

**Company Registration No. 06705101**

**BMG Rights Management (UK) Limited**

**Reports and Financial Statements**

**31 December 2019**

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

## **Reports and Financial Statements 2019**

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

## **Reports and Financial Statements 2019**

### **Officers and professional advisers**

#### **Directors**

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

#### **Registered Office**

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

#### **Independent Auditors**

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

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

## **Strategic report**

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

### **Business review**

The Company 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.

The Company 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**

The Company 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.

The Company acts as a sub-publishing hub for all of the BMG affiliates worldwide. It therefore collects revenues on behalf of these companies and redistributes it on a quarterly basis.

### **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 profit, Earnings Before Interest and Taxes; ("EBIT") and EBITDA (as adjusted for depreciation and amortisation). The Company is financed through intercompany funding from its group parent companies and through equity. The Company continues to perform in line with expectations.

### **Business performance**

As shown in the Company's Statement of comprehensive income on page 11, the Company reported revenues of £171,862,000 (2018: £161,640,000) and gross profit of £44,675,000 (2018: £42,019,000). Royalties on copyrights are typically received with a six to twelve months lag between distributions and collections by intermediating collection societies. Therefore, the Company's 2017 and 2018 investments in signings have contributed towards the organic growth seen in 2019 revenue and gross profit. Contracts entered into in 2019 will contribute towards 2020 income. Throughout 2019 the Company continued to invest in music rights. The Company has a strong roster of internationally successful songwriters and artists and therefore there remains a healthy mix of income from all traditional sources.

Profit from operations was £9,636,000 (2018: £12,892,000). The decrease in profits was due to higher administrative costs during the year as a result of asset consolidation and subsequent group company liquidations.

Profit before taxation was £12,579,000 (2018: £26,490,000) and includes impairment of investments driven by legal entity restructuring (Note 9). As part of the group wide restructuring exercise, the Company received dividends from its subsidiaries to the value of £207,354,000 (2018: £166,677,000).

The Company reported EBITDA of £35,039,000 (2018: £50,297,000). Excluding one-off items such as profit on sale of intangibles, EBITDA was £30,833,000 (2018: £49,370,000).

The Company's net assets as at 31 December 2019 were £91,083,000 (2018: £79,649,000).

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

## **Strategic report (continued)**

### **Principal risks and uncertainties**

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

### **Market risks**

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

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. BMG Rights Management (UK) Limited is part of a broader group of rights administration companies which are actively building a global business as a strategy to diversify this risk.

#### ***Impact of exiting the European Union***

As a result of the UK European Union membership referendum, any macro uncertainty may have a knock on impact to the overall health of the UK consumer market. Furthermore, there could be broader changes in regulation or legislation within the markets in which the Company operates. The likelihood or extent of any impact is currently unknown; the Company continues to monitor and evaluate potential areas of 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 Company.

#### ***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. Also, future copyright royalty rate arbitration and other industry wide regulations can change the relationships between record labels, artists and music publishers/writers. Such changes in regulations could materially and adversely affect the Company. Copyright royalties are either collected or controlled by third parties, such as collection societies, ceding control over royalty collections to such entities. This diminishes control and might result in lower revenues if collection fees were revised upwards or collection scope was narrowed, thus affecting the Company. The Company is highly dependent upon copyright ownership, a subject which has encountered increased litigation in recent years. If the Company is alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management of the Company, regardless of the merits of the claim. If the Company were to lose a litigation relating to intellectual property, it could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect the Company.

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

## **Strategic report (continued)**

### **Financial risks**

#### ***Exchange rate fluctuation risk***

The Company transacts and accounts in underlying currencies, principally GBP, USD and EUR, which are converted into the Company's reporting currency of GBP, creating an underlying 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 provided by Bertelsmann SE & Co. KGaA and its affiliates which bear interest at short-term Bank of England base rate plus a margin. The Company is therefore exposed to fluctuations in interest rates. These exposures are not hedged.

### **Business risks**

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

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

The Company'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 the Company or decisions of existing clients to remain with the Company are complex and involve considerations of many factors. As such it is uncertain how many new clients the Company will sign and what proportion of existing clients will extend their agreements. Equally, the Company 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. The Company relies on a number of third party business partners and shareholders' affiliates to operate successfully. These include sub-publishers, who support the Company in international rights management and licence income collections. The Company is also supported through licensing and commercial distribution arrangements with partners for a portion of its Recorded Music business.

Additionally, the Company 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



David D'Urbano

Director  
11 March 2020

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

## **Directors' report**

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

### **Principal activities**

The Company combines music publishing and recordings business, with a focus on service to artists and writers. The principal business of the Company during the year ended 31 December 2019 was the generation, 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, the Company retains a share of revenues generated from the use of the recording.

### **Outlook**

The Company continued to show strong growth in revenues and operating EBIT in fiscal year 2019. 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.

### **Financial instruments**

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

### **Going concern**

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

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

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

### **Directors**

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

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

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

## **Directors' report (continued)**

### **Dividends**

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

### **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 (2018: £nil). The Company made charitable contributions of £nil during the year (2018: £2,000).

### **Independent Auditors**

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

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



David D'Urbano  
Director

11 March 2020



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

## **Statement of directors' responsibilities in respect of the financial statements**

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

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

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

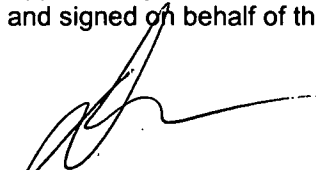
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### **Directors' confirmations**

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

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

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



David D'Urbano  
Director

11 March 2020

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

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

### **Report on the audit of the financial statements**

#### **Opinion**

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

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

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

#### **Basis for opinion**

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

#### *Independence*

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

#### **Conclusions relating to going concern**

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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

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

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

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

#### *Strategic report and Directors' report*

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

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

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

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

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

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

#### *Use of this report*

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

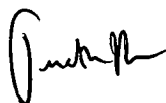
#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



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

11 March 2020

# BMG Rights Management (UK) Limited

## Statement of comprehensive income for the year ended 31 December 2019

		Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Continuing operations</b>	<b>Note</b>		
Revenue	2	171,862	161,640
Cost of sales		(127,187)	(119,621)
<b>Gross profit</b>		<b>44,675</b>	<b>42,019</b>
Administrative expenses		(35,039)	(29,127)
<b>Profit from operations</b>	<b>3</b>	<b>9,636</b>	<b>12,892</b>
Finance income	5	193	388
Dividend income		207,354	166,677
Other income		1,667	1,922
Gain on disposal of intangible assets		4,206	927
Finance cost	6	(8,598)	(10,055)
Impairment of investments	9	(201,879)	(146,261)
<b>Profit before taxation</b>		<b>12,579</b>	<b>26,490</b>
Taxation	7	(1,145)	(197)
<b>Profit and total comprehensive income for the year</b>		<b>11,434</b>	<b>26,293</b>

The accompanying notes on pages 15 to 39 are an integral part of this Statement of comprehensive income.  
All results relate to continuing operations.

# BMG Rights Management (UK) Limited

## Statement of financial position as at 31 December 2019

	Note	2019 £'000	Restated 2018 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	270,555	319,644
Investments in subsidiaries	9	107,887	181,244
Long-term loans	14	-	74
Deferred tax asset	7	1,448	675
<b>Total non-current assets</b>		<u>379,890</u>	<u>501,637</u>
<b>Current assets</b>			
Trade and other receivables	10	149,217	169,812
Cash and cash equivalents	11	290	7,028
<b>Total current assets</b>		<u>149,507</u>	<u>176,840</u>
<b>Total assets</b>		<u>529,397</u>	<u>678,477</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other non-current payables	13	(16,430)	(15,915)
Long-term loans	14	-	(3,982)
<b>Total non-current liabilities</b>		<u>(16,430)</u>	<u>(19,897)</u>
<b>Current liabilities</b>			
Trade and other payables	12	(421,884)	(578,931)
<b>Total current liabilities</b>		<u>(421,884)</u>	<u>(578,931)</u>
<b>Net assets</b>		<u>91,083</u>	<u>79,649</u>
<b>Equity</b>			
Share capital	16	-	-
Retained earnings		91,083	79,649
<b>Total equity</b>		<u>91,083</u>	<u>79,649</u>

The accompanying notes on pages 15 to 39 are an integral part of this Statement of financial position.

The financial statements, on pages 11 to 39, of BMG Rights Management (UK) Limited, registered number 06705101, were approved by the Board of Directors on 11 March 2020.

Signed on behalf of the Board of Directors



David D'Urbano  
Director

## BMG Rights Management (UK) Limited

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

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2018	-	-	53,356	<b>53,356</b>
Profit and total comprehensive income for the year	-	-	26,293	<b>26,293</b>
As at 31 December 2018	-	-	79,649	<b>79,649</b>
Profit and total comprehensive income for the year	-	-	11,434	<b>11,434</b>
As at 31 December 2019	-	-	91,083	<b>91,083</b>

The accompanying notes on pages 15 to 39 are an integral part of this Statement of changes in equity.

# BMG Rights Management (UK) Limited

## Statement of cash flows for the year ended 31 December 2019

		Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
	Note		
<b>Net cash used in operating activities</b>	19	(112,374)	(14,847)
<b>Cash flows from investing activities</b>			
Acquisition of investments		(128,522)	(29,744)
Acquisition of intangible assets		(71,502)	(113,273)
Acquisition of fixed assets		-	(199)
Proceeds from disposal of intangible assets		110,742	1,477
Proceeds from disposal of fixed assets		-	1,035
Dividend income		207,354	164,177
<b>Net cash generated from investing activities</b>		118,072	23,473
<b>Cash flows from financing activities</b>			
Movement in loans from group companies		74	7,872
Movement in loans to group companies		(3,982)	-
Interest paid		(8,598)	(10,055)
Interest received		193	388
<b>Net cash used in financing activities</b>		(12,313)	(1,795)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(6,615)	6,831
Cash and cash equivalents at the beginning of the year		6,905	74
<b>Cash and cash equivalents at end of the year</b>		290	6,905

The accompanying notes on pages 15 to 39 are an integral part of this Statement of cash flows.



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

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

**Year ended 31 December 2019**

### **1. Accounting policies**

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

The financial statements have been restated for the year ended 31 December 2018 to reclassify the deferred tax asset from current assets to non-current assets.

At 31 December 2018, this resulted in an increase in non-current assets of £675,000 and a reduction in current assets of £675,000.

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 that are publicly available (refer to Note 20).

#### **Basis of preparation**

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

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

The preparation of financial statements in conformity with IFRS 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 years if the revision affects both current and future years.

#### **Measurement convention**

The financial statements are prepared on the historical cost basis except financial instruments classified as fair value through the profit or loss. Non-current assets 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 and Strategic report on pages 2 to 6. The directors have considered the financial resources available along with the future plans for the Company, and the support provided by the ultimate parent company Bertelsmann SE & Co. KGaA, through a letter of support for a period of at least 12 months from signing the financial statements, when considering the going concern of the Company. After making enquiries, the directors have a reasonable expectation that the Company will have access to adequate resources from its parent company to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

## **Notes to the financial statements** **Year ended 31 December 2019**

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

#### **Foreign currency**

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

#### **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
Development expenditure	1.5 years

Development expenditure is expenditure incurred in creating new product lines for sale.

#### **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.

#### **Investments in subsidiaries**

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's Statement of financial position. 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.

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.

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

## **Notes to the financial statements** **Year ended 31 December 2019**

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

#### **Impairment excluding inventories and deferred tax assets (continued)**

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in 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.

#### **Reversal of impairment**

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

An impairment loss in respect of goodwill is not reversed.

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Cash and cash equivalents**

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

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

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

#### **Trade and other receivables**

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

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

## **Notes to the financial statements** **Year ended 31 December 2019**

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

#### **Investments and other financial assets**

The Company measures its financial assets at amortised cost. The Company's financial assets consist of trade receivables and long-term loans receivable.

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

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

#### *Impairment*

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

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

#### **Trade and other payables**

Trade and other payables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility bears interest at a margin of 1.25% above the Bank of England base rate. Trade and other payables at the Statement of financial position date are stated at amortised costs which approximates to cost less impairment.

#### **Revenue**

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and value added tax.

Revenue from royalty licensing is recognised in accordance with IFRS 15: According to IFRS 15 revenue from royalties shall be recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably and it is highly probable the revenue will not be reversed. 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.

#### **Royalties**

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

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

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.

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

## **Notes to the financial statements** **Year ended 31 December 2019**

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

#### **Employee benefits**

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

#### **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 for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

#### **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.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

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

Writer advances provisions were made during the year based on a recoupment profile calculation used by the Company and across other affiliated companies.

#### New standards, amendments and interpretations

##### *IFRS 16 Leases*

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

IFRS 16 Leases provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 Leases substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Company does not have significant leasing activities as a lessee or lessor.

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

### 2. Revenue

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
United Kingdom	66,267	87,428
North America	44,128	32,198
Europe	43,340	24,822
Other	18,127	17,192
	<u>171,862</u>	<u>161,640</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 Year ended 31 December 2019

### 3. Profit from operations

Profit from operations is stated after charging/(crediting):

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Amortisation of intangible assets	14,055	13,861
Auditors' remuneration		
- in respect of the Company	-	90
- in respect of affiliates	-	58
Depreciation	-	279
Net foreign exchange loss/(gain)	537	(250)
Management fees	19,051	4,118
Change in provisions	1,316	294
Operating lease rentals		
- land and buildings	-	937
- plant and machinery	-	21

The audit fee of £114,000 (2018: £90,000) was borne by BMG Rights Management Services (UK) Limited.

### 4. Employee costs and directors' remuneration

The number of staff employed by the Company is nil (2018: 50), therefore no costs were incurred in the year (2018: £2,704,000). The directors did not receive emoluments in respect of their services to the Company (2018: £670,000). Their emoluments were borne by affiliate company BMG Rights Management Services (UK) Limited. Costs were recharged to the Company as part of management fees.

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

#### Average number of employees

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Management	-	5
Administration	-	45
	-	50

The Company transferred employee contracts to BMG Rights Management Services (UK) Limited in April 2018. Following the transfer, the number of persons employed by the Company was nil.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

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

The aggregate payroll costs of these persons were as follows:

		Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
	Note		
Wages and salaries		-	2,234
Social security costs		-	310
Other pension costs	15	-	160
		<u>-</u>	<u>2,704</u>

#### Remuneration of directors

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Emoluments (excluding pension contributions)	-	540
Social security costs	-	115
Pension costs	-	15
	<u>-</u>	<u>670</u>

#### Highest paid director

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Emoluments (excluding pension contributions)	-	218
Social security costs	-	48
Pension costs	-	5
	<u>-</u>	<u>271</u>



# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 5. Finance income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest receivable on intercompany balances	193	388

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

### 6. Finance cost

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest payable on intercompany balances		(8,290)	(9,741)
Discount on deferred consideration	13	(255)	(313)
Interest payable to third parties		(53)	(1)
		<u>(8,598)</u>	<u>(10,055)</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.

### 7. Taxation

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Current taxation</b>		
UK corporation tax – current year	(2,378)	(720)
UK corporation tax – prior year	460	149
Foreign tax charge	(1,595)	(1,217)
Double tax relief	1,595	969
<b>Deferred taxation</b>		
Deferred taxation – current year	866	617
Deferred taxation – prior year	(93)	5
<b>Total tax charge</b>	<u>(1,145)</u>	<u>(197)</u>

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 7. Taxation (continued)

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

#### Tax reconciliation

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit before taxation	12,579	26,490
Tax at 19% (2018: 19%)	(2,390)	(5,033)
Effects of:		
UK corporation tax – prior year	460	149
Dividends from wholly owned UK subsidiaries	39,397	31,669
Foreign tax	-	(249)
Profit on disposal of intangible assets in group company	-	39
Non-deductible impairment of investments	(38,357)	(27,790)
Non-deductible expenses	(1,392)	(780)
Rate difference	29	130
Losses not recognised now utilised	10	1,723
Recognition of deferred tax asset on transfer of music rights	561	-
Initial recognition of deferred tax asset on transfer of losses	549	-
Deferred tax – prior year	(93)	5
Recognition of tax from subsidiaries made dormant	80	(60)
Total tax (charge)/credit	(1,145)	(197)

At 31 December 2019 a deferred tax asset has been recognised for the tax base in relation to temporary differences to the extent that the future benefit is expected to be utilised by the company or surrendered to other UK group companies.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 7. Taxation (continued)

#### Deferred tax assets

	Other £'000	Losses £'000	Total £'000
At 1 January 2018	-	-	-
Prior year adjustment	(36)	31	(5)
Transferred from group companies	51	(104)	(53)
Movement	(140)	(477)	(617)
At 31 December 2018	(125)	(550)	(675)
Prior year adjustment	(1)	94	93
Movement	(493)	(373)	(866)
At 31 December 2019	(619)	(829)	(1,448)

Below is an analysis of the expected future recoverability of the deferred tax asset:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Deferred tax asset</b>		
Utilised within twelve months	247	189
Utilised greater than twelve months	1,201	486
	<u>1,448</u>	<u>675</u>

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 8. Intangible assets

	Music catalogues £'000	Development expenditure £'000	Total £'000
<b>Cost</b>			
At 1 January 2018	254,506	-	254,506
Additions	112,141	-	112,141
Disposals	(892)	-	(892)
At 31 December 2018	365,755	-	365,755
Additions	71,095	407	71,502
Disposals	(132,275)	-	(132,275)
Reclassification	(644)	644	-
At 31 December 2019	303,931	1,051	304,982
<b>Accumulated amortisation</b>			
At 1 January 2018	32,593	-	32,593
Charge for the year	13,861	-	13,861
Disposals	(343)	-	(343)
At 31 December 2018	46,111	-	46,111
Charge for the year	13,835	220	14,055
Disposals	(25,739)	-	(25,739)
Reclassification	(463)	463	-
At 31 December 2019	33,744	683	34,427
<b>Net book amount</b>			
At 31 December 2019	270,187	368	270,555
At 31 December 2018	319,644	-	319,644
At 31 December 2017	221,913	-	221,913

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

During the year, the following transactions in intangible assets took place with related parties:

- On 31 January 2019, the Company acquired publishing catalogue from BMG VM Music Limited at fair value of £28,935,000.
- On 27 February 2019, the Company acquired publishing catalogue from Stage Three Music (Publishing) Limited at fair value of £3,648,000.
- On 27 February 2019, the Company acquired UK publishing catalogue and UK recorded catalogues from Stage Three Music (Catalogues) Limited at fair value of £21,533,000.
- On 22 March 2019, the Company acquired publishing catalogue from World Circuit Limited at fair value of £1,040,000.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 8. Intangible assets (continued)

- During March 2019, the Company sold its US publishing catalogues to BMG Rights Management (US) LLC at fair value of £110,742,000.

### 9. Investments in subsidiaries

The movement in the year was as follows:

	2019 £'000	2018 £'000
<b>Cost</b>		
At 1 January	335,935	335,052
Acquisitions	128,522	31,512
Disposals	(44,882)	(30,629)
At 31 December	419,575	335,935
<b>Amounts provided</b>		
At 1 January	(154,691)	(39,059)
Disposals	44,882	30,629
Charge in year	(201,879)	(146,261)
At 31 December	(311,688)	(154,691)
<b>Net book amount at the end of the year</b>	107,887	181,244
<b>Net book amount at the beginning of the year</b>	181,244	295,993

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 following companies from related parties:

- On 31 January 2019, the Company acquired 100% of the share capital of BMG VM Music Limited from Stage Three Music (Catalogues) Limited. The music rights were immediately acquired by the Company at fair value of £31,939,000 and on 31 January 2019 the company was made dormant. The value of the investment was fully impaired.
- On 28 February 2019, the Company acquired 100% of the share capital of Stage Three Music (Catalogues) Limited from Stage Three Music (Publishing) Limited. The music rights were immediately acquired by the Company at fair value of £76,075,000 and on 18 December 2019 the company was made dormant. The value of the investment was fully impaired.
- On 28 March 2019, the Company acquired 100% of the share capital of Mute Records Limited from The Echo Label Limited at fair value of £19,757,000. The investment in The Echo Label Limited was impaired by the net asset value of Mute Records Limited.

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

- On 11 March 2019, the Company subscribed for one Ordinary share of £1 in Ram Records Limited for £750,000.
- On 31 September 2019, USM Copyrights Ltd was made dormant.
- On 31 December 2019, the value of investment in Stage Three Music (Publishing) Limited was fully impaired and the company was made dormant.
- On 31 December 2019, Deep East Music Ltd was made dormant.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 9. Investments in subsidiaries (continued)

During the year, the following companies were dissolved:

- On 8 January 2019, Union Square Music Publishing Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.
- On 8 January 2019, Villeston Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.
- On 25 June 2019, Hewrate Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.
- On 2 July 2019, Touch Tones Music Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.
- On 9 July 2019, Cherry Westfield Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.
- On 31 December 2019, Hornall Brothers Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.
- On 31 December 2019, Plangent Visions Limited, in which the Company held 100% of the share capital, was dissolved. As a result, the investment was fully impaired.

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
BMG Production Music (UK) Ltd	United Kingdom	Production Music	100%	Direct
BMG Rights Management Services (UK) Ltd	United Kingdom	Service company	100%	Direct
BMG VM Music Ltd	United Kingdom	Music publishing*	100%	Direct
Cavalcade Records Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Copyrights Ltd	United Kingdom	Recorded Music*	100%	Direct
Chrysalis Holdings Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Music Ltd	United Kingdom	Dormant	100%	Direct
Deep East Music Ltd	United Kingdom	Production Music*	100%	Direct
G W Mills Ltd	United Kingdom	Dormant	100%	Direct
Infectious Music Ltd	United Kingdom	Recorded Music	100%	Direct
Loaded Records Ltd	United Kingdom	Recorded Music	100%	Direct
Minder Music Ltd	United Kingdom	Dormant	100%	Direct
Mute Records Ltd	United Kingdom	Recorded Music	100%	Direct
Ram Records Ltd	United Kingdom	Recorded Music	100%	Direct
Rock Music Company Ltd	United Kingdom	Dormant	100%	Direct
Sanctuary Records Group Ltd	United Kingdom	Recorded Music	100%	Direct

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 9. Investments in subsidiaries (continued)

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %	Direct or indirect investment
Skint Records Ltd	United Kingdom	Dormant	100%	Direct
Stage Three Music (Catalogues) Ltd	United Kingdom	Music publishing*	100%	Direct
Stage Three Music (Publishing) Ltd	United Kingdom	Music publishing*	100%	Direct
The Echo Label Ltd	United Kingdom	Recorded Music	100%	Direct
Tom Jones (Enterprises) Ltd	United Kingdom	Dormant	99%	Direct
Union Square Music Ltd	United Kingdom	Recorded Music	100%	Direct
USM Copyrights Ltd	United Kingdom	Dormant	100%	Direct
USM Copyrights Nazareth Ltd	United Kingdom	Dormant	100%	Direct
World Circuit Ltd	United Kingdom	Recorded Music	100%	Direct
Air Records Ltd	United Kingdom	Dormant	100%	Indirect
Creole Records Ltd	United Kingdom	Dormant	100%	Indirect
Men From The North Ltd	United Kingdom	Dormant	100%	Indirect
Oxford Street Studios Ltd	United Kingdom	Dormant	100%	Indirect
Sanctuary Copyrights Ltd	United Kingdom	Dormant	100%	Indirect
Trojan Recordings Ltd	United Kingdom	Dormant	100%	Indirect

\* This company was made dormant during the year. The company's principal activity pre-dormancy has been shown in the table above.

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

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 10. Trade and other receivables

	2019 £'000	Restated 2018 £'000
Trade receivables	5,309	11,711
Other receivables	131,886	120,949
Trade and other receivables from group companies	6,299	29,001
Group relief trade receivables	975	1,059
Prepayments and accrued income	4,748	7,092
	<u>149,217</u>	<u>169,812</u>

### 11. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank	<u>290</u>	<u>7,028</u>

### 12. Trade and other payables

	2019 £'000	2018 £'000
<b>Due within one year</b>		
Trade payables	56,601	53,073
Trade and other payables to group companies	356,758	515,661
Group relief trade payables	2,181	1,067
Bank overdraft	-	123
Other payables	6,344	9,007
	<u>421,884</u>	<u>578,931</u>

Trade and other payables to group companies include the group cash pooling facility balance of £342,822,000 (2018: £474,482,000) with the parent company and other related parties. The cash pooling facility is unsecured and interest-bearing at the Bank of England rate plus a margin of 1.25%.

### 13. Other non-current payables

	2019 £'000	2018 £'000
<b>Non-current payables:</b>		
Deferred consideration	<u>16,430</u>	<u>15,915</u>

Non-current payables represent other amounts due after one year. As at 31 December 2019 non-current payables include future liabilities of £222,000 which are due after 5 years (2018: £331,000). Finance expense on non-current payables recognised in the financial statements was £255,000 (2018: £45,000).



# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 14. Long-term loans

	2019 £'000	2018 £'000
Loans from group companies	-	(3,982)
Loans to group companies	-	74
	<u>-</u>	<u>(3,908)</u>

Long term loans are interest-bearing at the Bank of England rate less 0.25%. They have no fixed repayment terms.

### 15. Employee benefits

The Company operated a defined contribution pension scheme. On 1 April 2018 administration of the pension scheme was transferred to BMG Rights Management Services (UK) Limited. The pension costs charge for the year was therefore £nil (2018: £160,000).

As at 31 December 2019 there were no outstanding monies payable to the fund (2018: £nil).

### 16. Share capital

	2019 £'000	2018 £'000
<b>Authorised, issued and fully paid:</b>		
5 (2018: 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.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 17. Financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the 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.

The fair values of non-current payables is shown below:

2019			2018		
Gross non-current payable £'000	Effect of discounting £'000	Net non-current payable £'000	Gross non-current payable £'000	Effect of discounting £'000	Net non-current payable £'000
16,599	(169)	16,430	16,263	(348)	15,915

##### *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 Year ended 31 December 2019

### 17. Financial instruments (continued)

#### (a) Fair values of 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:

	2019		2018	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	5,309	5,309	11,711	11,711
Other receivables	131,886	131,886	120,949	120,949
Loans to group companies	-	-	74	74
Trade and other receivables from group companies	6,299	6,299	29,001	29,001
Group relief receivable	975	975	1,059	1,059
Trade payables	(56,601)	(56,601)	(53,073)	(53,073)
Trade and other payables to group companies	(356,758)	(356,758)	(515,661)	(515,661)
Loans from group companies	-	-	(3,982)	(3,982)
Other non-current payables	(16,430)	(16,430)	(15,915)	(15,915)
Other payables	(6,344)	(6,344)	(9,007)	(9,007)
Group relief payable	(2,181)	(2,181)	(1,067)	(1,067)
	<u>(293,845)</u>	<u>(293,845)</u>	<u>(435,911)</u>	<u>(435,911)</u>
<b>Unrecognised gains/losses</b>		<u>-</u>		<u>-</u>

#### (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.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 17. Financial instruments (continued)

#### (b) Credit risk (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 £136,895,000 (2018: £132,660,000) being the total of the carrying amount of trade and other receivables, shown in the Fair values of financial instruments table.

##### *Financial assets and impairment losses*

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

	<b>Gross trade receivables £'000</b>	<b>2019 Doubtful debt provision £'000</b>	<b>Net trade receivables £'000</b>	<b>Gross trade receivables £'000</b>	<b>2018 Doubtful debt provision £'000</b>	<b>Net trade receivables £'000</b>
Not past due	5,392	(83)	5,309	11,856	(145)	11,711

##### *Impairment of financial assets*

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

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

##### *Trade receivables and contract assets*

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

#### (c) Liquidity risk

##### *Financial risk management*

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

Liquidity is managed by the group via the cash pooling facility.

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 17. Financial instruments (continued)

#### **(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*

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

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

The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the Bank of England base rate plus a margin of 1.25%. The Company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the Bank of England base rate.

##### *Sensitivity analysis – interest rate risk*

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

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

At the year-end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would decrease the Company's profit before taxation by approximately £3,428,000 (2018: £4,784,000).

#### **(e) Capital risk management**

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

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 18. 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.

Please note that companies with "Limited" in their names has been abbreviated to "Ltd".

	Sales / (purchases) of goods		Trade balances receivable / (payable)		Loan balances receivable / (payable)	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
8ball Music B.V.	(17)	(10)	(1)	-	-	-
Arvato Systems GmbH	-	(41)	-	-	-	-
Arvato systems S4M GmbH	-	(12)	-	-	-	-
Bertelsmann Corporate Services Ltd	-	(82)	-	-	-	-
Bertelsmann SE & Co. KGaA	-	(72)	-	(14)	-	-
Bertelsmann UK Ltd	(8,170)	(9,569)	(347,278)	(486,224)	-	-
BMG (Beijing) Music & Culture Co. Ltd	1,035	6,141	1,881	936	-	-
BMG Production Music (UK) Ltd	(598)	488	149	134	-	-
BMG Production Music Inc	154	-	(2)	-	-	-
BMG Rights Management (Australia) Pty Ltd	1,999	1,280	(69)	(71)	-	-
BMG Rights Management (Benelux) B.V	2,803	1,102	(57)	(22)	-	-
BMG Rights Management (Canada) Inc.	1,645	1,613	-	231	-	-
BMG Rights Management (Distribution) GmbH	-	6,780	-	-	-	-
BMG Rights Management (Europe) GmbH	7,994	-	-	-	-	-
BMG Rights Management (France) SARL	2,701	3,149	(104)	(293)	-	-
BMG Rights Management (Hong Kong) Ltd	(1,509)	(30)	(105)	(39)	-	-
BMG Rights Management (Italy) S.R.L	1,567	1,379	(93)	(82)	-	-
BMG Rights Management (Scandinavia) AB	455	423	(180)	(19)	-	-

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 18. Related parties (continued)

#### Related party transactions (continued)

	Sales / (purchases) of goods		Trade balances receivable / (payable)		Loan balances receivable / (payable)	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
BMG Rights Management (US) LLC	2,571	(5,453)	(988)	(1,218)	-	-
BMG Rights Management and Administration (Spain) S.L	1,152	1,090	(30)	(10)	-	-
BMG Rights Management Brasil Ltda	1,409	655	(56)	-	-	-
BMG Rights Management GmbH	(6,995)	(9,065)	(1,702)	(1,989)	-	-
BMG Rights Management Services (UK) Ltd	(15,270)	(6,293)	(140)	(175)	-	-
BMG VM Music Ltd	-	272	-	2,230	-	(3,945)
Boman (Beijing) Cultural Development Co. Ltd	3,997	169	(23)	172	-	-
Cherry Westfield Ltd	-	213	-	-	-	-
Chrysalis Copyrights Ltd	-	51	-	-	-	-
Chrysalis Music Ltd	-	(1,355)	-	-	-	-
Countdown Media GmbH	(124)	(156)	(281)	(157)	-	-
Creole Records Ltd	-	-	(37)	(37)	-	-
Deep East Music Ltd	-	55	-	170	-	-
Francis Dreyfus Music SARL	(416)	(340)	(31)	(71)	-	-
FremantleMedia Ltd	(501)	(233)	-	-	-	-
Hewrate Ltd	-	175	-	-	-	-
Hornall Brothers Music Ltd	-	(271)	-	-	-	-
Infectious Music Ltd	(399)	218	8	(108)	-	-

# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 18. Related parties (continued)

#### Related party transactions (continued)

	Sales / (purchases) of goods		Trade balances receivable / (payable)		Loan balances receivable / (payable)	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loaded Records Ltd	(718)	(434)	(2,014)	(1,824)	-	-
Men From The North Ltd	-	-	(8)	(8)	-	-
Mute Records Ltd	(2,239)	(1,923)	(1,293)	(1,754)	-	-
Ram Records Ltd	(43)	87	(361)	422	-	-
Rise Records Inc	-	(4,897)	(130)	(106)	-	-
Sanctuary Records Group Ltd	(7,763)	(8,660)	(1,826)	(2,329)	-	-
Sonopress GmbH	(502)	(587)	(12)	(10)	-	-
Stage Three Music (Catalogues) Ltd	57	900	-	(5,212)	-	-
Stage Three Music (Publishing) Ltd	(1)	(60)	-	(2,993)	-	35
The Echo Label Ltd	(878)	(198)	(450)	10,681	-	39
This is Hit Inc	(20)	6	53	15	-	-
Trojan Recordings Ltd	-	-	(10)	(10)	-	-
Union Square Music Ltd	(2,658)	(1,848)	7,544	5,543	-	(37)
Union Square Music Copyrights Ltd	-	48	-	-	-	-
Villeston Ltd	-	107	-	-	-	-
World Circuit Ltd	(312)	27	(2,813)	(2,427)	-	-
	<u>(19,594)</u>	<u>(25,161)</u>	<u>(350,459)</u>	<u>(486,668)</u>	<u>-</u>	<u>(3,908)</u>



# BMG Rights Management (UK) Limited

## Notes to the financial statements Year ended 31 December 2019

### 19. Net cash used in operating activities

#### Cash flows from operating activities

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit before taxation	12,579	26,490
Adjustment for:		
Amortisation of intangible assets	14,055	13,861
Impairment of investments	201,879	146,261
Depreciation	-	279
Dividend income	(207,354)	(166,677)
Gain on disposal of intangible assets	(4,206)	(927)
Finance income	(193)	(388)
Finance cost	8,598	10,055
Change in provisions	1,316	294
Operating profit before movements in working capital	26,674	29,248
Increase in trade and other receivables	(4,760)	(22,004)
Decrease in trade and other payables	(133,582)	(20,358)
Cash used in operations	(138,342)	(42,362)
Tax paid	(706)	(1,733)
<b>Net cash used in operating activities</b>	<b>(112,374)</b>	<b>(14,847)</b>

### 20. 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.