

Company Registration No. 06705101

BMG Rights Management (UK) Limited

Reports and Financial Statements

31 December 2020



BMG Rights Management (UK) Limited

Reports and Financial Statements 2020

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	6
Statement of directors' responsibilities in respect of the financial statements	8
Independent auditor's report	9
Statement of comprehensive income	144
Statement of financial position	155
Statement of changes in equity	166
Statement of cash flows	177
Notes to the financial statements	188

BMG Rights Management (UK) Limited

Reports and Financial Statements 2020

Officers and professional advisers

Directors

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

Registered Office

8th Floor
5 Merchant Square
London
United Kingdom
W2 1AS

Independent Auditors

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

BMG Rights Management (UK) Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2020 for BMG Rights Management (UK) Limited (the "Company" or "BMG").

Section 172 reporting

Directors of a company must act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a) The likely consequences of any decision in the long term;
- b) The interests of the Company's employees;
- c) The need to foster the Company's business relationships with suppliers, customers and others;
- d) The impact of the Company's operations on the community and the environment;
- e) The desirability of the Company maintaining a reputation for high standards of business conduct; and
- f) The need to act fairly as between members of the Company.

When making decisions and setting the strategy for the Company, the directors engage with management to ensure that due consideration has been given to the impacts on key stakeholders including shareholders, employees, suppliers, customers, the community, and the environment to ensure that the company maintains a high level of ethical business practice.

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). EBITDA is calculated by adjusting profit before tax for the following items: amortisation, depreciation, finance costs, and finance income. The Company is financed through intercompany funding from its group parent companies and through equity. The Company continues to perform in line with expectations.

BMG Rights Management (UK) Limited

Strategic report (continued)

Business performance

As shown in the Company's Statement of comprehensive income on page 14, the Company reported revenues of £183,970,000 (2019: £171,862,000) and gross profit of £45,574,000 (2019: £44,675,000). 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 2018 and 2019 investments in signings have contributed towards the organic growth seen in 2020 revenue and gross profit. Contracts entered into in 2020 will contribute towards 2021 income. Throughout 2020 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 of £10,066,000 (2019: £9,636,000) was due to underlying business growth.

Profit before taxation was £21,825,000 (2019: £12,579,000) and includes impairment of investments driven by legal entity restructuring (Note 9). The Company received dividends from its subsidiaries to the value of £17,800,000 (2019: £207,354,000).

EBIT and EBITDA reconciliation:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before taxation	21,825	12,579
Adjustment for:		
Finance income	(192)	(193)
Finance cost	8,860	8,598
EBIT	30,493	20,984
Amortisation of intangible assets	13,928	14,055
Depreciation of tangible assets	-	-
EBITDA	44,421	35,039

Excluding one-off items such as profit on sale of intangibles, EBITDA was £44,421,000 (2019: £30,833,000).

The Company's net assets as at 31 December 2020 were £109,530,000 (2019: £91,083,000).

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.

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. 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.

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.

BMG Rights Management (UK) Limited

Strategic report (continued)

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
12 March 2021

BMG Rights Management (UK) Limited

Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2020 for BMG Rights Management (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 2020 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 2020. 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.

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

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.

BMG Rights Management (UK) Limited

Directors' report (continued)

Directors

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

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

Dividends

The directors do not recommend a dividend (2019: £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.

Greenhouse gas emissions and energy consumption

The Company has not disclosed information in respect of greenhouse gas emissions and energy consumption as its energy consumption in the United Kingdom is less than 40,000kWh for the year.

Political and charitable contributions

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

Independent Auditors

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

BMG Rights Management (UK) Limited

Directors' report (continued)

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

12 March 2021

BMG Rights Management (UK) Limited

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

BMG Rights Management (UK) Limited

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

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

BMG Rights Management (UK) Limited

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We did not identify any additional fraud risks.

We performed procedures including:

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

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

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

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

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

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

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

BMG Rights Management (UK) Limited

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

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

BMG Rights Management (UK) Limited

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

Auditor's responsibilities

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

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

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

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



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

12 March 2021

BMG Rights Management (UK) Limited

Statement of comprehensive income for the year ended 31 December 2020

		Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Continuing operations	Note		
Revenue	2	183,970	171,862
Cost of sales		(138,396)	(127,187)
Gross profit		45,574	44,675
Administrative expenses		(35,508)	(35,039)
Profit from operations	3	10,066	9,636
Finance income	5	192	193
Dividend income		17,800	207,354
Other income		2,588	1,667
Gain on disposal of intangible assets		-	4,206
Finance cost	6	(8,860)	(8,598)
Impairment of investments	9	(7,952)	(201,879)
Reversal of impairment on investments	9	7,991	-
Profit before taxation		21,825	12,579
Taxation	7	(3,378)	(1,145)
Profit and total comprehensive income for the year		18,447	11,434

The accompanying notes on pages 18 to 40 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 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	8	268,158	270,555
Investments in subsidiaries	9	107,926	107,887
Deferred tax asset	7	362	1,448
Total non-current assets		<u>376,446</u>	<u>379,890</u>
Current assets			
Trade and other receivables	10	150,994	149,217
Cash and cash equivalents	11	206	290
Total current assets		<u>151,200</u>	<u>149,507</u>
Total assets		<u>527,646</u>	<u>529,397</u>
Liabilities			
Non-current liabilities			
Other non-current payables	13	(8,019)	(16,430)
Total non-current liabilities		<u>(8,019)</u>	<u>(16,430)</u>
Current liabilities			
Trade and other payables	12	(410,097)	(421,884)
Total current liabilities		<u>(410,097)</u>	<u>(421,884)</u>
Net assets		<u>109,530</u>	<u>91,083</u>
Equity			
Share capital	14	-	-
Retained earnings		109,530	91,083
Total equity		<u>109,530</u>	<u>91,083</u>

The accompanying notes on pages 18 to 40 are an integral part of this Statement of financial position.

The financial statements, on pages 14 to 40, of BMG Rights Management (UK) Limited, registered number 06705101, were approved by the Board of Directors on 12 March 2021.

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 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2019	-	-	79,649	79,649
Profit and total comprehensive income for the year	-	-	11,434	11,434
As at 31 December 2019	-	-	91,083	91,083
Profit and total comprehensive income for the year	-	-	18,447	18,447
As at 31 December 2020	-	-	109,530	109,530

The accompanying notes on pages 18 to 40 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 2020

		Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
	Note		
Net cash generated from/(used in) operating activities	17	2,315	(112,374)
Cash flows from investing activities			
Acquisition of investments		-	(128,522)
Acquisition of intangible assets		(11,531)	(71,502)
Proceeds from disposal of intangible assets		-	110,742
Dividend income		17,800	207,354
Net cash generated from investing activities		6,269	118,072
Cash flows from financing activities			
Movement in loans from group companies		-	74
Movement in loans to group companies		-	(3,982)
Interest paid		(8,860)	(8,598)
Interest received		192	193
Net cash used in financing activities		(8,668)	(12,313)
Net decrease in cash and cash equivalents		(84)	(6,615)
Cash and cash equivalents at the beginning of the year		290	6,905
Cash and cash equivalents at end of the year		206	290

The accompanying notes on pages 18 to 40 are an integral part of this Statement of cash flows.

BMG Rights Management (UK) Limited

Notes to the financial statements Year ended 31 December 2020

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 8th Floor, 5 Merchant Square, London, United Kingdom, W2 1AS.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all 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 18).

Basis of preparation

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

The financial statements have been prepared in accordance with international accounting standards in conformity with requirements of the Companies Act 2006.

The preparation of financial statements in conformity with IFRS 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

Notwithstanding net current liabilities of £258,897,000 as at 31 December 2020 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Directors have considered the operating nature of the entity and expectations for future trading for a period of 12 months from the date of approval of these financial statements. It indicates that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA to realise its assets and settle its liabilities in the ordinary course of business for that period.

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

BMG Rights Management (UK) Limited

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

1. Accounting policies (continued)

Going concern (continued)

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

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. For some intangible assets, the amortisation method used reflects the expected exploitation pattern of the rights held but will not exceed 15-25 years. 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.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2020

1. Accounting policies (continued)

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.

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.

BMG Rights Management (UK) Limited

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

1. Accounting policies (continued)

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 0.175% less the ICE LIBOR rate (2019: 0.125% less the Bank of England base rate). Trade and other receivables at the Statement of financial position date are stated at amortised cost which approximates to cost less impairment losses.

Investments and other financial assets

The Company measures its financial assets at amortised cost. The Company's financial assets consist of trade receivables 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 2.75% above the ICE LIBOR rate (2019: 1.25% above the Bank of England base rate). Trade and other payables at the Statement of financial position date are stated at amortised costs which approximates to cost less impairment.

Revenue

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

Revenue primarily comprises amounts from royalty licencing. Revenue from royalty licencing can be split into two broad licence types. Licences that provide a "Right to access" and licences that provide a "Right to use".

For "Right to access" licence deals, the performance obligations and the transfer of control to customers is satisfied over the licence period and therefore revenue for these deals is recognised over a period of time.

For "Right to use" licence deals, the performance obligations and the transfer of control to customers is satisfied when the licence is granted and therefore revenue is recognised at that point in time.

BMG Rights Management (UK) Limited

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

1. Accounting policies (continued)

Revenue (continued)

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.

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.

BMG Rights Management (UK) Limited

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

1. Accounting policies (continued)

Taxation (continued)

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.

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.

Critical accounting judgements

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

Key sources of estimation

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

New standards, amendments and interpretations

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

BMG Rights Management (UK) Limited

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

2. Revenue

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
United Kingdom	46,538	66,267
North America	64,357	44,128
Europe	54,718	43,340
Other	18,357	18,127
	<u>183,970</u>	<u>171,862</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.

An analysis of the timing of revenue recognition is as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Revenue recognised over time	136,190	125,738
Revenue recognised at a point in time	47,780	46,124
	<u>183,970</u>	<u>171,862</u>

The following table provides information about contract assets and contract liabilities from contracts with customers

	2020 £'000	2019 £'000
Contract assets	1,464	1,648
Contract liabilities	<u>(4,155)</u>	<u>(4,155)</u>

The contract assets primarily relate to the Company's right to consideration for the provision of music licences.

The contract liabilities primarily relate to the advance consideration received from customers for music licences.

The amount of £763,000 included in contract liabilities as at 31 December 2019 has been recognised as revenue in 2020 (2019: £197,000).

BMG Rights Management (UK) Limited

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

3. Profit from operations

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Amortisation of intangible assets	13,928	14,055
Net foreign exchange (gain)/loss	(378)	537
Management fees	20,015	19,051
Change in provisions	1,784	1,316

The audit fee of £95,000 (2019: £114,000) 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 (2019: nil), therefore no costs were incurred in the year (2019: nil). The directors did not receive emoluments in respect of their services to the Company (2019: nil). Their emoluments were borne by affiliate company BMG Rights Management Services (UK) Limited. Costs were recharged to the Company as part of management fees.

5. Finance income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Interest receivable on intercompany balances	192	193

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 2020 £'000	Year ended 31 December 2019 £'000
Interest payable on intercompany balances		(8,623)	(8,290)
Discount on deferred consideration	13	(214)	(255)
Interest payable to third parties		(23)	(53)
		<u>(8,860)</u>	<u>(8,598)</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 2020

7. Taxation

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Current taxation		
UK corporation tax – current year	(1,974)	(2,378)
UK corporation tax – prior year	(318)	460
Foreign tax charge	(1,430)	(1,595)
Double tax relief	1,430	1,595
Deferred taxation		
Deferred taxation – current year	49	866
Deferred taxation – prior year	(1,135)	(93)
Total tax charge	(3,378)	(1,145)

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2020

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 2020 of 19% (2019: 19%). The differences are explained below:

Tax reconciliation

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before taxation	21,825	12,579
Tax at 19% (2019: 19%)	(4,147)	(2,390)
Effects of:		
UK corporation tax – prior year	(318)	460
Dividends from wholly owned UK subsidiaries	3,382	39,397
Non-deductible impairment of investments	(1,510)	(38,357)
Reversal of impairment of investments	1,518	-
Non-deductible expenses	(1,344)	(1,391)
Rate difference	171	29
Losses not recognised now utilised	5	10
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	(1,135)	(93)
Recognition of tax from subsidiaries made dormant	-	80
Total tax charge	(3,378)	(1,145)

At 31 December 2020 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.

The company has an unrecognised deferred tax asset in relation to trade losses of £2,510,000 (2019: 2,090,000) which has not been recognised because there is currently insufficient evidence that sufficient profits will be generated to offset the future reversal of these losses.

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

BMG Rights Management (UK) Limited

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

7. Taxation (continued)

Deferred tax assets

	Other £'000	Losses £'000	Total £'000
At 1 January 2019	(125)	(550)	(675)
Prior year adjustment	(1)	94	93
Movement	(493)	(373)	(866)
At 31 December 2019	(619)	(829)	(1,448)
Prior year adjustment	267	868	1,135
Movement	(10)	(39)	(49)
At 31 December 2020	(362)	-	(362)

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Deferred tax asset		
Utilised within twelve months	79	247
Utilised greater than twelve months	283	1,201
	362	1,448

BMG Rights Management (UK) Limited

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

8. Intangible assets

	Music catalogues £'000	Development expenditure £'000	Total £'000
Cost			
At 1 January 2019	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
Additions	11,005	526	11,531
At 31 December 2020	314,936	1,577	316,513
Accumulated amortisation			
At 1 January 2019	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
Charge for the year	13,505	423	13,928
At 31 December 2020	47,249	1,106	48,355
Net book amount			
At 31 December 2020	267,687	471	268,158
At 31 December 2019	270,187	368	270,555
At 1 January 2019	319,644	-	319,644

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

Included within Music catalogues is £1,136,000 (2019: £nil) relating to assets in development. It is expected these will be completed in late 2021/early 2022 and will then be amortised in line with the Company's accounting policy.

During the previous 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.

BMG Rights Management (UK) Limited

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

8. Intangible assets (continued)

- On 22 March 2019, the Company acquired publishing catalogue from World Circuit Limited at fair value of £1,040,000.
- 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:

	2020 £'000	2019 £'000
Cost		
At 1 January	419,575	335,935
Acquisitions	-	128,522
Disposals	-	(44,882)
At 31 December	419,575	419,575
Amounts provided		
At 1 January	(311,688)	(154,691)
Disposals	-	44,882
Charge in year	(7,952)	(201,879)
Reversal of impairment	7,991	-
At 31 December	(311,649)	(311,688)
Net book amount at the end of the year	107,926	107,887
Net book amount at the beginning of the year	107,887	181,244

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

During the previous 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.

BMG Rights Management (UK) Limited

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

9. Investments in subsidiaries (continued)

During the previous 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.

During the previous 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	Dormant	100%	Direct
Cavalcade Records Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Copyrights Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Holdings Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Music Ltd	United Kingdom	Dormant	100%	Direct
Deep East Music Ltd	United Kingdom	Dormant	100%	Direct
G W Mills Ltd	United Kingdom	Dormant	100%	Direct
Infectious Music Ltd	United Kingdom	Recorded Music	100%	Direct

BMG Rights Management (UK) Limited

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

9. Investments in subsidiaries (continued)

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %	Direct or indirect investment
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
Skint Records Ltd	United Kingdom	Dormant	100%	Direct
Stage Three Music (Catalogues) Ltd	United Kingdom	Dormant	100%	Direct
Stage Three Music (Publishing) Ltd	United Kingdom	Dormant	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

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

BMG Rights Management (UK) Limited

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

10. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	4,465	5,309
Other receivables	135,647	131,886
Trade and other receivables from group companies	6,043	6,299
Group relief trade receivables	1,542	975
Prepayments and accrued income	3,297	4,748
	<u>150,994</u>	<u>149,217</u>

Amounts due from group undertakings are repayable on demand, unsecured and bear interest at the ICE LIBOR rate less a margin of 0.175% (2019: Bank of England rate less a margin of 0.125%).

11. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank	<u>206</u>	<u>290</u>

12. Trade and other payables

	2020 £'000	20189 £'000
Due within one year		
Trade payables	55,244	56,601
Trade and other payables to group companies	338,565	356,758
Group relief trade payables	2,086	2,181
Other payables	14,202	6,344
	<u>410,097</u>	<u>421,884</u>

Trade and other payables to group companies include the group cash pooling facility balance of £321,673,000 (2019: £342,822,000) with the parent company and other related parties. The cash pooling facility is unsecured and interest-bearing at the ICE LIBOR rate plus a margin of 2.75% (2019: Bank of England rate plus a margin of 1.25%).

13. Other non-current payables

	2020 £'000	20189 £'000
Non-current payables:		
Deferred consideration	<u>8,019</u>	<u>16,430</u>

Non-current payables represent other amounts due after one year. As at 31 December 2020 non-current payables include future liabilities of £1,184,000 which are due after 5 years (2019: £222,000). Finance expense on non-current payables recognised in the financial statements was £214,000 (2019: £255,000).

BMG Rights Management (UK) Limited

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

14. Share capital

	2020 £'000	20189 £'000
Authorised, issued and fully paid:		
5 (2019: 5) ordinary shares of £1 each	-	-

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

15. Financial instruments

Exposure to credit, 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:

2020			2019		
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
8,041	(22)	8,019	16,599	(169)	16,430

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 2020

15. 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:

	2020		2019	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	4,465	4,465	5,309	5,309
Other receivables	135,647	135,647	131,886	131,886
Trade and other receivables from group companies	6,043	6,043	6,299	6,299
Group relief receivable	1,542	1,542	975	975
Trade payables	(55,244)	(55,244)	(56,601)	(56,601)
Trade and other payables to group companies	(338,565)	(338,565)	(356,758)	(356,758)
Other non-current payables	(8,019)	(8,019)	(16,430)	(16,430)
Other payables	(14,202)	(14,202)	(6,344)	(6,344)
Group relief payable	(2,086)	(2,086)	(2,181)	(2,181)
	<u>(270,419)</u>	<u>(270,419)</u>	<u>(293,845)</u>	<u>(293,845)</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.

BMG Rights Management (UK) Limited

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

15. 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 £140,112,000 (2019: £136,895,000) 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:

	Gross trade receivables £'000	2020 Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	2019 Doubtful debt provision £'000	Net trade receivables £'000
Not past due	4,743	(278)	4,465	5,392	(83)	5,309

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 (continued) Year ended 31 December 2020

15. 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 ICE LIBOR rate plus a margin of 2.75% (2019: Bank of England base rate plus a margin of 1.25%). The Company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the ICE LIBOR rate (2019: Bank of England base rate).

Sensitivity analysis – interest rate risk

A change of one percent in interest rates at the Statement of financial position date would have 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 £3,217,000 (2019: £3,428,000).

(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 (continued) Year ended 31 December 2020

16. 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)	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
8ball Music B.V.	(27)	(17)	-	(1)
Amygdala Records Inc	(540)	-	-	-
Bertelsmann UK Ltd	(8,614)	(8,170)	(335,322)	(347,278)
BMG (Beijing) Music & Culture Co. Ltd	618	1,035	2,597	1,881
BMG Production Music (Benelux) B.V	(6)	-	-	-
BMG Production Music (France) SAS	(1)	-	-	-
BMG Production Music (UK) Ltd	(4)	(598)	63	149
BMG Production Music Inc	(22)	154	-	(2)
BMG Rights Management (Australia) Pty Ltd	1,673	1,999	108	(69)
BMG Rights Management (Benelux) B.V	1,399	2,803	28	(57)
BMG Rights Management (Canada) Inc.	1,513	1,645	22	-
BMG Rights Management (Europe) GmbH	10,636	7,994	-	-
BMG Rights Management (France) SARL	2,890	2,701	(125)	(104)
BMG Rights Management (Hong Kong) Ltd	29	(1,509)	-	(105)
BMG Rights Management (Italy) S.R.L	998	1,567	(105)	(93)
BMG Rights Management (Scandinavia) AB	578	455	(21)	(180)
BMG Rights Management (US) LLC	(4,793)	2,571	(927)	(988)
BMG Rights Management and Administration (Spain) S.L	981	1,152	(504)	(30)
BMG Rights Management Brasil Ltda	497	1,409	(28)	(56)
BMG Rights Management GmbH	(9,523)	(6,995)	(2,070)	(1,702)

BMG Rights Management (UK) Limited

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

16. Related parties (continued)

Related party transactions (continued)

	Sales / (purchases) of goods		Trade balances receivable / (payable)	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
BMG Rights Management Services (UK) Ltd	(16,293)	(15,270)	742	(140)
Boman (Beijing) Cultural Development Co. Ltd	4,801	3,997	(188)	(23)
Countdown Media GmbH	(606)	(124)	(887)	(281)
Creole Records Ltd	-	-	(37)	(37)
Francis Dreyfus Music SARL	(780)	(416)	(10)	(31)
FremantleMedia Ltd	(412)	(501)	4	-
Infectious Music Ltd	(440)	(399)	429	8
Loaded Records Ltd	(983)	(718)	(1,611)	(2,014)
Men From The North Ltd	-	-	(8)	(8)
Mute Records Ltd	(2,942)	(2,239)	(890)	(1,293)
Ram Records Ltd	(88)	(43)	(386)	(361)
Rise Records Inc	(1,440)	-	(121)	(130)
Sanctuary Records Group Ltd	(10,119)	(7,763)	951	(1,826)
Sonopress GmbH	(1,262)	(502)	(46)	(12)
Stage Three Music (Catalogues) Ltd	-	57	-	-
Stage Three Music (Publishing) Ltd	-	(1)	-	-
The Echo Label Ltd	(1,320)	(878)	3,077	(450)
This is Hit Inc	(144)	(20)	(2)	53
Trojan Recordings Ltd	-	-	(10)	(10)
Union Square Music Ltd	(3,263)	(2,658)	6,234	7,544
World Circuit Ltd	(1,315)	(312)	(3,479)	(2,813)
	<u>(38,324)</u>	<u>(19,594)</u>	<u>(332,522)</u>	<u>(350,459)</u>

BMG Rights Management (UK) Limited

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

17. Net cash used in operating activities

Cash flows from operating activities

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before taxation	21,825	12,579
Adjustment for:		
Amortisation of intangible assets	13,928	14,055
Impairment of investments	7,952	201,879
Reversal of impairment of investments	(7,991)	-
Dividend income	(17,800)	(207,354)
Gain on disposal of intangible assets	-	(4,206)
Finance income	(192)	(193)
Finance cost	8,860	8,598
Change in provisions	1,784	1,316
Operating profit before movements in working capital	28,366	26,674
Increase in trade and other receivables	(16,099)	(4,760)
Decrease in trade and other payables	(6,964)	(133,582)
Cash used in operations	(23,063)	(138,342)
Tax paid	(2,988)	(706)
Net cash generated from/(used in) operating activities	2,315	(112,374)

18. 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.