingdom	Dormant	100%	Indirect
Mute Records Ltd	United Kingdom	Recorded Music	100%	Indirect
Sanctuary Copyrights Ltd	United Kingdom	Dormant	100%	Indirect
Creole Records Ltd	United Kingdom	Dormant	100%	Indirect
Men From The North Ltd	United Kingdom	Dormant	100%	Indirect
Trojan Recordings Ltd	United Kingdom	Dormant	100%	Indirect
Union Square Music Ltd	United Kingdom	Recorded Music	100%	Indirect
Union Square Music Publishing Ltd	United Kingdom	Music publishing	100%	Indirect
Union Square Music Songs Ltd	United Kingdom	Music publishing	100%	Indirect
USM Copyrights Ltd	United Kingdom	Music publishing	100%	Indirect
USM Copyrights Nazareth Ltd	United Kingdom	Dormant	100%	Indirect
USM Copyrights Publishing Ltd	United Kingdom	Dormant	100%	Indirect
Rock Music Company Ltd	United Kingdom	Music publishing	100%	Indirect
Must Save Jane Ltd	United Kingdom	Production Music	100%	Indirect

## BMG Rights Management (UK) Limited

### Notes to the financial statements (continued)

Year ended 31 December 2016

#### 10. Investments (continued)

Since the date of the financial statements the following changes in investments have occurred.

On 3 January 2017 Union Square Music Copyrights Publishing Limited, in which the Company held a 100% indirect shareholding, was dissolved.

On 3 January 2017 Redpoint Music Limited, in which the Company held 100% of the share capital, was dissolved.

On 11 January 2017 the Company acquired 100% of the share capital of Hornall Brothers Limited.

On 7 February 2017 Kyboside Limited, in which the Company held 100% of the share capital, was dissolved.

All investments have the registered address of 8<sup>th</sup> Floor, 5 Merchant Square, London, W2 1AS.

#### 11. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	3,774	1,829
Other receivables	97,834	54,710
Trade and other receivables from group companies	52,840	17,796
Group relief trade receivables	817	1,537
Prepayments and accrued income	10,814	8,905
	<u>166,079</u>	<u>84,777</u>

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

#### 12. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank	<u>68</u>	<u>-</u>

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued) Year ended 31 December 2016

### 13. Trade and other payables

	2016 £'000	2015 £'000
<b>Due within one year</b>		
Bank overdraft	-	32
Trade and other payables	39,206	25,856
Trade and other payables to group companies	474,685	399,562
Group relief trade payable	877	261
Other payables	8,351	36,159
	<u>523,119</u>	<u>461,870</u>

Trade and other payables to group companies include the group cash pooling facility balance with the parent company and other related parties.

### 14. Other payables

	2016 £'000	2015 £'000
<b>Current payables:</b>		
<b>Consultancy agreement provision</b>		
At beginning of year	-	86
Utilised	-	(86)
	<u>-</u>	<u>-</u>
At end of year	<u>-</u>	<u>-</u>
<b>Non-current payables:</b>		
Deferred consideration	33,897	2,809
At end of year	<u>33,897</u>	<u>2,809</u>

The increase in the year includes one major signing with future consideration of £29,520,000. Non-current payables represent other amounts due after one year. As at 31 December 2016 non-current payables did not include any liabilities due after 5 years (2015: £nil). Finance expense on non-current payables recognised in the financial statements was £100,000 (2015: £179,000)

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued) Year ended 31 December 2016

### 15. Long term loans

	2016 £'000	2015 £'000
Loans from group companies	(8,921)	(85,290)
Loans to group companies	59,032	43,832
	<u>50,111</u>	<u>(41,458)</u>

Long term loans are interest-bearing and have no fixed repayment terms.

### 16. Employee benefits

The Company operates a defined contribution pension scheme. The pension costs charge for the year represents contributions payable by the Company to the scheme and amounted to £480,000 (2015: £319,000).

As at 31 December 2016, contributions amounting to £20,000 (2015: £55,000) were payable to the fund, which represented one month's total contributions collected.

### 17. Share capital

	2016 £'000	2015 £'000
Authorised, issued and fully paid: 5 (2015: 5) ordinary shares of £1 each	<u>-</u>	<u>-</u>

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.

### 18. 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.

##### *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.



# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

Year ended 31 December 2016

### 18. Financial instruments (continued)

#### *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:

	2016		2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	3,774	3,774	1,829	1,829
Other receivables	97,834	97,834	54,710	54,710
Loans to group companies	59,032	59,032	43,832	43,832
Trade and other receivables from group companies	52,840	52,840	17,796	17,796
Prepayments and accrued income	10,814	10,814	8,905	8,905
Group relief receivable	817	817	1,537	1,537
Trade and other payables	(39,206)	(39,206)	(25,856)	(25,856)
Trade and other payables to group companies	(474,685)	(474,685)	(399,562)	(399,562)
Loans from group companies	(8,921)	(8,921)	(85,290)	(85,290)
Other non-current payables	(33,897)	(33,897)	(2,809)	(2,809)
Other payables	(8,351)	(8,351)	(36,159)	(36,159)
Group relief payable	(877)	(877)	(261)	(261)
	<u>(340,826)</u>	<u>(340,826)</u>	<u>(421,328)</u>	<u>(421,328)</u>
Unrecognised gains/losses				-

#### *(b) Credit risk*

##### *Financial risk management*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. This risk is mitigated as balances are spread across multiple parties.

The Company's principal financial assets are bank balances and trade receivables which represent the Company's maximum exposure to credit risk in relation to financial assets. The Company bears the bad debt risk on all debtors. The Company's management make assessments on new customers before work is earned out, based on their knowledge of the industry and the customer's acceptance of imposed credit terms.

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

##### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the Statement of financial position date was £101,608,000 (2015: £56,539,000) being the total of the carrying amount of trade and other receivables, shown in the table above.

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

Year ended 31 December 2016

### 18. Financial instruments (continued)

#### *Financial assets and impairment losses*

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

	2016			2015		
	Gross trade and other receivables £'000	Doubtful debt provision £'000	Net trade and other receivables £'000	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000
Not past due	108,272	6,664	101,608	63,056	6,517	56,539

#### (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 and the Company bears the foreign currency risk on these debtors and creditors. These exposures are not hedged.

##### *Sensitivity analysis — Foreign currency risk*

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

There were no derivative financial instruments in place at 31 December 2016.

##### *Market risk – interest rate risk*

The Company's exposure to interest rate risk arose 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 utilised 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 increase the Company's loss before taxation by approximately £3,670,000 (2015: £4,282,000).

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

### Year ended 31 December 2016

#### 19. Financial commitments

The Company leases the premises which it occupies under a non-cancellable operating lease. The future minimum lease payments are as follows:

	Land and building	
	2016	2015
	£'000	£'000
Within one year	1,323	331
Within 2 to 5 years	5,290	5,290
More than 5 years	4,298	5,621
	<u>10,911</u>	<u>11,242</u>

On 20 October 2016 the Company entered into an underlease agreement to sublet part of the premises to a third party for a three-year period commencing 20 March 2017 for £345,000 per annum.

#### 20. 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.

	Sales/(purchases) of goods		Trade balances receivable/(payable)		Loan balances receivable/(payable)	
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
360 Music Ltd	-	-	-	(27)	-	-
8ball Music B.V.	-	-	(3)	-	-	-
Air Management Services Ltd	-	5	-	-	-	-
arvato Distribution GmbH	-	-	(7)	-	-	-
arvato Systems GmbH	(11)	(8)	(6)	(1)	-	-
arvato systems S4M GmbH	(24)	(56)	(10)	(1)	-	-
arvato Ltd	(23)	(18)	(28)	-	-	-
Arvato IT Support GmbH	(61)	(51)	(21)	(9)	-	-
Bertelsmann SE & Co. KGaA	(214)	(17)	(201)	(9)	-	-
Bertelsmann UK Ltd	(7,247)	(6,254)	(441,016)	(368,463)	-	-
BMG 10 Music Ltd	129	122	-	(325)	-	-
BMG (Beijing) Music & Culture Co. Ltd	348	47	389	47	-	-
BMG FM Music Ltd	1	281	-	(105)	-	-
BMG Production Music (UK) Ltd	217	-	206	-	-	-
BMG Rights Management (Canada) Inc.	918	810	437	141	-	-
BMG Rights Management (Distribution) GmbH	2,131	2,294	233	951	-	-
BMG Rights Management (France) SARL	2,772	1,457	(196)	(17)	-	-
BMG Rights Management (Scandinavia) AB	802	385	(35)	(6)	-	-
BMG Rights Management (Italy) S.R.L.	814	452	(49)	(11)	-	-
BMG Rights Management (Benelux) B.V.	79	615	(1,064)	(14)	-	-
BMG Rights Management and Administration (Spain) S.L.	476	296	(7)	(1)	-	-
BMG Rights Management GmbH	(610)	(2,640)	(1,294)	(111)	-	-
BMG Rights Management US LLC	2,541	3,757	(1,468)	(168)	-	-

# BMG Rights Management (UK) Limited

## Notes to the financial statements (continued)

Year ended 31 December 2016

### 20. Related parties (continued)

	Sales/(purchases) of goods		Trade balances receivable/(payable)		Loan balances receivable/(payable)	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
BMG Rights Management (Australia) Pty Ltd	148	-	148	-	-	-
BMG VM Music Ltd	1,128	1,160	(7,624)	678	-	-
Boman (Beijing) Cultural Development Co. Ltd	122	-	31	-	-	-
Bug Music Ltd	(516)	(198)	-	(2,780)	-	-
Cavalcade Records Ltd	-	1	-	(6)	-	-
Chrysalis Copyrights Ltd	239	181	(1,006)	(3,016)	-	-
Chrysalis Group Ltd	(1,098)	(425)	-	(106)	-	(75,490)
Chrysalis Holdings Ltd	(76)	-	-	-	-	-
Chrysalis Music Ltd	(8,570)	(6,307)	10,345	2,665	9,608	818
Chrysalis Music Publishing Ltd	(2)	138	-	(392)	-	-
Chrysalis Songs Ltd	-	131	-	(578)	-	87
Creole Records Ltd	-	-	(37)	(37)	-	-
Francis Dreyfus Music SARL	-	(1)	(1)	(1)	-	-
Hewrate Ltd	210	-	(582)	-	-	-
IbmediaONE GmbH	(3)	-	-	-	-	-
Infectious Music Ltd	437	592	(208)	1,990	-	-
Kyboside Ltd	53	108	-	(17)	-	-
Loaded Records Ltd	141	189	(889)	(502)	-	-
Men From The North Ltd	-	-	(8)	(8)	-	-
Minder Music Ltd	43	64	(179)	(175)	-	-
Musicrodirector B.V.	-	(2)	-	-	-	-
Mute Records Ltd	795	1,316	(884)	(1,998)	-	-
Ram Records Ltd	223	-	429	-	-	-
Redpoint Music Ltd	-	-	-	(8)	-	-
Rock Music Company Ltd	53	-	1	-	-	-
RTL Group (Support Services) Ltd	(114)	(51)	(78)	-	-	-
Sanctuary Records Group Ltd	1,786	3,281	(7,465)	(7,998)	-	-
Stage Three Music (Catalogues) Ltd	634	1,913	(3,303)	(4,108)	24,365	23,930
Stage Three Music Publishing Ltd	(533)	224	294	(822)	10,762	9,199
The Echo Label Ltd	60	239	564	(947)	6,928	(2)
The Random House Group Ltd	(50)	-	(50)	(7)	-	-
Trojan Recordings Ltd	-	-	(10)	(10)	-	-
Union Square Music Ltd	961	1,109	4,444	4,150	(718)	-
Union Square Music Copyrights Ltd	3	-	5	(65)	-	-
Union Square Music Copyrights Nazareth Ltd	43	-	-	(12)	-	-
Union Square Music Holdings Ltd	(2)	-	(1)	(1)	(820)	-
Union Square Music Publishing Ltd	(26)	48	(180)	(21)	(14)	-
Union Square Music Songs Ltd	(167)	75	(214)	(25)	-	-
Windswept UK Ltd	(298)	(24)	28,692	(512)	-	-
	<u>(1,338)</u>	<u>5,238</u>	<u>(421,906)</u>	<u>(382,798)</u>	<u>50,111</u>	<u>(41,458)</u>

## BMG Rights Management (UK) Limited

### Notes to the financial statements (continued)

#### Year ended 31 December 2016

#### 21. Notes to the statement of cash flow

##### Cash flows from operating activities

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit/(loss) before taxation	84,679	(83,937)
Adjustment for:		
Amortisation of intangible assets	7,302	5,433
Impairment of investments	122,638	104,850
Depreciation	340	332
Dividend income	(209,062)	(30,384)
Loss on disposal of property, plant and equipment	-	158
Gain on disposal of intangibles	(993)	-
Gain on disposal of investments	(190)	-
Finance income	(1,259)	(1,163)
Finance expenses	8,833	6,944
Other non-cash movements	1,271	(12,358)
Operating profit/(loss) before movements in working capital	13,559	(10,125)
Increase in trade and other receivables	(79,247)	(14,002)
Increase in trade and other payables	89,950	87,526
Cash generated from operations	10,703	73,524
Tax paid	(755)	-
Net cash generated from operating activities	23,507	63,399

#### 22. Ultimate parent company and controlling party

The immediate parent company is Bertelsmann UK Limited, a company incorporated in the United Kingdom. The ultimate parent company is Bertelsmann SE & Co. KGaA. The results of the Company are included in the consolidated financial statements of Bertelsmann SE & Co. KGaA which is registered at Carl-Bertelsmann-Strasse 270, 33311 Gütersloh, Germany. These consolidated financial statements are publicly available.

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