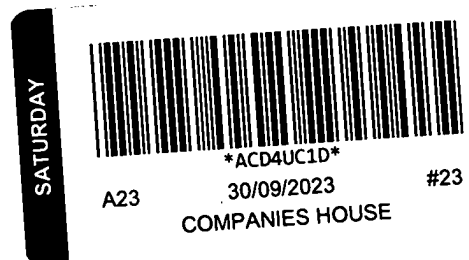


Company Registration No. 06705101

BMG Rights Management (UK) Limited

Reports and Financial Statements

31 December 2022



BMG Rights Management (UK) Limited

Reports and Financial Statements 2022

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	6
Statement of directors' responsibilities in respect of the financial statements	9
Independent auditor's report to the members of BMG Rights Management (UK) Limited	10
Statement of comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Statement of cash flows	17
Notes to the financial statements	18

BMG Rights Management (UK) Limited

Reports and Financial Statements 2022

Officers and professional advisers

Directors

Thomas Coesfeld
David D'Urbano
Alistair Norbury

Registered Office

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

Independent Auditor

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 2022 for BMG Rights Management (UK) Limited (the "Company" or "BMG").

Principal activities

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 loss or profit before tax for the following items: amortisation, depreciation, finance costs, and finance income. The Company is financed through intercompany funding, such as cash pooling, from its group parent companies and through equity. The Company continues to perform in line with expectations.

Principal risks and uncertainties

The Company is subject to risk management procedures and an annual risk assessment implemented by the ultimate parent company, Bertelsmann SE & Co KGaA. The Company has procedures in place to make the directors aware of the various risks to the Company's business and to ensure that these are continuously monitored and reported to management.

The music industry continues to evolve, driven by the developing digital landscape on which consumers access their music. This creates both challenges and opportunities for the Company, emphasis is placed on growth within the digital space such to offset the decline in the sale of physical product. Intense competition has accelerated these developments with the risk of future increases to contract costs to ensure talent can be attracted and retained within such a congested market.

In the last year, the UK economy has seen high levels of inflation which has led to a significant increase in interest rates. The combination of high inflation and an increase to interest rates is likely to increase the Company's cost base. A sensitivity analysis has been performed on interest rates in Note 16.

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 £237,919,000 (2021: £201,684,000) and gross profit of £56,437,000 (2021: £46,838,000). 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 2021 and 2020 investments in signings have contributed towards the organic growth seen in 2022 revenue and gross profit. Contracts entered into in 2022 will contribute towards 2023 income. Throughout 2022 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 £14,134,000 (2021: £3,559,000) was due to new acquisitions and positive growth in the market.

Loss before taxation was £3,521,000 (2021 profit before taxation: £3,663,000) driven by increased finance costs in the year as well as impairment of investments. The Company received dividends from its subsidiaries to the value of £nil (2021: £nil).

EBIT and EBITDA reconciliation:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
(Loss)/profit before taxation	(3,521)	3,663
Adjustment for:		
Finance income	(1,199)	(886)
Finance cost	16,514	10,050
EBIT	11,794	12,827
Amortisation of intangible assets	17,035	14,859
EBITDA	28,829	27,686

The Company's net assets as at 31 December 2022 were £107,767,000 (2021: £112,408,000).

BMG Rights Management (UK) Limited

Strategic report (continued)

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.

The directors fulfil these duties as follows:

The interest of the Company's employees

The board recognises that employees are central to the long-term success of the Company. The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a major role in maintaining its prosperity. The Company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the Company's progress. The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or sexual orientation.

Business relationships with suppliers, customers and others

The directors appreciate the importance of fostering business relationships with key stakeholders, such as customers and suppliers, and focus on the maintenance and growth of these relationships in their decision-making and strategic planning. The Company employs dedicated relationship managers to foster these relationships which also ensures the board has a high degree of visibility to take stakeholder considerations into account.

Community and environment

The Company's approach is to use its position of strength to ensure it is an asset to the communities and people with which it interacts. The board ensures significant consideration is given to the impact of the Company's operations on the community and environment in their decision-making. The Company strives to create positive change in reducing the environmental standards, whilst maintaining effective and continuing business practices.

BMG Rights Management (UK) Limited

Strategic report (continued)

Section 172 reporting (continued)

Shareholders

The board recognises the importance of regular and open dialogue with the shareholders and the need to ensure the strategy and goals of the Company are effectively communicated to them. Feedback on these plans and objectives is welcomed by the directors and major business decisions are made closely and with the approval of the shareholders.

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



David D'Urbano

Director
21 July 2023

Registered Office

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

BMG Rights Management (UK) Limited

Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2022 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 2022 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 in fiscal year 2022. The business continues to undergo review to identify further optimisation potential and cost structures are likewise being optimised and brought into alignment with business expectations.

Financial instruments

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

Going concern

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

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

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

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 (resigned on 30 June 2023)
Thomas Coesfeld
David D'Urbano
Hartwig Masuch (resigned on 30 June 2023)
Alistair Norbury
Benjamin Katovsky (resigned on 1 March 2022)

Dividends

The directors do not recommend a dividend (2021: £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 (2021: £nil). The Company made charitable contributions of £nil during the year (2021: £nil).

Independent Auditor

Following completion of current year audit, KPMG LLP will step down as the Company's auditor. The directors intend to subsequently appoint Grant Thornton UK LLP as the Company's successor auditor.

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 auditor 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 auditor aware of that information.

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



David D'Urbano
Director

21 July 2023

Registered Office

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

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 UK-adopted international accounting standards and applicable law.

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 UK-adopted international accounting standards;
- 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.

BMG Rights Management (UK) Limited

Independent auditor's 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 2022 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 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 auditor's 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 and those made to unrelated accounts.

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 auditor's 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. or

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 auditor's 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.



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

Date: 24 July 2023

BMG Rights Management (UK) Limited

Statement of comprehensive income for the year ended 31 December 2022

		Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Continuing operations	Note		
Revenue	2	237,919	201,684
Cost of sales		(181,482)	(154,846)
Gross profit		56,437	46,838
Administrative expenses		(42,303)	(43,279)
Profit from operations	3	14,134	3,559
Finance income	5	1,199	886
Finance cost	6	(16,514)	(10,050)
Profit on disposal		159	-
Other income		301	1,168
Impairment of investments	9	(2,800)	(1,100)
Reversal of impairment on investments	9	-	9,200
(Loss)/profit before taxation		(3,521)	3,663
Taxation	7	(1,120)	(785)
(Loss)/profit and total comprehensive (loss)/income for the year		(4,641)	2,878

The accompanying notes on pages 18 to 38 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 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Intangible assets	8	317,523	266,048
Investments in subsidiaries	9	113,226	116,026
Deferred tax asset	7	324	408
Total non-current assets		431,073	382,482
Current assets			
Inventories	10	8,817	5,666
Trade and other receivables	11	218,910	199,998
Cash and cash equivalents	12	898	57
Total current assets		228,625	205,721
Total assets		659,698	588,203
Liabilities			
Non-current liabilities			
Other non-current payables	14	5,121	8,047
Total non-current liabilities		5,121	8,047
Current liabilities			
Trade and other payables	13	546,810	467,748
Total current liabilities		546,810	467,748
Total liabilities		551,931	475,795
Net assets		107,767	112,408
Equity			
Share capital	15	-	-
Retained earnings		107,767	112,408
Total equity		107,767	112,408

The accompanying notes on pages 18 to 38 are an integral part of this Statement of financial position.

The financial statements, on pages 14 to 38, of BMG Rights Management (UK) Limited, registered number 06705101, were approved by the Board of Directors on 21 July 2023.

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 2022

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2021	-	-	109,530	109,530
Profit and total comprehensive income for the year	-	-	2,878	2,878
As at 31 December 2021	-	-	112,408	112,408
Total comprehensive loss for the year	-	-	(4,641)	(4,641)
As at 31 December 2022	-	-	107,767	107,767

The accompanying notes on pages 18 to 38 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 2022

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Net cash generated from operating activities	18	84,666	21,764
Cash flows from investing activities			
Acquisition of intangible assets		(68,510)	(12,749)
Net cash used in investing activities		(68,510)	(12,749)
Cash flows from financing activities			
Interest paid		(16,514)	(10,050)
Interest received		1,199	886
Net cash used in financing activities		(15,315)	(9,164)
Net increase/(decrease) in cash and cash equivalents		841	(149)
Cash and cash equivalents at the beginning of the year		57	206
Cash and cash equivalents at end of the year		898	57

The accompanying notes on pages 18 to 38 are an integral part of this Statement of cash flows.

BMG Rights Management (UK) Limited

Notes to the financial statements

Year ended 31 December 2022

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 19).

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 UK – adopted international accounting standards.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Measurement convention

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

Going concern

The company meets its day to day working capital requirements from a cash pooling arrangement, together with operational cash flows, and trading intercompany balances within the group headed by Bertelsmann SE & Co. KGaA, the ultimate parent company.

The directors have prepared cash flow forecasts considering the operating nature of the entity, current global economic uncertainty and expectations for the future trading based upon normalising historic trends and applying any business knowledge around future projects, along with the outstanding intercompany payables and intercompany receivables for a period of 12 months from the date of approval of these financial statements. This assessment indicates that, notwithstanding net current liabilities of £318,185,000 (2021: £262,027,000), the Company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA and repayment of outstanding balances from fellow subsidiaries to meet its liabilities as they fall due for that period. Those forecasts are dependent on Bertelsmann SE & Co. KGaA not seeking repayment of the amounts currently due to the group and providing additional financial support during that period.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

1. Accounting policies (continued)

Going concern (continued)

Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. 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.

Given the dependency on the ultimate parent company, 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, the Group has sufficient headroom and will be able to provide support to the company.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 "Administrative expenses" in 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 - 2 years

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

Intangible assets that have been developed but are sold before the Company has exploited them are expensed in "Cost of sales" at cost.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined using the average cost method. Cost includes the purchase price, including taxes, duties, freight and handling directly attributable to bringing the inventory to its present location and condition.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

1. Accounting policies (continued)

Property, plant and equipment

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

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

Investments in subsidiaries

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

On disposal of investments in subsidiaries the difference between disposal proceeds and the carrying amounts of the investments are recognised in the Statement of comprehensive income.

Impairment excluding inventories and deferred tax assets

The carrying amounts of the Company's assets are reviewed at each Statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of comprehensive income.

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

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.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

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.

An impairment loss in respect of goodwill is not reversed.

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

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

Cash and cash equivalents

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

Loan receivables and payables

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

Trade and other receivables

Trade and other receivables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility earns interest at a margin of 0.175% less the GBP SONIA rate (2021: 0.175% less the ICE LIBOR 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 GBP SONIA rate (2021: 2.75% above the ICE LIBOR rate). Trade and other payables at the Statement of financial position date are stated at amortised costs which approximates to cost less impairment.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

1. Accounting policies (continued)

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.

Revenue from royalty licencing 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. The revenue is recognised only when performance obligations are satisfied.

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.

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.

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.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

1. Accounting policies (continued)

Taxation

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

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

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

Business combinations

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

Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates, underlying assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances.

Advances

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. The recoupment profile calculation is a mechanical calculation that has been applied across all our artist advances. The calculation has been derived through a number of variables such as age of advances, historical activity, future sale projections and extrapolated average recoupment rates over deal term. The carrying amount of artist advances is included within other receivables.

Impairment of investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. The Company tests annually whether investments have suffered any impairment, with the carrying amount being written down for any impairment highlighted. The Company uses budgeted profits, projected cash flows and weighted average cost of capital in order to determine whether any impairment is required. See Note 9 for the carrying amount of investments and associated provision.

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 2022, have had a material impact on the Company.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

2. Revenue

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
United Kingdom	62,238	44,221
North America	94,287	77,290
Europe	62,064	62,256
Other	19,330	17,917
	<u>237,919</u>	<u>201,684</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 2022 £'000	Year ended 31 December 2021 £'000
Revenue recognised over time	169,830	140,444
Revenue recognised at a point in time	68,089	61,240
	<u>237,919</u>	<u>201,684</u>

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

	2022 £'000	2021 £'000
Contract assets	4,687	4,297
Contract liabilities	<u>(13,981)</u>	<u>(21,166)</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 £13,447,000 included in contract liabilities as at 31 December 2021 has been recognised as revenue in 2022 (2021: £15,621,000).

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

3. Profit from operations

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Amortisation of intangible assets	17,035	14,859
Net foreign exchange loss/(gain)	493	(113)
Management fees	21,279	19,825
Change in provisions	3,064	7,556

The audit fee of £102,000 (2021: £102,000) 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 (2021: nil), therefore no costs were incurred in the year (2021: £nil). Employee costs and directors emoluments were borne by affiliate company BMG Rights Management Services (UK) Limited and costs were recharged to the Company as part of management fees. Refer to Note 17 for the directors emoluments borne by BMG Rights Management Services (UK) Limited for the current and prior year.

5. Finance income

		Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Interest receivable on intercompany balances		1,199	487
Discount on deferred consideration	14	-	399
		<u>1,199</u>	<u>886</u>

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 2022 £'000	Year ended 31 December 2021 £'000
Interest payable on intercompany balances		16,495	10,030
Interest payable to third parties		19	20
		<u>16,514</u>	<u>10,050</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 2022

7. Taxation

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Current taxation		
UK corporation tax – current year	(952)	(672)
UK corporation tax – prior year	(84)	(159)
Foreign tax charge	(1,616)	(1,233)
Double tax relief	1,616	1,233
Deferred taxation		
Deferred taxation – current year	(84)	46
Total tax charge	(1,120)	(785)

The tax assessed for the year differs from the standard effective rate of corporation tax in the UK for the year ended 31 December 2022 of 19% (2021: 19%). The differences are explained below:

Tax reconciliation

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
(Loss)/profit before taxation	(3,521)	3,663
Tax credit/(charge) at 19% (2021: 19%)	669	(696)
Effects of:		
UK corporation tax – prior year	(84)	(159)
(Impairment)/Reversal of impairment in investments	(532)	1,539
Non-deductible expenses	(1,344)	(1,603)
Rate difference	(20)	98
Losses not recognised now utilised	191	36
Total tax charge	(1,120)	(785)

At 31 December 2022 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 £3,028,000 at 25% (2021: £3,230,000 at 25%) which has not been recognised because there is currently insufficient evidence that sufficient profits will be generated to offset the future reversal of these tax losses.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. Therefore this is the rate that has been put into effect in the current year.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

7. Taxation (continued)

Deferred tax assets

	Other £'000	Losses £'000	Total £'000
At 1 January 2021	362	-	362
Prior year adjustment	-	-	-
Movement	46	-	46
At 31 December 2021	408	-	408
Prior year adjustment	-	-	-
Movement	(84)	-	(84)
At 31 December 2022	324	-	324

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Deferred tax asset		
Utilised within twelve months	119	119
Utilised greater than twelve months	205	289
	324	408

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

8. Intangible assets

	Music catalogues £'000	Development expenditure £'000	Audio-visual £'000	Total £'000
Cost				
At 1 January 2021	314,936	1,577	-	316,513
Transfers	(5,803)	-	5,803	-
Additions	12,260	489	-	12,749
Disposals	(39)	-	-	(39)
At 31 December 2021	321,354	2,066	5,803	329,223
Transfers	(1,734)	-	1,734	-
Additions	67,922	588	-	68,510
At 31 December 2022	387,542	2,654	7,537	397,733
Accumulated amortisation				
At 1 January 2021	47,249	1,106	-	48,355
Transfers	(1,495)	-	1,495	-
Charge for the year	13,549	482	828	14,859
Disposals	(39)	-	-	(39)
At 31 December 2021	59,264	1,588	2,323	63,175
Charge for the year	15,327	396	1,312	17,035
At 31 December 2022	74,591	1,984	3,635	80,210
Net book amount				
At 31 December 2022	312,951	670	3,902	317,523
At 31 December 2021	262,090	478	3,480	266,048
At 1 January 2021	267,687	471	-	268,158

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

Included within Music catalogues is £5,657,000 (2021: £3,108,000) relating to assets in development. It is expected these will be completed in late 2023/early 2024 and will then be amortised in line with the Company's accounting policy. During the year £1,734,000 (2021: £694,000) was transferred from assets in development within Music catalogues to Audio visual assets following the completion of certain audio visual projects.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

9. Investments in subsidiaries

The movement in the year was as follows:

	2022 £'000	2021 £'000
Cost		
At 1 January	419,575	419,575
Acquisitions	-	-
Disposals	-	-
At 31 December	<u>419,575</u>	<u>419,575</u>
Amounts provided		
At 1 January	(303,549)	(311,649)
Charge in year	(2,800)	(1,100)
Reversal of impairment	-	9,200
At 31 December	<u>(306,349)</u>	<u>(303,549)</u>
Net book amount at the end of the year	<u>113,226</u>	<u>116,026</u>
Net book amount at the beginning of the year	<u>116,026</u>	<u>107,926</u>

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

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 2022

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 2022

10. Inventories

	2022 £'000	2021 £'000
Finished goods and goods for resale	12,323	8,263
Provision for finished goods	(3,506)	(2,597)
Total inventory	<u>8,817</u>	<u>5,666</u>

Inventories recognised as an expense during the year ended 31 December 2022 amounted to £8,758,000 (31 December 2021: £nil), included in cost of sales.

Write-downs of inventories to net realisable value amounted to £909,000 (31 December 2021: £nil) included as an expense in "Administrative expenses".

11. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	11,624	5,175
Other receivables	148,568	158,021
Trade and other receivables from group companies	49,374	29,804
Group relief trade receivables	1,633	1,330
Prepayments and accrued income	7,711	5,668
	<u>218,910</u>	<u>199,998</u>

Amounts due from group undertakings are repayable on demand, unsecured and bear interest at the GBP SONIA rate less a margin of 0.175% (2021: ICE LIBOR rate less a margin of 0.175%).

As at 31 December 2022, artist and writer advances are recorded at net carrying value in other receivables post adjusting the provisions of £44,031,000 (2021: £41,825,000).

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

12. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank	898	57

13. Trade and other payables

	2022 £'000	2021 £'000
Due within one year		
Trade payables	71,680	56,573
Trade and other payables to group companies	433,464	379,640
Group relief trade payables	968	769
Other payables	40,698	30,766
	<u>546,810</u>	<u>467,748</u>

Trade and other payables to group companies include the group cash pooling facility balance of £405,726,000 (2021: £362,759,000) with the parent company and other related parties. The cash pooling facility is unsecured and interest-bearing at the GBP SONIA rate plus a margin of 2.75% (2021: ICE LIBOR rate plus a margin of 2.75%).

14. Other non-current payables

	2022 £'000	2021 £'000
Non-current payables:		
Deferred consideration	5,121	8,047

Non-current payables represent other amounts due after one year. As at 31 December 2022 non-current payables include future liabilities of £446,000 which are due after 5 years (2021: £594,000). Finance expense on non-current payables recognised in the financial statements was £nil (2021: £399,000 income).

15. Share capital

	2022 £'000	2021 £'000
Authorised, issued and fully paid:		
5 (2021: 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.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

16. 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 receivables

The fair value of trade 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:

2022			2021		
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
5,121	-	5,121	8,368	(321)	8,047

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 2022

16. 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:

	2022		2021	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	11,624	11,624	5,175	5,175
Trade and other receivables from group companies	49,374	49,374	29,804	29,804
Trade payables	(71,680)	(71,680)	(56,573)	(56,573)
Trade and other payables to group companies	(433,464)	(433,464)	(379,640)	(379,640)
	<u>(444,146)</u>	<u>(444,146)</u>	<u>(401,234)</u>	<u>(401,234)</u>

Unrecognised gains/losses

(b) Credit risk

Financial risk management

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

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

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the Statement of financial position date was £11,624,000 (2021: £5,175,000) being the total of the carrying amount of trade receivables, shown in the Fair values of financial instruments table.

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

16. Financial instruments (continued)

(b) Credit risk (continued)

Financial assets and impairment losses

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

	Gross trade receivables £'000	2022 Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	2021 Doubtful debt provision £'000	Net trade receivables £'000
Not past due	11,943	(319)	11,624	5,545	(370)	5,175

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.

(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 GBP SONIA rate plus a margin of 2.75% (2021: ICE LIBOR rate plus a margin of 2.75%). 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 GBP SONIA rate (2021: ICE LIBOR rate).

BMG Rights Management (UK) Limited

Notes to the financial statements (continued)

Year ended 31 December 2022

16. Financial instruments (continued)

(d) Market risk (continued)

Sensitivity analysis – interest rate risk

A change of one percent in interest rates at the Statement of financial position date would have increased the Company's 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 GBP SONIA market rate would increase the Company's loss before taxation by approximately £3,742,000 (2021: £3,404,000).

(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.

17. 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)	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
8ball Music B.V.	(2)	(23)	(7)	-
Amygdala Records Inc	(457)	(606)	-	-
Bertelsmann UK Ltd	(16,103)	(10,025)	(382,635)	(337,711)
Bertelsmann SE & Co	(1)	(2)	-	(2)
BMG (Beijing) Music & Culture Co. Ltd	-	-	390	378
BMG Production Music (France) SAS	(4)	(1)	(3)	(1)
BMG Production Music (UK) Ltd	(60)	(17)	(4,396)	(1,685)
BMG Rights Management (Australia) Pty Ltd	1,481	1,728	(86)	8
BMG Rights Management (Benelux) B.V	898	1,384	5	(30)
BMG Rights Management (Canada) Inc.	1,749	1,450	61	64
BMG Rights Management (Europe) GmbH	18,572	11,081	202	89

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

17. Related parties (continued)

Related party transactions (continued)

	Sales / (purchases) of goods		Trade balances receivable / (payable)	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
BMG Rights Management (France) SARL	1,590	2,482	(131)	310
BMG Rights Management (Hong Kong) Ltd	124	130	-	(21)
BMG Rights Management (Italy) S.R.L	175	168	(245)	(229)
BMG Rights Management (Scandinavia) AB	420	541	(30)	(57)
BMG Rights Management (US) LLC	(2,989)	(5,432)	(667)	(474)
BMG Rights Management and Administration (Spain) S.L	62	719	(137)	(63)
BMG Rights Management Brasil Ltda	716	300	(143)	(12)
BMG Rights Management GmbH	(4,125)	(8,164)	(300)	(2,702)
BMG Rights Management Services (UK) Ltd	(19,792)	(18,267)	(1,139)	(1,186)
Boman (Beijing) Cultural Development Co. Ltd	4,319	4,114	5,399	3,621
Countdown Media GmbH	(853)	(654)	(37)	(25)
Creole Records Ltd	-	-	(37)	(37)
Francis Dreyfus Music SARL	(149)	(523)	-	(32)
FremantleMedia Ltd	(382)	(371)	-	-
Infectious Music Ltd	(782)	(515)	3	649
Loaded Records Ltd	(1,058)	(1,244)	(4,229)	(2,631)
Men From The North Ltd	-	-	(8)	(8)
Mute Records Ltd	(3,161)	(4,048)	(3,509)	(2,671)
Ram Records Ltd	(187)	(146)	(530)	(344)
Rise Records Inc	(1,544)	(1,461)	(101)	(132)
Sanctuary Records Group Ltd	(9,164)	(12,842)	6,595	(9,701)
Sonopress GmbH	(1,790)	(1,579)	(106)	(10)
The Echo Label Ltd	(1,241)	(1,382)	881	1,996
This is Hit Inc	(202)	(31)	7	4
Trojan Recordings Ltd	-	-	(10)	(10)
Union Square Music Ltd	(2,259)	(3,338)	5,154	6,979
World Circuit Ltd	(1,414)	(1,925)	(4,301)	(4,160)
	<u>(37,613)</u>	<u>(48,499)</u>	<u>(384,090)</u>	<u>(349,836)</u>

BMG Rights Management (UK) Limited

Notes to the financial statements (continued) Year ended 31 December 2022

17. Related parties (continued)

During the year the Company incurred a total of £1,319,000 (2021: £1,281,000) in relation to costs associated with key management personnel who are determined to be the Directors of the Company. These costs are imbedded in the management recharge from BMG Rights Management Services (UK) Ltd.

18. Net cash used in operating activities

Cash flows from operating activities

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
(Loss)/profit before taxation	(3,521)	3,663
Adjustment for:		
Amortisation of intangible assets	17,035	14,859
Impairment of investments	2,800	1,100
Reversal of impairment of investments	-	(9,200)
Finance income	(1,199)	(886)
Finance cost	16,514	10,050
Change in provisions	3,064	7,556
Operating profit before movements in working capital	34,693	27,142
Increase in trade and other receivables	(1,324)	(6,625)
Increase in trade and other payables	56,487	8,851
Increase in inventories	(4,060)	(5,666)
Cash generated from/(used in) operations	51,103	(3,440)
Tax paid	(1,130)	(1,938)
Net cash generated from operating activities	84,666	21,764

19. 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.