

Company Registration No. 02892098

Infectious Music Limited

Reports and Financial Statements

**Period from 1 October 2013 to 31 December
2014**

WEDNESDAY



A44XA6R4

A11

08/04/2015

#23

COMPANIES HOUSE

Infectious Music Limited

Report and financial statements 2014

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	4
Statement of directors' responsibilities	6
Independent auditors' report	7
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13

Infectious Music Limited

Report and financial statements 2014

Officers and professional advisers

Directors

Mark Ranyard
Hartwig Masuch
Maximilian Dressendoerfer
John Dobinson
Alexi Cory-Smith
Patricia Hammond
Korda Marshall

Registered Office

33 Wigmore Street
London
United Kingdom
W1U 1QX

Bankers

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

Coutts & Co
440 Strand
London
WC2R 0QS

Solicitors

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

Independent Auditors

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

Infectious Music Limited

Strategic report

The directors present their Strategic report and audited financial statements for the fifteen month period ended 31 December 2014 for Infectious Music Limited (the "Company").

Strategy

Infectious 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.

Business performance 2014

As shown in the Company's Statement of comprehensive income on page 9, the Company reported revenues for the fifteen month period of £2,154,000 (year ended 30 September 2013: £2,328,000) and gross profit of £696,000 (year ended 30 September 2013: £868,000). Revenue and gross profit have declined compared to the previous year due to timing of integration into our wider Group systems. Operating loss was £839,000 (year ended 30 September 2013: Operating profit £256,000) due to increased management recharges.

Key performance indicators

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, gross margin, operating profit/loss (Earnings Before Interest and Taxes; "EBIT") and EBITDA (as adjusted for depreciation and amortisation). The Company is financed through intercompany funding from its group parent companies and through equity.

Principal risks and uncertainties

There are a number of market and business risks that could affect Infectious 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

Infectious Music Limited received 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. Infectious 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 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 Infectious Music Limited.

Infectious Music Limited

Strategic report (continued)

Music industry regulatory and business legal risk

The Company operates in the master rights business and is susceptible to further contraction of recorded music sales. Failure to adjust to external changes could have a material effect on the Company's business. The Company has diversified its revenues through balanced contributions from copyrights and master rights. 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 the Company, regardless of the merits of the claim. If the Company were to lose a litigation relating to intellectual property, it could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect the Company's business.

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.

Interest rate fluctuation risk

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

Business risks

If Infectious 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 Infectious Music Limited therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions.

Artist retention and performance of releases

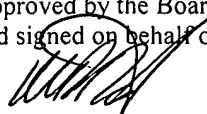
Infectious Music Limited's prospects may be adversely impacted if the business fails to identify, sign and retain artists and by the absence of superstar releases. The decisions of potential clients to sign with Infectious Music Limited or decisions of existing clients to remain with Infectious Music Limited are complex and involve considerations of many factors. As such it is uncertain how many new artists Infectious Music Limited will sign and what proportion of existing artists will extend their agreements.

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. Infectious Music Limited relies on a number of third party business partners and shareholder affiliates to operate successfully. These include sub-licencees, who support Infectious Music Limited in international rights management and license income collections.

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

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


M Ranyard
Director
27 March 2015

Infectious Music Limited

Directors' report

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

Principal activities

The principal businesses of the Company during the period ended 31 December 2014 was the production and sale of all forms of recorded music.

Outlook

The Directors do not anticipate any significant changes in the activities of the Company.

Business review

On 30 August 2014, Infectious Music Limited was acquired by BMG Rights Management (UK) Limited ("BMG UK"). Following the acquisition, the accounting reference date was changed from 30 September to 31 December. These financial statements therefore relate to the 15 month period from 1 October 2013 to 31 December 2014.

Infectious Music Limited owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use.

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 period and up to the date of signing the financial statements were as follows:

Mark Ranyard (appointed 30.08.2014)
Hartwig Masuch (appointed 30.08.2014)
Maximilian Dressendoerfer (appointed 30.08.2014)
John Dobinson (appointed 30.08.2014)
Alexi Cory-Smith (appointed 30.08.2014)
Patricia Hammond
Korda Marshall
Michael Bucks (resigned 30.08.2014)
Michael Gudinski (resigned 30.08.2014)

Dividends

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

Directors and officers insurance

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

Employees

The Company had four employees in the current period and prior year.

Political and charitable contributions

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

Infectious 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:

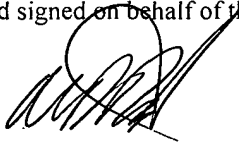
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that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

PricewaterhouseCoopers LLP were appointed as auditors on 9 February 2015.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to appoint 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

Infectious 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 period. 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.

Infectious Music Limited

Independent auditors' report to the members of Infectious Music Limited

Report on the financial statements

Our opinion

In our opinion, Infectious 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 loss and cash flows for the period 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

Infectious Music Limited's financial statements comprise:

- the Statement of financial position as at 31 December 2014;
- the Statement of comprehensive income for the period then ended;
- the Statement of changes in equity for the period then ended;
- the Statement of cash flows for the period 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 period 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.

Infectious Music Limited

Independent auditors' report to the members of Infectious 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 6, 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

Infectious Music Limited

Statement of comprehensive income Period ended 31 December 2014

		Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
	Notes		
Revenue	2	2,154	2,328
Cost of sales		(1,458)	(1,460)
Gross profit		696	868
Administrative expenses		(1,535)	(612)
(Loss)/profit from operations	3	(839)	256
Finance costs	5	(9)	-
(Loss)/profit before taxation		(848)	256
Taxation	6	-	-
(Loss)/profit for the period/year attributable to equity shareholder		(848)	256

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

Infectious Music Limited

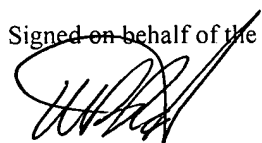
Statement of financial position As at 31 December 2014

	Notes	31 December 2014 £'000	30 September 2013 £'000
Non-current assets			
Intangible assets	7	-	-
		-	-
Current assets			
Trade and other receivables	8	1,531	681
Cash and cash equivalents	9	56	243
Total current assets		1,587	924
Total assets		1,587	924
Equity			
Share capital	13	1	1
Retained deficit		(2,230)	(1,382)
Total equity		(2,229)	(1,381)
Current liabilities			
Trade and other payables	10	3,816	378
		3,816	378
Non-current liabilities			
Loans	11	-	1,854
Other payables	12	-	73
		-	1,927
Total equity and liabilities		1,587	924

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

The financial statements of Infectious Music Limited registered number 02892098 were approved by the Board of Directors on 27 March 2015.

Signed on behalf of the Board of Directors



M Ranyard
Director

Infectious Music Limited

Statement of changes in equity Period ended 31 December 2014

	Share capital £'000	Retained deficit £'000	Total £'000
As at 1 October 2012	-	(1,638)	(1,638)
Profit and total comprehensive income for the year	1	256	257
As at 1 October 2013	1	(1,382)	(1,381)
Loss and total comprehensive expense for the period	-	(848)	(848)
As at 31 December 2014	1	(2,230)	(2,229)

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

Infectious Music Limited

Statement of cash flows Period ended 31 December 2014

		Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
	Note		
Net cash generated from operating activities	17	1,667	7
Net cash generated from investing activities		-	-
Net cash (used in)/generated from financing activities		(1,854)	205
Net (decrease)/increase in cash and cash equivalents		(187)	212
Cash and cash equivalents at the beginning of the period/year		243	31
Cash and cash equivalents at the end of the period/year		56	243

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

Infectious Music Limited

Notes to the financial statements Period ended 31 December 2014

1. Accounting policies

Infectious 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 periods 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 14).

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 the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards ("IFRS") as issued by the European Union ("EU").

These financial statements represent the first annual financial statements of the Company prepared in accordance with IFRS as issued by the EU. The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was 1 April 2011.

Line-by-line reconciliations to show the effect of the transition from UK GAAP to IFRS are not presented as there was no impact on equity, earnings and comprehensive income and the statement of financial position as at 30 September 2013, 30 September 2012 and 1 April 2011 and the income statement and statement of comprehensive income for the year ended 30 September 2011. IFRS 1 requires the inclusion of three statements of financial position. The company has not complied with the requirement to disclose the opening financial position of the first period of adoption of IFRS as there has been no impact on the financial position as a result of this adoption.

The preparation of financial statements in conformity with IFRS which 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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 on pages 2 to 3. Infectious Music Limited has net current liabilities of £2,229,000 at 31 December 2014. 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. The ultimate parent company has confirmed its continued support of the Company.

Infectious Music Limited

Notes to the financial statements (continued) Period 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 catalogue	10 - 15 years
-----------------	---------------

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.

Infectious Music Limited

Notes to the financial statements (continued) **Period 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.

Master record royalties

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

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 according to received statements.

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.

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.

Infectious Music Limited

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

1. Accounting policies (continued)

Net financing costs

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

Taxation

Tax on the profit for the period 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 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 Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

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

Artist advance provisions were made during the period based on calculation used across the BMG Chrysalis 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.

Infectious Music Limited

Notes to the financial statements (continued) Period 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.

Infectious Music Limited

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

2. Revenue

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

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
Geographical Market		
UK	1,482	1,603
North America	433	210
Australia	52	158
Europe	187	357
	<u>2,154</u>	<u>2,328</u>

The operations of the Company take place wholly in the United Kingdom. Revenue was derived from the principal activity 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. (Loss)/profit from operations

(Loss)/profit from operations has been arrived at after charging:

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
Net foreign exchange loss	<u>14</u>	<u>4</u>

The audit fee of £15,000 was borne by the intermediate parent Company, BMG Rights Management (UK) Limited.

4. Staff numbers and costs

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

Number of employees

	Period from 1 October 2013 to 31 December 2014 No.	Year ended 30 September 2013 No.
Management and administration	<u>4</u>	<u>4</u>

Infectious Music Limited

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

4. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
Wages and salaries	457	269
Social security costs	63	33
	<u>520</u>	<u>302</u>

Remuneration of directors

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
Emoluments (excluding pension contributions)	354	230
Social security costs	56	30
	<u>410</u>	<u>260</u>

Highest paid director

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
The above amounts for remuneration including the following in respect of the highest paid director:	<u>219</u>	<u>150</u>

5. Finance costs

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
Interest costs on intercompany balances	(9)	-
	<u>(9)</u>	<u>-</u>

Interest costs and investment revenue represent interest charged and received from the parent Company and other related parties in respect of cash pooling and loan facilities provided.

Infectious Music Limited

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

6. Taxation

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
Current taxation		
UK corporation tax – current year	-	-
Total tax expense	-	-

The charge for the period can be reconciled to the profit per the Statement of comprehensive income as follows:

Tax reconciliation

	Period from 1 October 2013 to 31 December 2014 £'000	Year ended 30 September 2013 £'000
(Loss)/profit before taxation	(848)	256
Tax using the UK corporation tax rate of 21.8% (Sept 2013: 23.5%)	(185)	60
Effects of:		
Losses carried forward/(utilisation of losses)	185	(60)
	-	-

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly the Company's profits are taxed at an effective rate of 21.8%.

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 £418,000 (2013: £249,000) arises in the UK which has not been recognised in the financial statements as these assets can only be deducted against future suitable tax profits. There is currently insufficient evidence that suitable profits will be generated to offset the losses and therefore no asset has been recognised.

7. Intangible assets

At the year ended 30 September 2013 there was an intangible asset of £1 relating to the investment in Contagious Limited. This was subsequently written off in the period ended 31 December 2014.

Infectious Music Limited

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

8. Trade and other receivables

	31 December 2014 £'000	30 September 2013 £'000
Trade receivables	787	483
Trade and other receivables from group companies	290	-
Other receivables	454	198
	<u>1,531</u>	<u>681</u>

9. Cash and cash equivalents

	31 December 2014 £'000	30 September 2013 £'000
Cash – Bank	<u>56</u>	<u>243</u>

10. Trade and other payables

	31 December 2014 £'000	30 September 2013 £'000
Trade and other payables	43	378
Trade and other payables to group companies	2,498	-
Other payables	1,275	-
	<u>3,816</u>	<u>378</u>

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

11. Loans

	31 December 2014 £'000	30 September 2013 £'000
Loans	-	1,854
	<u>-</u>	<u>1,854</u>

Infectious Music Limited

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

12. Other payables

	31 December 2014 £'000	30 September 2013 £'000
Other payables	-	73
	<u>-</u>	<u>73</u>
	<u>-</u>	<u>73</u>

13. Share capital

	31 December 2014 £	30 September 2013 £
Authorised:		
805 (2013: 805) ordinary shares of £1 each	805	805
	<u>805</u>	<u>805</u>
Issued and fully paid:		
805 (2013: 805) ordinary shares of £1 each	805	805
	<u>805</u>	<u>805</u>

Infectious Music Limited

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

14. 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 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:

	31 December 2014		30 September 2013	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	787	787	483	483
Trade and other receivables from group companies	290	290	-	-
Other receivables	454	454	198	198
Trade and other payables	(43)	(43)	(378)	(378)
Trade and other payables to group companies	(2,498)	(2,498)	-	-
Other payables	(1,275)	(1,275)	-	-
Loans	-	-	(1,854)	(1,854)
Other payables	-	-	(73)	(73)
	<u>(2,285)</u>	<u>(2,285)</u>	<u>(1,625)</u>	<u>(1,625)</u>
Unrecognised gains/losses				<u>-</u>

Infectious Music Limited

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

14. 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.

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 £787,000, 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:

	31 December 2014			30 September 2013		
	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000
Not past due	821	(34)	787	483	-	483

(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

The Company is not exposed to any foreign current risk.

Sensitivity analysis — Foreign currency risk

The Company did not issue many foreign currency invoices in the period ended 31 December 2014 and so exposure to foreign currency risk is minimal.

Infectious Music Limited

Notes to the financial statements (continued)

Period ended 31 December 2014

14. 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 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 period end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would decrease the Company's profit before taxation by approximately £17,000.

15. 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 period with subsidiaries of Bertelsmann SE & Co. KGaA, and with its directors and executive officers.

Related party transactions

During the period/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 £'000		Trade Balances receivable/ (payable) £'000		Loan Balances payable £'000	
	2012	2013	2012	2013	2012	2013
BMG Rights Management (UK) Limited	(37)	-	(2,208)	-	-	-
Korda Marshall	-	-	(4)	(73)	-	-
Michael Watt	-	-	-	-	-	(1,121)
Michael Watt Productions Limited	-	-	-	-	-	(733)
	<u>(37)</u>	<u>-</u>	<u>(2,212)</u>	<u>(73)</u>	<u>-</u>	<u>(1,854)</u>

16. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management (UK) Ltd, a company incorporated in the United Kingdom, which is in turn part of a holding group structure of which the parent 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.

Infectious Music Limited

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

17. Notes to the cash flow statement

Cash flows from operating activities

	Period from 1 October 2013 to 31 December 2014 £'000	Year Ended 30 September 2013 £'000
(Loss)/profit before taxation	(848)	256
Adjustment for:		
Finance costs	9	-
Management recharge	28	-
	<hr/>	<hr/>
Operating (loss)/profit before movements in working capital	(811)	256
(Increase)/decrease in trade and other receivables	(850)	18
Increase/(decrease) in trade and other payables	3,328	(267)
	<hr/>	<hr/>
Cash generated from operations	1,667	7
	<hr/>	<hr/>
Net cash generated from operating activities	1,667	7
	<hr/>	<hr/>