

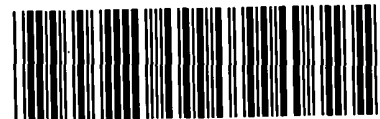
Company Registration No. 06705101

BMG Rights Management (UK) Limited

Reports and Financial Statements

31 December 2017

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BMG Rights Management (UK) Limited

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BMG Rights Management (UK) Limited

Reports and Financial Statements 2017

Officers and professional advisers

Directors

Alexi Cory-Smith (resigned 19 December 2017)
Maximilian Dressendörfer
Hartwig Masuch
Alistair Norbury (appointed 26 February 2018)
Paul Wilson

Company Secretary

Erika Brennan (resigned 30 June 2017)

Registered Office

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & 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 2017 for BMG Rights Management (UK) Limited (the "Company").

Business review

BMG Rights Management (UK) Limited is a United Kingdom subsidiary of Bertelsmann SE & Co. KGaA, which trades as "BMG", one of the world's leading independent music content groups. BMG ranks among the largest independent music publishers in Europe and in the United States and is one of the largest owners of master recordings among the independent recorded music companies in Europe.

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.

Key performance indicators

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, net publisher's share (revenue received by a music publisher less royalties payable; "NPS"), operating profit/(loss), Earnings Before Interest and Taxes; ("EBIT") and EBITDA (as adjusted for depreciation and amortisation). The Company is financed through intercompany funding from its group parent companies and through equity. 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 £125,240,000 (2016: £78,683,000) and gross profit of £27,473,000 (2016: £21,387,000). 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 2015 and 2016 investments in signings have contributed towards the organic growth seen in 2017 revenue and gross profit. Contracts entered into in 2017 will contribute towards 2018 income. Throughout 2017 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.

Loss from operations of £14,943,000 (2016: £117,847,000) is due mainly to impairment of investments driven by legal entity restructuring, detailed in note 10. Profit before taxation was £10,908,000 (2016: £84,679,000).

As part of a group wide restructuring exercise, the Company received dividends from its subsidiaries to the value of £31,676,000 (2016 £209,062,000).

The Company's net assets as at 31 December 2017 were £53,603,000 (2016: £41,736,000).

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 business presence in the European, US and UK territories 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 is 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

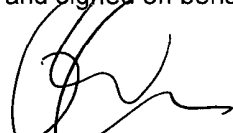
The Company's prospects may be adversely impacted if the business fails to identify, sign and retain songwriters and artists and by the absence of successful releases. The decisions of potential clients to sign with the Company or decisions of existing clients to remain with the Company are complex and 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



Paul Wilson
Director

29 March 2018

BMG Rights Management (UK) Limited

Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2017 for BMG Rights Management (UK) Limited (the "Company").

Principal activities

The principal business of the Company during the year ended 31 December 2017 was the collection and payment of royalties.

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

On a selective basis, the Company also signs self-contained artists for new recordings, typically in combination with the signing of a publishing deal. In return for the licensing and administering the creative output of a recording artist, 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 2017. 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 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:

Alexi Cory-Smith	(resigned 19 December 2017)
Maximilian Dressendörfer	
Hartwig Masuch	
Alistair Norbury	(appointed 26 February 2018)
Paul Wilson	

Dividends

The directors do not recommend a dividend (2016: £nil).

BMG Rights Management (UK) Limited

Directors' report (continued)

Employees

Disabled employees

We confirm that BMG Rights Management (UK) Limited complies with the Disability Discrimination Act 1995, which replaced the Disabled Persons (Employment) Act 1944.

Where existing employees become disabled, it is the Company's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

Employment involvement

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

Political and charitable contributions

The Company made no political contributions or incurred any political expenditure during the year (2016: £nil). The Company made charitable contributions of £1,000 during the year (2016: £1,000).

Statement of disclosure of information to auditors

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

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

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

Independent Auditors

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

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



Paul Wilson
Director

29 March 2018

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 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.

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.

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 2017; the Statement of comprehensive income, the Statement of cash flows, 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

We have nothing to report in respect of the following matters in relation to which 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.

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.

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.

BMG Rights Management (UK) Limited

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

Reporting on other information (continued)

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 2017 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. 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

29 March 2018

BMG Rights Management (UK) Limited

Statement of comprehensive income for the year ended 31 December 2017

		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
	Note		
Revenue	2	125,240	78,683
Cost of sales		(97,767)	(57,296)
Gross profit		27,473	21,387
Administrative expenses		(23,717)	(16,596)
Impairment of investments	10	(18,699)	(122,638)
Loss from operations	3	(14,943)	(117,847)
Finance income	5	1,334	1,259
Dividend income		31,676	209,062
Other income		550	848
Gain on disposal of investments		-	190
Finance cost	6	(7,709)	(8,833)
Profit before taxation		10,908	84,679
Taxation	7	959	152
Profit and total comprehensive income for the year		11,867	84,831

The accompanying notes are an integral part of this Statement of comprehensive income. For the year ended 31 December 2017, the Company did not have any items of other comprehensive income. All results relate to continuing operations.

BMG Rights Management (UK) Limited

Statement of financial position as at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	8	221,913	176,109
Property, plant and equipment	9	1,115	1,239
Investments in subsidiaries	10	295,993	205,146
Long-term loans	15	8,290	59,032
Total non-current assets		<u>527,311</u>	<u>441,526</u>
Current assets			
Trade and other receivables	11	147,807	166,079
Cash and cash equivalents	12	74	68
Total current assets		<u>147,881</u>	<u>166,147</u>
Total assets		<u>675,192</u>	<u>607,673</u>
Liabilities			
Non-current liabilities			
Other non-current payables	14	16,355	33,897
Long-term loans	15	6,826	8,921
Total non-current liabilities		<u>23,181</u>	<u>42,818</u>
Current liabilities			
Trade and other payables	13	598,408	523,119
Total current liabilities		<u>598,408</u>	<u>523,119</u>
Net assets		<u>53,603</u>	<u>41,736</u>
Equity			
Share capital	17	-	-
Retained earnings		53,603	41,736
Total equity		<u>53,603</u>	<u>41,736</u>

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

The financial statements, on pages 11 to 38, of BMG Rights Management (UK) Limited, registered number 06705101, were approved by the Board of Directors on 29 March 2018.

Signed on behalf of the Board of Directors



Paul Wilson
Director

BMG Rights Management (UK) Limited

Statement of changes in equity for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	(Accumulated losses) / retained earnings £'000	Total equity £'000
As at 1 January 2016	-	-	(43,095)	(43,095)
Profit and total comprehensive income for the year	-	-	84,831	84,831
As at 31 December 2016	-	-	41,736	41,736
Profit and total comprehensive income for the year	-	-	11,867	11,867
As at 31 December 2017	-	-	53,603	53,603

The accompanying notes 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 2017

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Net cash generated from operating activities	21	73,283	23,507
Cash flows from investing activities			
Acquisition of investments		(92,796)	(101,576)
Acquisition of intangible assets		(54,196)	(38,764)
Acquisition of fixed assets		(257)	(375)
Proceeds from disposal of intangible assets		23	6,939
Proceeds from disposal of fixed assets		1	-
Proceeds from disposal of investments		-	450
Dividend income		20,827	209,062
Net cash (used in)/generated from investing activities		(126,398)	75,736
Cash flows from financing activities			
Movement in loans from group companies		59,496	(91,569)
Interest paid		(7,709)	(8,833)
Interest received		1,334	1,259
Net cash generated from/(used in) financing activities		53,121	(99,143)
Net increase in cash and cash equivalents		6	100
Cash and cash equivalents at the beginning of the year		68	(32)
Cash and cash equivalents at end of the year		74	68

The accompanying notes 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 2017**

1. Accounting policies

BMG Rights Management (UK) Limited (the "Company") is a private company incorporated in the United Kingdom.

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

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

Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except for financial instruments 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 year if the revision affects both current and future years.

Measurement convention

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the 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 to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The ultimate parent company has confirmed its continued support of the Company.

Foreign currency

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

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

1. Accounting policies (continued)

Foreign currency (continued)

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
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Property, plant and equipment

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

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

Office equipment	3 years
Leasehold improvements	5 years

Investments in subsidiaries

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

Calculation of recoverable amount

The recoverable amount of the Company's receivables earned at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2017**

1. Accounting policies (continued)

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.

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..

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.

Employee benefits

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

Revenue

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

Revenue from royalty licensing is recognised in accordance with IAS 18: According to IAS 18.29 revenue from royalties shall be recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Where revenue streams have a forward visibility revenue is recognised on an accruals basis. If there is no or minimal forward visibility of revenue streams it is not possible to measure the revenue streams reliably until cash is collected.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2017**

1. Accounting policies (continued)

Music publishing royalties

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

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

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

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

Master record royalties

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

Operating lease payments

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

Net financing costs

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

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the 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.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2017**

1. Accounting policies (continued)

Business combinations

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017 have had a material impact on the group or parent company.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the group or parent company, except the following, set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Early adoption is permitted. The group is working towards the implementation of IFRS 9 on 1 January 2018. It anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model. The expected impact at 1 January 2018 is to decrease retained earnings by £297,000. No material impact on profit for future periods is expected.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

1. Accounting policies (continued)

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

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved. The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted. The group is working towards the implementation of IFRS 15 on 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process which has not identified any material adjustments. Therefore the directors do not anticipate any impact on earnings in 2018 following adoption of the new standard. The profile of cash receipts is not affected by this standard.

2. Revenue

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
UK	69,559	33,501
North America	25,164	25,979
Europe	16,387	9,768
Other	14,130	9,435
	<u>125,240</u>	<u>78,683</u>

The operations of the Company take place wholly in the United Kingdom. Revenue was derived principally from activities conducted within the United Kingdom and North America. The Company does not have any separable operating segments. All assets used by the Company are held in the United Kingdom.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

3. Loss from operations

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Amortisation of intangible assets	9,616	7,302
Auditors' remuneration	308	373
Depreciation	376	340
Net foreign exchange loss/(gain)	397	(73)
Gain on disposal of intangibles	-	993
Operating lease rentals		
- land and buildings	1,135	1,399
- plant and machinery	30	95

Audit fees of £72,000 (2016: £40,900) related to the audit of these financial statements are included within 'Auditors' remunerations'.

4. Employee costs and directors' remuneration

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

Number of employees

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Management	18	20
Administration	147	124
	<u>165</u>	<u>144</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	11,825	10,259
Social security costs	1,304	1,183
Other pension costs (see note 16)	602	480
	<u>13,731</u>	<u>11,922</u>

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

4. Employee costs and directors' remuneration (continued)

Remuneration of directors

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Emoluments (excluding pension contributions)	709	705
Severance benefits	744	-
Social security costs	96	86
Pension costs (see note	39	36
	<u>1,588</u>	<u>827</u>

Highest paid director

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Emoluments (excluding pension contributions)	464	500
Severance benefits	744	-
Social security costs	63	65
Pension costs	24	23
	<u>1,295</u>	<u>588</u>

5. Finance income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest receivable on intercompany balances	<u>1,334</u>	<u>1,259</u>

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

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

6. Finance cost

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest payable on intercompany balances	(7,658)	(8,715)
Discount on deferred consideration (see note 14)	(46)	(100)
Interest payable to third parties	(5)	(18)
	<u>(7,709)</u>	<u>(8,833)</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 2017 £'000	Year ended 31 December 2016 £'000
Current taxation		
UK corporation tax – current year	424	414
UK corporation tax – prior year	1,417	494
Foreign tax charge	(882)	(756)
	<u>959</u>	<u>(152)</u>

The tax assessed for the year differs from the standard effective rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained below:

Tax reconciliation

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit before taxation	<u>10,908</u>	<u>84,679</u>
Tax at 19.25 % (2016: 20%)	(2,100)	(16,936)
Effects of:		
UK corporation tax – prior year	1,417	494
Dividends from wholly owned UK subsidiaries	6,098	41,812
Foreign tax	(712)	(756)
Non-deductible impairment of investments	(3,600)	(24,528)
Non-deductible expenses	(225)	69
Other temporary differences	(12)	(3)
Other temporary differences	93	-
	<u>959</u>	<u>152</u>

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

7. Taxation (continued)

The company has a deferred tax asset of £1,213,000 (2016: £1,750,000) which has not been recognised because there is currently insufficient evidence that suitable profits will be generated to offset the future reversal of these temporary differences.

8. Intangible assets

	Music catalogues £'000
Cost	
At 1 January 2017	199,104
Additions	55,420
Disposals	(18)
	<hr/>
At 31 December 2017	254,506
Accumulated amortisation	
At 1 January 2017	22,995
Disposals	(18)
Charge for the year	9,616
	<hr/>
At 31 December 2017	32,593
Net book amount	
At 31 December 2017	<hr/> 221,913 <hr/>
At 31 December 2016	<hr/> 176,109 <hr/>

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 26 September 2017, the Company sold a small publishing catalogue to BMG Rights Management (US) LLC for a consideration of US\$ 30,000.
- On 15 December 2017, the Company acquired the publishing catalogue from Union Square Music Publishing Limited for a consideration of £668,000.
- On 15 December 2017, the Company acquired the publishing catalogue from Union Square Music Songs Limited for a consideration of £614,000.
- On 15 December 2017, the Company acquired the publishing catalogue from Rock Music Company Limited for a consideration of £1,089,000.
- On 15 December 2017, the Company acquired the publishing catalogue from Windswept Music (London) Limited for a consideration of £31,256,000.
- On 15 December 2017, the Company acquired the publishing catalogue from Minder Music Limited for a consideration of £6,988,000.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

9. Property, plant and equipment

	Office equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 January 2017	801	1,184	1,985
Additions	221	36	257
Disposals	(5)	(15)	(20)
At 31 December 2017	1,017	1,205	2,222
Accumulated depreciation			
At 1 January 2017	393	353	746
Disposals	(3)	(12)	(15)
Charge for the year	155	221	376
At 31 December 2017	545	562	1,107
Net book amount			
At 31 December 2017	472	643	1,115
At 31 December 2016	408	831	1,239

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

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

10. Investments in subsidiaries

The movement in the year was as follows:

	2017 £'000	2016 £'000
Cost		
At 1 January	334,874	338,408
Acquisitions	109,546	101,576
Disposals	(109,368)	(105,110)
At 31 December	335,052	334,874
Amounts provided		
At 1 January	(129,728)	(111,940)
Disposals	109,368	104,850
Charge in year	(18,699)	(122,638)
At 31 December	(39,059)	(129,728)
Net book amount at the end of the year	295,993	205,146
Net book amount at the beginning of the year	205,146	226,468

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

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

- On 23 June 2017, the Company acquired one Ordinary share in Union Square Music Limited from Union Square Music Holdings Limited for a consideration of £8,303,000.
- On 23 June 2017, the Company acquired one Ordinary share in Union Square Music Publishing Limited from Union Square Music Holdings Limited for a consideration of £856,000.
- On 23 June 2017, the Company acquired one hundred Ordinary shares in Union Square Music songs Limited from Union Square Music Holdings Limited for a consideration of £1,252,000.
- On 23 June 2017, the Company acquired one Ordinary share in Union Square Music Copyrights Limited from Union Square Music Holdings Limited for a consideration of £56,000.
- On 23 June 2017, the Company acquired one Ordinary share in Union Square Music Copyrights Nazareth Limited from Union Square Music Holdings Limited for a consideration of £1.
- On 20 November 2017, the Company acquired one Ordinary share in Rock Music Company Limited from Union Square Music Songs Limited for a consideration of £1,224,000. On 15 December 2017 Rock Music Company Limited was made dormant. Consequently, the value of the investment was fully impaired.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) **Year ended 31 December 2017**

10. Investments in subsidiaries (continued)

On 20 December 2017 Minder Music Limited was made dormant; a final dividend was paid from Minder Music Limited to the Company. Consequently, the value of the investment was fully impaired.

During the year, the following companies were dissolved:

- On 3 January 2017 Redpoint Music Limited, in which the Company held 100% of the share capital, was dissolved.
- On 3 January 2017 USM Copyrights Publishing Limited, in which the Company held 100% indirect shareholding, was dissolved.
- On 8 February 2017 Kyboside Limited, in which the Company held 100% of the share capital, was dissolved.
- On 9 May 2017 Chrysalis Music Publishing Limited, in which the Company held 100% of the share capital, was dissolved.
- On 9 May 2017 BMG 10 Music Limited, in which the Company held 100% indirect shareholding, was dissolved.
- On 1 August 2017 Must Save Jane Limited, in which the Company held 100% indirect shareholding, was dissolved.
- On 8 August 2017 Chrysalis Investments Limited, in which the Company held 100% of the share capital, was dissolved.
- On 19 September 2017 Bug Music Limited, in which the Company held 100% of the share capital, was dissolved.
- On 12 December 2017 Chrysalis Songs Limited, in which the Company held 100% of the share capital, was dissolved.

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

- On 6 October 2017, the Company capitalised its investment in Stage Three Music Publishing Limited by way of a share subscription of 1 Ordinary share of £1 for £27,610,000.
- On 6 October 2017, the Company capitalised its investment in Chrysalis Music Limited by way of a share subscription of 1 Ordinary share of £1 for £19,718,000.
- On 6 October 2017, the Company capitalised its investment in Windswept Music (London) Limited by way of a share subscription of 1 Ordinary share of £1 for £28,336,000.

During the year, the Company acquired the following companies from third parties:

- On 11 January 2017 the Company acquired 100% of the share capital of Hornall Brothers Limited.
- On 21 September 2017 the Company acquired 100% of the share capital of Cherry Westfield Limited.
- On 21 September 2017 the Company acquired 100% of the share capital of Villeston Limited.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

10. Investments in subsidiaries (continued)

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

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %	Direct or indirect investment
BMG Production Music (UK) Ltd	United Kingdom	Production Music	100%	Direct
BMG Rights Management Services (UK) Ltd (formerly Chrysalis Group Limited)	United Kingdom	Dormant	100%	Direct
Cavalcade Records Ltd	United Kingdom	Dormant	100%	Direct
Cherry Westfield Ltd	United Kingdom	Music publishing	100%	Direct
Chrysalis Copyrights Ltd	United Kingdom	Recorded Music	100%	Direct
Chrysalis Holdings Ltd	United Kingdom	Dormant	100%	Direct
Chrysalis Music Ltd	United Kingdom	Music publishing	100%	Direct
Chrysalis Songs Ltd	United Kingdom	Dormant	100%	Direct
G W Mills Ltd	United Kingdom	Dormant	100%	Direct
Hewrate Ltd	United Kingdom	Music Publishing	100%	Direct
Hornall Brothers Ltd	United Kingdom	Music publishing	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	Music Publishing	100%	Direct
RAM Records Ltd	United Kingdom	Recorded Music	100%	Direct
Rock Music Company Ltd	United Kingdom	Music Publishing	100%	Direct
Sanctuary Records Group Ltd	United Kingdom	Recorded Music	100%	Direct
Skint Records Ltd	United Kingdom	Dormant	100%	Direct
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 Holdings Ltd	United Kingdom	Dormant	100%	Direct
Union Square Music Ltd	United Kingdom	Recorded Music	100%	Direct

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

10. Investments in subsidiaries (continued)

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %	Direct or indirect investment
Union Square Music Publishing Ltd	United Kingdom	Music publishing	100%	Direct
Union Square Music Songs Ltd	United Kingdom	Music publishing	100%	Direct
USM Copyrights Ltd	United Kingdom	Recorded Music	100%	Direct
USM Copyrights Nazareth Ltd	United Kingdom	Dormant	100%	Direct
Villeston Ltd	United Kingdom	Music publishing	100%	Direct
Windswept Music (London) Ltd	United Kingdom	Music publishing	100%	Direct
Air Records Ltd	United Kingdom	Dormant	100%	Indirect
BMG VM Music Ltd	United Kingdom	Music publishing	100%	Indirect
Creole Records Ltd	United Kingdom	Dormant	100%	Indirect
Men From The North Ltd	United Kingdom	Dormant	100%	Indirect
Mute Records Ltd	United Kingdom	Recorded Music	100%	Indirect
Oxford Street Studios Ltd	United Kingdom	Dormant	100%	Indirect
Sanctuary Copyrights Ltd	United Kingdom	Dormant	100%	Indirect
Stage Three Music (Catalogues) Ltd	United Kingdom	Music publishing	100%	Indirect
Trojan Recordings Ltd	United Kingdom	Dormant	100%	Indirect

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

On 2 January 2018 Union Square Music Holdings Publishing Limited, in which the Company held 100% of the share capital, was dissolved.

On 19 February 2018 Chrysalis Group Limited, in which the Company held a 100% of the share capital, changed its name to BMG Rights Management Services (UK) Limited.

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 2017

11. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	9,015	3,774
Other receivables	105,645	97,834
Trade and other receivables from group companies	20,947	52,840
Group relief trade receivables	1,249	817
Prepayments and accrued income	10,951	10,814
	<u>147,807</u>	<u>166,079</u>

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

12. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank	<u>74</u>	<u>68</u>

13. Trade and other payables

	2017 £'000	2016 £'000
Due within one year		
Trade and other payables	72,359	39,206
Trade and other payables to group companies	507,929	474,685
Group relief trade payables	844	877
Other payables	17,276	8,351
	<u>598,408</u>	<u>523,119</u>

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

14. Other non-current payables

	2017 £'000	2016 £'000
Non-current payables:		
Deferred consideration	<u>16,355</u>	<u>33,897</u>

Non-current payables represent other amounts due after one year. As at 31 December 2017 non-current payables include future liabilities of £439,000 which are due after 5 years (2016: £nil). Finance expense on non-current payables recognised in the financial statements was £45,000 (2016: £100,000)

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

15. Long-term loans

	2017 £'000	2016 £'000
Loans from group companies	(6,826)	(8,921)
Loans to group companies	8,290	59,032
	<u>1,464</u>	<u>50,111</u>

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

16. Employee benefits

The Company operates a defined contribution pension scheme. The pension costs charge for the year represents contributions payable by the Company to the scheme and amounted to £602,000 (2016: £480,000).

As at 31 December 2017 there were no outstanding monies payable to the fund (2016: £20,000 payable representing 1 month's total contributions collected).

17. Share capital

	2017 £'000	2016 £'000
Authorised, issued and fully paid:		
5 (2016: 5) ordinary shares of £1 each	<u>-</u>	<u>-</u>

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

18. Financial instruments

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

(a) Fair values of financial instruments

Trade and other receivables

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

Trade and other payables

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

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

18. Financial instruments (continued)

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the Statement of financial position date.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the Statement of financial position date.

Fair values

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

	2017		2016	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	9,015	9,015	3,774	3,774
Other receivables	105,645	105,645	97,834	97,834
Loans to group companies	8,290	8,290	59,032	59,032
Trade and other receivables from group companies	20,947	20,947	52,840	52,840
Prepayments and accrued income	10,951	10,951	10,814	10,814
Group relief receivable	1,249	1,249	817	817
Cash and cash equivalents	74	74	68	68
Trade and other payables	(72,359)	(72,359)	(39,206)	(39,206)
Trade and other payables to group companies	(507,929)	(507,929)	(474,685)	(474,685)
Loans from group companies	(6,826)	(6,826)	(8,921)	(8,921)
Other non-current payables	(16,355)	(16,355)	(33,897)	(33,897)
Other payables	(17,276)	(17,276)	(8,351)	(8,351)
Group relief payable	(844)	(844)	(877)	(877)
	<u>(465,418)</u>	<u>(465,418)</u>	<u>(340,758)</u>	<u>(340,758)</u>
Unrecognised gains/losses				<u>-</u>

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

18. Financial instruments (continued)

(b) Credit risk

Financial risk management

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

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

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the Statement of financial position date was £114,660,000 (2016: £101,608,000) being the total of the carrying amount of trade and other receivables, shown in the table above.

Financial assets and impairment losses

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

	2017		2016		
	Gross trade and other receivables	Doubtful debt provision	Net trade and other receivables	Gross trade and other receivables	Net trade and other receivables
	£'000	£'000	£'000	£'000	£'000
Not past due	114,660	-	114,660	101,608	101,608

(c) Liquidity risk

Financial risk management

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

Liquidity is managed by group via the cash pooling facility.

(d) Market risk

Financial risk management

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

Market risk - Foreign currency risk

A proportion of sales and purchases are invoiced in foreign currency and the Company bears the foreign currency risk on these debtors and creditors. These exposures are not hedged.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

18. Financial instruments (continued)

(d) Market risk (continued)

Sensitivity analysis — Foreign currency risk

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

There were no derivative financial instruments in place at 31 December 2017.

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 increased the loss by the amounts shown below. This calculation assumes that the change occurred at the Statement of financial position date and had been applied to risk exposures existing at that date.

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

At the year-end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would increase the Company's loss before taxation by approximately £4,482,000 (2016: £3,670,000).

19. Financial commitments

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

	Land and building	
	2017 £'000	2016 £'000
Within one year	1,346	1,323
Within 2 to 5 years	5,310	5,290
More than 5 years	2,976	4,298
	<u>9,632</u>	<u>10,911</u>

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

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

20. Related parties

Identity of related parties

The Company's ultimate parent company and group is the international media company Bertelsmann SE & Co. KGaA.

The Company had a related party relationship in the year with subsidiaries of Bertelsmann SE & Co. KGaA, and with its directors and executive officers.

Related party transactions

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

	Sales / (Purchases) of goods		Trade balances receivable / (payable)		Loan balances receivable / (payable)	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
8ball Music B.V.	-	-	-	(3)	-	-
Arvato Distribution GmbH	-	-	-	(7)	-	-
Arvato IT Support GmbH	(39)	(61)	-	(21)	-	-
Arvato Ltd	(28)	(23)	(34)	(28)	-	-
Arvato Systems GmbH	(57)	(11)	(10)	(6)	-	-
Arvato systems S4M GmbH	(29)	(24)	(1)	(10)	-	-
Bertelsmann SE & Co. KGaA	(402)	(214)	(105)	(201)	-	-
Bertelsmann UK Ltd	(7,444)	(7,247)	(450,275)	(441,016)	-	-
BMG (Beijing) Music & Culture Co. Ltd	173	348	549	389	-	-
BMG 10 Music Ltd	-	129	-	-	-	-
BMG AM Pty Ltd	(8)	-	6	-	-	-
BMG FM Music Ltd	-	1	-	-	-	-
BMG Production Music (UK) Ltd	741	217	178	206	-	-
BMG Rights Management (Australia) Pty Ltd	495	148	(108)	148	-	-
BMG Rights Management (Benelux) B.V	261	79	(9)	(1,064)	-	-
BMG Rights Management (Canada) Inc.	1,242	918	247	437	-	-
BMG Rights Management (Distribution) GmbH	4,671	2,131	847	233	-	-
BMG Rights Management (France) SARL	1,913	2,772	(313)	(196)	-	-
BMG Rights Management (Hong Kong) Ltd	(10)	-	(10)	-	-	-
BMG Rights Management (Italy) S.R.L	488	814	(297)	(49)	-	-
BMG Rights Management (Scandinavia) AB	546	802	(26)	(35)	-	-

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

20. Related parties (continued)

Related party transactions (continued)

	Sales / (Purchases) of goods		Trade balances receivable / (payable)		Loan balances receivable / (payable)	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
BMG Rights Management US LLC	(7,658)	2,541	(3,533)	(1,468)	-	-
BMG Rights Management and Administration (Spain) S.L	510	476	(7)	(7)	-	-
BMG Rights Management GmbH	(7,061)	(610)	(394)	(1,294)	-	-
BMG VM Music Ltd	943	1,128	1,523	(7,624)	(3,867)	-
Boman (Beijing) Cultural Development Co. Ltd	339	122	337	31	-	-
Bug Music Ltd	-	(516)	-	-	-	-
Cherry Westfield Ltd	93	-	(404)	-	383	-
Chrysalis Copyrights Ltd	191	239	(1,148)	(1,006)	-	-
Chrysalis Group Ltd	-	(1,098)	-	-	-	-
Chrysalis Holdings Ltd	-	(76)	-	-	-	-
Chrysalis Music Ltd	(8,151)	(8,570)	(1,621)	10,345	-	9,608
Chrysalis Music Publishing Ltd	-	(2)	-	-	-	-
Creole Records Ltd	-	-	(37)	(37)	-	-
Francis Dreyfus Music SARL	(155)	-	(19)	(1)	-	-
Gruner + Jahr GmbH & Co KG	-	-	(6)	-	-	-
Hewrate Ltd	188	210	17	(582)	-	-
Hornall Brothers Music Ltd	31	-	(1,903)	-	-	-
IbmediaONE GmbH	-	(3)	-	-	-	-
Infectious Music Ltd	1,275	437	906	(208)	-	-
Kyboside Ltd	-	53	-	-	-	-
Loaded Records Ltd	(266)	141	(1,399)	(889)	-	-
Men From The North Ltd	-	-	(8)	(8)	-	-
Minder Music Ltd	(14)	43	-	(179)	-	-
Mute Records Ltd	(1,340)	795	(2,190)	(884)	-	-
Ram Records Ltd	74	223	359	429	-	-
Rise Records Inc	(5,825)	-	(388)	-	-	-
Rock Music Company Ltd	20	53	-	1	-	-
RTL Group (Support Services) Ltd	(116)	(114)	(61)	(78)	-	-

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

20. Related parties (continued)

Related party transactions (continued)

	Sales / (Purchases) of goods		Trade balances receivable / (payable)		Loan balances receivable / (payable)	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Sanctuary Records Group Ltd	(4,107)	1,786	647	(7,465)	-	-
Sonopress GmbH	-	-	9	-	-	-
Stage Three Music (Catalogues) Ltd	1,011	634	(2,135)	(3,303)	-	24,365
Stage Three Music Publishing Ltd	(566)	(533)	(1,541)	294	34	10,762
The Echo Label Ltd	(47)	60	3,332	564	7,046	6,928
The Random House Group Ltd	-	(50)	-	(50)	-	-
This is Hit Inc	-	-	6	-	-	-
Trojan Recordings Ltd	-	-	(10)	(10)	-	-
Union Square Music Holdings Ltd	(4)	(2)	-	(1)	-	(820)
Union Square Music Ltd	(352)	961	5,276	4,444	(1,717)	(718)
Union Square Music Publishing Ltd	(31)	(26)	(897)	(180)	(15)	(14)
Union Square Music Copyrights Ltd	211	3	73	5	504	-
Union Square Music Copyrights Nazareth Ltd	-	43	-	-	-	-
Union Square Music Songs Ltd	(227)	(167)	(617)	(214)	(1,209)	-
Villeston Ltd	27	-	(278)	-	305	-
Windswept UK Ltd	(427)	(298)	(31,299)	28,692	-	-
	<u>(28,921)</u>	<u>(1,338)</u>	<u>(486,771)</u>	<u>(421,906)</u>	<u>1,464</u>	<u>50,111</u>

In addition to the related party transactions detailed above, the company acquired investments in subsidiary undertakings previously held by other subsidiary undertakings in the BMG UK Group as detailed in Note 10. The company also acquired music catalogues from subsidiary undertakings as detailed in Note 8.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2017

21. Notes to the statement of cash flow

Cash flows from operating activities

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit before taxation	10,908	84,679
Adjustment for:		
Amortisation of intangible assets	9,616	7,302
Impairment of investments	18,699	122,638
Depreciation	376	340
Dividend income	(31,676)	(209,062)
Loss on disposal of property, plant and equipment	4	-
Gain on disposal of intangibles	(23)	(993)
Gain on disposal of investments	-	(190)
Finance income	(1,334)	(1,259)
Finance expenses	7,709	8,833
Other non-cash movements	3,511	1,271
Operating profit before movements in working capital	17,790	13,559
Decrease/(increase) in trade and other receivables	17,498	(79,247)
Increase in trade and other payables	38,877	89,950
Cash generated from operations	56,375	10,703
Tax paid	(882)	(755)
Net cash generated from operating activities	73,283	23,507

22. Ultimate parent company and controlling party

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

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