

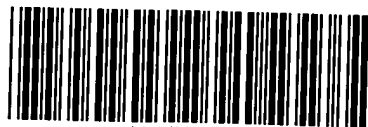
Company Registration No. 02697748

Bug Music Limited

Reports and Financial Statements

31 December 2014

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Bug Music Limited

Reports and financial statements 2014

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Bug Music Limited

Reports and financial statements 2014

Officers and professional advisers

Directors

Maximilian Dressendoerfer
John Dobinson
Mark Ranyard
Alexi Cory-Smith
Hartwig Masuch

Registered Office

33 Wigmore Street
London
United Kingdom
W1U 1QX

Bankers

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

Solicitors

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

Independent Auditors

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

Bug Music Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2014 for Bug Music Limited (the "Company").

Business review

Bug Music Limited owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. It additionally contracts as a sub-publisher for collection and transfer of monies to other affiliated companies within the BMG Group.

Strategy

Bug Music Limited is part of an international group of companies focused on the management of music rights. The Company covers the entire range of rights administration, development and exploitation, placing the needs of songwriters and artists at the core of its business model. At the core of the Company's strategy is delivering a high quality rights administration service to artists and writers.

Key performance indicators

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, net publisher's share (revenue received by a music publisher less royalties payable; "NPS") and operating loss (Earnings Before Interest and Taxes; "EBIT"). The Company is financed through intercompany funding from its group parent companies and through equity.

Business performance 2014

As shown in the Company's Statement of comprehensive income on page 10, the Company reported revenues of £2,843,000 (2013: £3,303,000) and gross profit of £616,000 (2013: £536,000). Gross profit has increased despite the fall in revenue, and there remains a healthy mix of income from all traditional sources.

The operating profit was £353,000 (2013: £52,000 operating loss) and is mainly due to reduced management recharges.

Principal risks and uncertainties

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

Market risks

Global economic outlook

Bug Music Limited receives income from worldwide sources and is susceptible to changes in the global economy. Failure to adjust to changes in the global economy could have a material adverse effect on the Company's business. Bug Music Limited is part of a broader group of rights administration companies which are actively building a business presence in the European, US and UK territories as a strategy to diversify this risk.

Music industry growth

The music industry is experiencing a period of on-going financial challenge due to the changing means by which consumers choose to access music, retail piracy, industrial piracy and a corresponding decline in the sale of the physical product, which may not be offset completely by new digital and internet-based revenue streams.

Intense competition in the music industry could result in higher artist and writer acquisition costs or failure to attract and retain key talent. Such competition may affect customer choices and options available to them for music publishing and administration contracts. These changes could materially and adversely affect the business of Bug Music Limited.

Bug Music Limited

Strategic report (continued)

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

Business risks

Failure to fully exploit organic and acquisition growth opportunities

If Bug Music Limited fails to keep pace with industry trends and developments, it may experience competitive disadvantage, which may result in lower margins and loss of market share. Failure to directly or indirectly exploit new growth areas, such as the use of music individual media, could have a material adverse effect on the Company's business. The future success of Bug Music Limited therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions.

Client retention and performance of releases

Bug Music Limited's prospects may be adversely impacted if the business fails to identify, sign and retain songwriters and artists and by the absence of superstar releases. The decision of potential clients to sign with Bug Music Limited or the decision of existing clients to remain with Bug Music Limited is complex and involves consideration of many factors. As such it is uncertain how many new clients Bug Music Limited will sign and what proportion of existing clients will extend their agreements. Equally, Bug Music Limited has no control over the release schedule of partnering record companies and the phasing of album releases can impact the Company's results on an annual basis.

Dependency on third party service partners and shareholder affiliates

Emerging channels for music distribution could significantly change the operational setting/configuration and financial performance/returns in the business. Bug Music Limited relies on a number of third party business partners and shareholder affiliates to operate successfully. These include sub-publishers, who support Bug Music Limited in international rights management and license income collections.

Additionally, Bug Music Limited outsources information technology infrastructure, certain finance, tax and human resources functions and other back-office functions to affiliates operating as service providers in the respective functions.

Financial risks

Exchange rate fluctuation risk

The Company transacts and accounts in local currency, which is converted into the Group reporting currency, creating an exposure to movements in foreign exchange rates. The company manages its foreign exchange exposure through matching of cash flows from investments, financing and operations. The Company actively manages its residual foreign exchange exposures through use of foreign exchange forward instruments, as appropriate, to manage future foreign exchange rates.

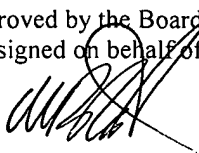
Bug Music Limited

Strategic report (continued)

Interest rate fluctuation risk

The Company is financed through intercompany borrowings which bear interest at short-term LIBOR rate plus a margin. The Company is therefore opposed to fluctuations in interest rates. These exposures are not hedged.

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



M Ranyard
Director

27 March 2015

Bug Music Limited

Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2014 for Bug Music Limited (the "Company").

Principal activities

The principal business of the Company during the year ended 31 December 2014 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, Bug Music Limited retains a share of revenues generated from the use of the recording.

Outlook

The directors do not expect any significant change in the activities of the Company.

Going concern

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

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

Directors

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

Maximilian Dressendoerfer

John Dobinson

Mark Ranyard

Hartwig Masuch

Alexi Cory-Smith

Dividends

The directors do not recommend a dividend (2013: £nil).

Directors and officers insurance

The Company maintains liability insurance for directors and officers of the Company.

Political and charitable contributions

The Company made no political or charitable contributions or incurred any political expenditure during the current or prior year.

Bug Music Limited

Directors' report (continued)

Statement of disclosure of information to auditors

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

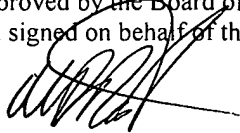
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that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

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

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



M Ranyard
Director

27 March 2015

Bug Music Limited

Statement of directors' responsibilities

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Bug Music Limited

Independent auditors' report to the members of Bug Music Limited

Report on the financial statements

Our opinion

In our opinion, Bug Music Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Bug Music Limited's financial statements comprise:

- the Statement of financial position as at 31 December 2014;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Statement of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Bug Music Limited

Independent auditors' report to the members of Bug Music Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jonathan Ford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2015

Bug Music Limited

Statement of comprehensive income Year ended 31 December 2014

		Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
	Notes		
Revenue	2	2,843	3,303
Cost of sales		(2,227)	(2,767)
Gross profit		616	536
Administrative expenses		(263)	(588)
Profit/(loss) from operations	3	353	(52)
Finance income	5	15	3
Profit/(loss) before taxation		368	(49)
Taxation	6	(81)	1
Profit/(loss) for the year attributable to equity shareholder		287	(48)

The accompanying notes are an integral part of this Statement of comprehensive income for the year ended 31 December 2014 and the Company did not have any items of other comprehensive income. All results relate to continuing operations.

Bug Music Limited

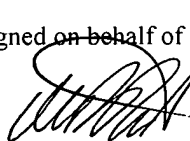
Statement of financial position As at 31 December 2014

	Notes	2014 £'000	2013 £'000
Non-current assets			
Intangible assets	7	130	136
Total non-current assets		130	136
Current assets			
Trade and other receivables	8	3,314	9,903
Total current assets		3,314	9,903
Total assets		3,444	10,039
Equity			
Share capital	10	-	-
Retained earnings		997	710
Total shareholder's equity		997	710
Current liabilities			
Trade and other payables	9	2,447	9,329
Total current liabilities		2,447	9,329
Total equity and liabilities		3,444	10,039

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

The financial statements of Bug Music Limited, registered number 02697748, were approved by the Board of Directors on 27 March 2015.

Signed on behalf of the Board of Directors



M Ranyard
Director

Bug Music Limited

Statement of changes in equity Year ended 31 December 2014

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2013	-	758	758
Loss and total comprehensive expense for the year	-	(48)	(48)
As at 1 January 2014	-	710	710
Profit and total comprehensive income for the year	-	287	287
As at 31 December 2014	-	997	997

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

Bug Music Limited

Statement of cash flows Year ended 31 December 2014

	Notes	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Net cash generated from/(used in) operating activities	14	9	(3)
Net increase/(decrease) in cash and cash equivalents		9	(3)
Cash and cash equivalents at the beginning of the year		(11)	(8)
Cash and cash equivalents at the end of the year	9	(2)	(11)

The accompanying notes are an integral part of this Statement of cash flows.

Bug Music Limited

Notes to the financial statements Year ended 31 December 2014

1. Accounting policies

Bug Music Limited (the "Company") is a company incorporated in the United Kingdom.

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

The company has taken exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006, because it is a wholly owned subsidiary of Bertelsmann SE & Co KGaA which prepares consolidated financial statements which are publicly available (refer to note 13).

Basis of preparation

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis.

These financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards ("IFRS") as issued by the European Union ("EU").

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 on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Measurement convention

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and Directors' report on pages 2 to 6. The directors have considered the financial resources available along with the future plans for the company and the support provided by the intermediate holding company, Bertelsmann UK Limited, 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.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

1. Accounting policies (continued)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each statement of financial position date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Music catalogues	25 years
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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 the 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.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

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 cash flow statement.

Trade and other receivables

Trade and other receivables at the statement of financial position date are stated at amortised cost which approximates to cost less impairment losses.

Trade and other payables

Trade and other payables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility bears interest at a margin above the 3 month LIBOR market rate. Trade and other payables are stated at amortised cost which approximates to cost.

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 licencing 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 principle. 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.

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.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

1. Accounting policies (continued)

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.

Taxation

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

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

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

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 the Company uses industry standard rates to estimate the royalties' accruals.

Writer advances provisions were made during the year based on calculations used across the BMG group.

New and amended standards adopted by the company

The following standards have been adopted by the company for the first time for the financial year beginning 1 January 2014, but do not have a material impact on the company:

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

1. Accounting policies (continued)

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.

New standards 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 2014, 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 company:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. 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 OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were 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. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted subject to EU endorsement.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted subject to EU endorsement.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

2. Revenue

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

	2014 £'000	2013 £'000
Geographical market		
United Kingdom	2,825	3,132
Rest of the world	18	171
	<u>2,843</u>	<u>3,303</u>

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

3. Profit/(loss) from operations

Profit/(loss) from operations has been arrived at after charging:

	2014 £'000	2013 £'000
Amortisation of intangible assets	6	6
Net foreign exchange loss	20	29
	<u>26</u>	<u>35</u>

The audit fee of £8,000 (2013: £8,000) was borne by the intermediate United Kingdom holding company, BMG Rights Management (UK) Limited.

4. Employee costs and directors' remuneration

The directors received no remuneration from the Company for services during the year (2013: £nil).

The Company did not have any other employees and as a result incurred no staff costs (2013: £nil).

5. Finance income

	2014 £'000	2013 £'000
Finance income	<u>15</u>	<u>3</u>

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

6. Taxation

	2014 £'000	2013 £'000
Current and deferred taxation		
UK corporation tax – current year	79	(6)
Adjustments in respect of prior years	2	-
Foreign tax	-	5
	<u>81</u>	<u>(1)</u>
Total tax expense/(credit)	<u>81</u>	<u>(1)</u>

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

6. Taxation (continued)

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

Tax reconciliation

	2014 £'000	2013 £'000
Profit/(loss) before taxation	368	(49)
Tax using the UK corporation tax rate of 21.5% (2013: 23.25%) Current year	79	(11)
Effects of:		
Foreign tax	-	5
Tax loss carried forward	-	5
Adjustments in respect of prior years	2	-
Total tax expense/(credit)	81	(1)

The current tax charge represents amounts payable to fellow UK subsidiaries of the Bertelsmann Group in respect of current year losses claimed in the United Kingdom.

The standard rate of corporation tax in the United Kingdom changed from 23% to 21% with effect from 1 April 2014. Accordingly the company's profits are taxed at an effective rate of 21.5%.

During 2013 changes to the UK main corporation tax rate were enacted. The tax rate has fallen to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015.

A deferred tax asset of £5,000 (2013: £5,000) has not been recognised on the basis that there is currently insufficient evidence that suitable profits will be generated to offset these losses.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

7. Intangible fixed assets

	Music catalogues £'000	Total £'000
Cost		
At 1 January 2013	190	190
At 31 December 2013	190	190
At 31 December 2014	190	190
Accumulated amortisation		
At 1 January 2013	48	48
Charge for the year	6	6
At 31 December 2013	54	54
Charge for the year	6	6
At 31 December 2014	60	60
Net book value		
At 31 December 2014	130	130
At 31 December 2013	136	136

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

8. Trade and other receivables

	2014 £'000	2013 £'000
Due within one year		
Trade receivables	407	381
Trade and other receivables from group companies	2,907	9,515
Group relief receivable from group companies	-	7
	3,314	9,903

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

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

9. Trade and other payables

	2014 £'000	2013 £'000
Due within one year		
Bank overdraft	2	11
Trade and other payables	2,034	2,455
Trade and other payables from group companies	260	6,677
Group relief trade payables	79	-
Taxation	72	186
	<u>2,447</u>	<u>9,329</u>

10. Share capital

	2014 £	2013 £
Issued and fully paid:		
100 (2013: 100) ordinary shares of £1 each	<u>100</u>	<u>100</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.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

11. Financial instruments

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

(a) Fair values of financial instruments

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Fair values

The fair value for each class of financial asset and financial liability together with their carrying amount shown in the statement of financial position is as follows:

	2014		2013	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	407	407	381	381
Trade and other receivables from group companies	2,907	2,907	9,522	9,522
Trade and other payables	(2,034)	(2,034)	(2,455)	(2,455)
Trade and other payables from group companies	(260)	(260)	(6,677)	(6,677)
Group relief trade payables	(79)	(79)	-	-
Taxation	(72)	(72)	(186)	(186)
	<u>869</u>	<u>869</u>	<u>585</u>	<u>585</u>
Unrecognised gains/losses				<u>-</u>

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

11. 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 £407,000 (2013: £381,000), being the total of the carrying amount of trade receivables, shown in the table above.

Financial assets and impairment losses

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

	Gross trade receivables £'000	2014 Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	2013 Doubtful debt provision £'000	Net trade receivables £'000
Not past due	407	-	407	381	-	381

(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 (Euros) and the Company bears the foreign currency risk on these debtors and creditors.

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.

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

11. Financial instruments (continued)

Market risk – interest rate risk

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.

The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the 3 month LIBOR market rate.

Sensitivity analysis – interest rate risk

A change of one percent in interest rates at the statement of financial position date would have increased the profit by the amount 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 profit before taxation by approximately £29,000 (2013: 72,000)

12. 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)	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
BMG Rights Management (UK) Ltd	385	(1,396)	2,648	3,852
BMG Rights Administration Spain	-	-	-	2
BMG Rights Management (US) LLC	-	78	(1)	(804)
BMG Rights Management GmbH	-	-	-	279
Chrysalis Music Ltd	-	-	-	96
BMG Chrysalis Scandinavia AB	-	-	-	7
Windswept Music (London) Ltd	-	-	-	(587)
Total	385	(1,318)	2,647	2,845

Bug Music Limited

Notes to the financial statements (continued) Year ended 31 December 2014

13. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management (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.

14. Notes to the cash flow statement

Cash flows from operating activities

	2014 £'000	2013 £'000
Profit/(loss) before taxation	368	(49)
Adjustment for:		
Amortisation	6	6
Management fees	149	418
Finance income	(15)	(3)
Other non-cash items	(8)	135
	<hr/>	<hr/>
Operating profit before movements in working capital and provisions	500	507
Decrease/(increase) in receivables	6,610	(3,293)
(Decrease)/increase in payables	(7,101)	2,788
	<hr/>	<hr/>
Cash generated from operations	9	2
Tax paid	-	(5)
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	<u>9</u>	<u>(3)</u>