

**Company Registration No. 04738931**

**Stage Three Music (Catalogues)  
Limited**

**Reports and Financial Statements**

**31 December 2018**



# **Stage Three Music (Catalogues) Limited**

## **Reports and Financial Statements 2018**

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# **Stage Three Music (Catalogues) Limited**

## **Officers and professional advisers**

### **Directors**

Jonathan Baker  
Maximilian Dressendörfer  
Benjamin Katovsky  
Hartwig Masuch  
Alistair Norbury  
Paul Wilson

### **Registered Office**

8<sup>th</sup> Floor  
5 Merchant Square  
London  
United Kingdom  
W2 1AS

### **Independent Auditors**

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

# Stage Three Music (Catalogues) Limited

## Strategic report

The directors present their Strategic report for the year ended 31 December 2018 for Stage Three Music (Catalogues) Limited (the "Company").

### Business review

The Company was a wholly-owned United Kingdom subsidiary of Stage Three Music Publishing Limited, and was sold to BMG Rights Management (UK) Limited on 28 February 2019. The Company owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use.

### Strategy

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

### Key performance indicators

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

### Business performance

As shown in the Company's Statement of comprehensive income on page 9, the Company reported revenues of £9,638,000 (2017: £9,812,000) and gross profit of £3,081,000 (2017: £3,766,000).

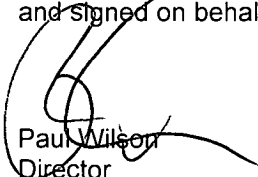
The net assets as at 31 December 2018 were £63,881,000 (2017: £66,089,000).

The Company received a dividend of £nil (2017: £8,000,000) from its subsidiary BMG VM Music Limited.

### Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of BMG Rights Management (UK) Limited and its subsidiaries and are not managed separately. Accordingly, the principal risks and uncertainties of BMG Rights Management (UK) Limited, which include those of the Company, are discussed in those financial statements and does not form part of this report. BMG Rights Management (UK) Limited's financial statements are publicly available and can be accessed at Companies House.

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



Paul Wilson  
Director

8 March 2019

# Stage Three Music (Catalogues) Limited

## Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2018 for Stage Three Music (Catalogues) Limited.

### Principal activities

The principal business of the Company during the year ended 31 December 2018 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, Stage Three Music (Catalogues) Limited retains a share of revenues generated from the use of the recording.

### Outlook

On 27 February 2019 the Company assigned a significant portion of its copyrights to BMG Rights Management (UK) Limited and BMG Rights Management (US) LLC at fair value.

### 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.

### Financial instruments

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

### Directors

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

Jonathan Baker (appointed 31 December 2018)  
Maximilian Dressendörfer  
Benjamin Katovsky (appointed 31 December 2018)  
Hartwig Masuch  
Alistair Norbury (appointed 26 February 2018)  
Paul Wilson

### Dividends

The directors do not recommend a dividend for the year (2017: £nil).

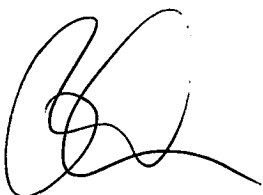
# **Stage Three Music (Catalogues) Limited**

## **Directors' report (continued)**

### **Independent Auditors**

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

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

A handwritten signature in black ink, appearing to be 'Paul Wilson', with a stylized, cursive script.

Paul Wilson  
Director

8 March 2019

## **Stage Three Music (Catalogues) Limited**

### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Reports and Financial Statements in accordance with applicable law and regulation.

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

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

The directors are 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.

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.

### **Directors' confirmations**

In the case of each director in office at the date the Directors' report is approved:

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

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



Paul Wilson  
Director

8 March 2019

# **Stage Three Music (Catalogues) Limited**

## **Independent auditors' report to the members of Stage Three Music (Catalogues) Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, Stage Three Music (Catalogues) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss 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.

We have audited the financial statements, included within the Reports and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2018; the Statement of comprehensive income, the Statement of cash flows and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.



## **Stage Three Music (Catalogues) Limited**

### **Independent auditors' report to the members of Stage Three Music (Catalogues) Limited (continued)**

#### **Reporting on other information (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

##### **Auditors' responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## **Stage Three Music (Catalogues) Limited**

### **Independent auditors' report to the members of Stage Three Music (Catalogues) Limited (continued)**

#### **Use of this report**

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

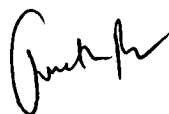
#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Jonathan Ford (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
8 March 2019

## Stage Three Music (Catalogues) Limited

### Statement of comprehensive income for the year ended 31 December 2018

		Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
	Note		
Revenue	2	9,638	9,812
Cost of sales		(6,557)	(6,046)
<b>Gross profit</b>		<b>3,081</b>	<b>3,766</b>
Administrative expenses		(2,263)	(2,694)
<b>Profit from operations</b>	3	<b>818</b>	<b>1,072</b>
Finance income	5	132	7
Finance cost	5	(175)	(214)
Dividend income		-	8,000
Impairment of investments	8	(2,800)	-
<b>(Loss)/profit before taxation</b>		<b>(2,025)</b>	<b>8,865</b>
Taxation	6	(183)	(18)
<b>(Loss)/profit and total comprehensive (loss)/income for the year</b>		<b>(2,208)</b>	<b>8,847</b>

The accompanying notes on pages 13 to 26 are an integral part of this Statement of comprehensive income. For the year ended 31 December 2018, the Company did not have any items of other comprehensive income. All results relate to continuing operations.

# Stage Three Music (Catalogues) Limited

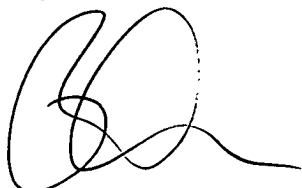
## Statement of financial position as at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Intangible assets	7	30,533	32,244
Investments	8	31,925	34,725
<b>Total non-current assets</b>		<u>62,458</u>	<u>66,969</u>
<b>Current assets</b>			
Trade and other receivables	9	7,723	4,859
<b>Total current assets</b>		<u>7,723</u>	<u>4,859</u>
<b>Total assets</b>		<u>70,181</u>	<u>71,828</u>
<b>Current liabilities</b>			
Trade and other payables	10	(6,300)	(5,739)
<b>Total current liabilities</b>		<u>(6,300)</u>	<u>(5,739)</u>
<b>Total liabilities</b>		<u>(6,300)</u>	<u>(5,739)</u>
<b>Net assets</b>		<u>63,881</u>	<u>66,089</u>
<b>Equity</b>			
Share capital	11	-	-
Retained earnings		63,881	66,089
<b>Total equity</b>		<u>63,881</u>	<u>66,089</u>

The accompanying notes on pages 13 to 26 are an integral part of this Statement of financial position.

The financial statements, on pages 9 to 26, of Stage Three Music (Catalogues) Limited, registered number 04738931 were approved by the Board of Directors on 8 March 2019.

Signed on behalf of the Board of Directors



Paul Wilson  
Director

## Stage Three Music (Catalogues) Limited

### Statement of changes in equity for the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2017		-	-	44,394	<b>44,394</b>
Share issue	11	-	12,848	-	<b>12,848</b>
Capital reduction	11	-	(12,848)	12,848	-
Profit and total comprehensive income for the year		-	-	8,847	<b>8,847</b>
As at 31 December 2017		-	-	66,089	<b>66,089</b>
Profit and total comprehensive loss for the year		-	-	(2,208)	<b>(2,208)</b>
As at 31 December 2018		-	-	63,881	<b>63,881</b>

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

## Stage Three Music (Catalogues) Limited

### Statement of cash flows for the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Cash flows from operating activities</b>		
(Loss)/profit before taxation	(2,025)	8,865
Adjustment for:		
Amortisation	1,711	1,664
Finance cost	175	214
Finance income	(132)	(7)
Dividend income	-	(8,000)
Impairment of investment	2,800	-
	<hr/>	<hr/>
Operating profit before movements in working capital	2,529	2,736
(Increase)/decrease in receivables	(3,020)	2,715
Increase in payables	538	1,820
Tax (paid)/received	(4)	30
	<hr/>	<hr/>
Cash (used in)/generated from operations	(2,486)	4,565
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>43</b>	<b>7,301</b>
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Dividend income	-	8,000
Acquisition of intangible assets	-	(2,553)
	<hr/>	<hr/>
<b>Net cash generated from investing activities</b>	<b>-</b>	<b>5,447</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from share issue	-	12,848
Decrease in loans receivable	-	340
Decrease in loans payable	-	(25,729)
Interest paid	(175)	(214)
Interest received	132	7
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>(43)</b>	<b>(12,748)</b>
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the year	-	-
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>

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

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018

### 1. Accounting policies

Stage Three Music (Catalogues) Limited (the "Company") is a private company incorporated in the United Kingdom.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all 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 that are publicly available (refer to Note 14).

#### **Basis of preparation**

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

The financial statements have been prepared in accordance with Companies Act 2006 and European Union ("EU") adopted International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS 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 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 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 the Directors' report on pages 2 to 4. The directors have considered the financial resources available along with the future plans for the Company 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 from its parent company, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### **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.

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 1. Accounting policies (continued)

#### 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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#### Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's Statement of financial position. On disposal of investments in subsidiaries the difference between disposal proceeds and the carrying amounts of the investments are recognised in the Statement of comprehensive income.

#### Impairment excluding inventories and deferred tax assets

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

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

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### Calculation of recoverable amount

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

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



# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 1. Accounting policies (continued)

#### **Reversal of impairment**

An impairment loss in respect of receivables earned at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

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

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

#### **Cash and cash equivalents**

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

#### **Trade and other receivables**

Trade and other receivables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility earns interest at a margin of 0.125% less the bank of England base rate. Trade and other receivables at the Statement of financial position date are stated at amortised cost which approximates to cost less impairment losses.

#### **Investments and other financial assets**

From 1 January 2018, the Company measures its financial assets at amortised cost. The Company's financial assets consist of trade receivables.

Financial assets are recognised on the trade date (the date the Company commits to purchase or sell the asset) and derecognised when the rights to receive cash flows from the financial assets have expired or the risks and rewards of ownership of those rights have been transferred to another party.

The Company measures a financial asset at the amount recognised at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognised in profit and loss. Changes in fair value are recognised in profit and loss when the asset is derecognised or reclassified.

#### *Impairment*

From 1 January 2018, the Company assesses the expected credit losses associated with its financial assets carried at amortised cost.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

#### **Trade and other payables**

Trade and other payables to group companies include the group cash pooling financing facility with the parent company in Germany. The facility bears interest at a margin of 1.25% above the bank of England base rate. Trade and other payables at the Statement of financial position date are stated at amortised costs which approximates to cost less impairment.

# **Stage Three Music (Catalogues) Limited**

## **Notes to the financial statements Year ended 31 December 2018 (continued)**

### **1. Accounting policies (continued)**

#### **Revenue**

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

Revenue from royalty licensing is recognised in accordance with IFRS 15. According to IFRS 15 revenue from royalties shall be recognised when it is probable that the economic benefits associated with the transaction will flow to the Company, the amount of the revenue can be measured reliably, and it is highly probable the revenue will not be reversed. Where revenue streams have a forward visibility revenue is recognised on an accruals basis. If there is no or minimal forward visibility of revenue streams it is not possible to measure the revenue streams reliably until cash is collected.

#### **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.

#### **Net financing costs**

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

#### **Taxation**

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

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

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

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 1. Accounting policies (continued)

#### **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 industry standard rates to estimate the royalties accruals.

Writer advances provisions were made during the year based on a recoupment profile calculation used by BMG Rights Management (UK) Limited and its subsidiaries.

#### **New standards, amendments and interpretations**

##### *IFRS 15 Revenue from contracts with Customers*

*IFRS 15 Revenue from Contracts with Customers* sets out the principles to be applied in revenue recognition, replacing those in *IAS 18 Revenue* and its related guidance.

IFRS 15 is effective for accounting periods beginning on or after 1 January 2018 and has since been applied by the Company.

Currently, the amount of revenue recognised in prior years under IAS 18 and related guidance does not differ materially from that which would have been recognised had IFRS 15 always been applied.

##### *IFRS 9 Financial instruments*

*IFRS 9 Financial Instruments* replaces *IAS 39 Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018, the effect on comparative figures is not material to the accounts.

No other new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2018, have had a material impact on the group or parent company.

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 2. Revenue

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
United Kingdom	2,323	2,870
North America	6,317	5,681
Europe	836	1,116
Other	162	145
	<u>9,638</u>	<u>9,812</u>

The operations of the Company take place wholly in the United Kingdom. Revenue was derived principally from activities conducted within the United Kingdom. All assets used by the Company are held in the United Kingdom.

### 3. Loss/profit from operations

Loss/profit from operations is stated after charging:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Amortisation of intangible assets	1,711	1,664
Management fees	547	1,127
Net foreign exchange loss	87	8
	<u></u>	<u></u>

The audit fee of £9,000 (2017: £21,000) was borne by BMG Rights Management Services (UK) Limited (2017: BMG Rights Management (UK) Limited).

### 4. Employee costs and directors' emoluments

The number of staff employed by the Company is nil (2017: nil), therefore no costs were incurred in either year. The directors did not receive emoluments in respect of their services to the Company (2017: £nil). Their emoluments for the first quarter of 2018 were borne by the immediate parent company, BMG Rights Management (UK) Limited and for the remainder of the year by affiliate company BMG Rights Management Services (UK) Limited (2017: BMG Rights Management (UK) Limited). Costs were recharged to the Company as part of management fees.

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 5. Finance income/(cost)

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Finance income	132	7
Finance cost	(175)	(214)
	<u>(43)</u>	<u>(207)</u>

Finance income and finance cost represent interest received and (charged) from the parent company and other related parties in respect of cash pooling and loan facilities provided.

### 6. Taxation

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Current taxation</b>		
UK corporation tax – current year	19	7
Double tax relief	(19)	(7)
Foreign tax	19	7
UK corporation tax - prior year	164	11
<b>Total tax charge</b>	<u>183</u>	<u>18</u>

The tax assessed for both years differs from the standard effective rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

#### Tax Reconciliation

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
(Loss)/profit before taxation	(2,025)	8,865
Tax at 19% (2017: 19.25%)	(385)	1,707
Effects of:		
Permanent differences	79	106
Dividends received from wholly owned UK subsidiary	-	(1,540)
Disallowable impairment	532	-
Utilisation of losses brought forward (not previously recognised)	(183)	(266)
UK corporation tax - prior year	164	11
Movement in tax rates	(24)	-
<b>Total tax charge</b>	<u>183</u>	<u>18</u>

## Stage Three Music (Catalogues) Limited

### Notes to the financial statements Year ended 31 December 2018 (continued)

#### 6. Taxation (continued)

The Company has a net deferred tax asset of £880,000 (2017: £1,050,000) which has not been recognised for the tax base in relation to tax losses and other temporary differences because there is currently insufficient evidence that sufficient profits will be generated to offset the future reversal of these temporary differences.

#### 7. Intangible assets

	Music catalogues £'000
<b>Cost</b>	
At 1 January 2018 and 31 December 2018	54,112
<b>Accumulated amortisation</b>	
At 1 January 2018	21,868
Charge for the year	1,711
At 31 December 2018	23,579
<b>Net book amount</b>	
At 31 December 2018	30,533
At 31 December 2017	32,244

On 27 February 2019, the Company sold its entire recorded catalogue to BMG Rights Management (UK) Limited at fair value.

On 27 February 2019, the Company sold its entire UK publishing catalogue to BMG UK Rights Management (UK) Limited at fair value.

On 27 February 2019, the Company sold part of its US publishing catalogue to BMG Rights Management (US) LLC at fair value.

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

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 8. Investments

The movement in the year was as follows:

	<b>2018 £'000</b>
<b>Cost</b>	
At 1 January 2018 and 31 December 2018	35,649
<b>Amounts provided</b>	
At 1 January 2018	(924)
Impairment	(2,800)
At 31 December 2018	(3,724)
<b>Net book amount at end of year</b>	31,925
Net book amount at beginning of year	34,725

Investments in subsidiaries shown above represent the cost of the shares of the wholly owned subsidiary undertakings, less provisions made for any impairment in value. Following an annual management review, an impairment charge of £2,800,000 was made in the year ended 31 December 2018 (2017: nil).

Details of the investments of the Company as at 31 December 2018 are as follows:

<b>Subsidiary undertakings</b>	<b>Country of incorporation / operation</b>	<b>Principal activity</b>	<b>Description and proportion of ordinary shares held %</b>	<b>Direct or indirect investment</b>
BMG VM Music Limited	United Kingdom	Music Publishing	100%	Direct

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

On 31 January 2019, the Company sold its 100% shareholding in BMG VM Music Limited to BMG Rights Management (UK) Limited at fair value.

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 9. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	670	1,025
Trade and other receivables from group companies	5,978	2,799
Other receivables	1,075	1,035
	<u>7,723</u>	<u>4,859</u>

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

Amounts due from group undertakings are receivable on demand, unsecured and bear interest at the Bank of England rate less a margin of 0.125%.

### 10. Trade and other payables

	2018 £'000	2017 £'000
<b>Due within one year</b>		
Trade payables	3,743	2,901
Trade and other payables to group companies	1,440	988
Other payables	1,117	1,850
	<u>6,300</u>	<u>5,739</u>

Amounts due to group undertakings are repayable on demand, unsecured and bear interest at the Bank of England rate plus a margin of 1.25%.

### 11. Share capital

	2018 £'000	2017 £'000
<b>Authorised, issued and fully paid</b>		
4 (2017: 4) ordinary shares of £1 each	<u>-</u>	<u>-</u>

On 17 October 2017, Stage Three Music (Catalogues) Limited issued 1 Ordinary share to Stage Three Music Publishing Limited for a total consideration of £12,848,000. Subsequently, a capital reduction was completed and the entire share premium of £12,848,000 was cancelled.

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.



# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 12. 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:

	2018		2017	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	670	670	1,025	1,025
Trade and other receivables from group companies	5,978	5,978	2,799	2,799
Other receivables	1,075	1,075	1,035	1,035
Trade and other payables	(3,743)	(3,743)	(2,901)	(2,901)
Trade and other payables to group companies	(1,440)	(1,440)	(988)	(988)
Other payables	(1,117)	(1,117)	(1,850)	(1,850)
	<u>1,423</u>	<u>1,423</u>	<u>(880)</u>	<u>(880)</u>
<b>Unrecognised gains</b>		<u>-</u>		<u>-</u>

#### (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.

## Stage Three Music (Catalogues) Limited

### Notes to the financial statements Year ended 31 December 2018 (continued)

#### 12. Financial instruments (continued)

##### *(b) Credit risk (continued)*

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 £670,000 (2017: £1,025,000) being the total of the carrying amount of trade receivables and other receivables shown in the table above.

##### *Financial assets and impairment losses*

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

	2018			2017		
	Gross trade receivables	Doubtful debt provision	Net trade receivables	Gross trade receivables	Doubtful debt provision	Net trade receivables
	£'000	£'000	£'000	£'000	£'000	£'000
Not past due	670	-	670	1,025	-	1,025

##### *Impairment of financial assets*

The Company has trade receivables for royalty licensing that are subject to the expected credit loss model:

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

##### *Trade receivables and contract assets*

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

##### *(c) Liquidity risk*

##### *Financial risk management*

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

Liquidity is managed by the group via the cash pooling facility.

The Company's financial liabilities are shown in note 10. All amounts are repayable within contracted terms.

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 12. Financial instruments (continued)

#### (d) Market risk

##### *Financial risk management*

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

##### *Market risk - Foreign currency risk*

A proportion of sales and purchases are invoiced in foreign currency and the Company bears the foreign currency risk on these debtors and creditors. The Company does not take out forward contracts on currency.

##### *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.

A one percent weakening of the USD against the pound sterling at 31 December 2018 would have decreased the profit by the amounts shown below. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date.

##### *Sensitivity analysis – Foreign currency risk (continued)*

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Loss for the year ended	
	2018	2017
	£'000	£'000
USD	63	42

A one percent strengthening of the USD against the pound sterling at 31 December 2018 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

##### *Market risk – interest rate risk*

The Company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the Bank of England base rate plus a margin of 1.25%. The Company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the Bank of England base rate.

##### *Sensitivity analysis – interest rate risk*

A change of one percent in interest rates at the Statement of financial position date would have increased the loss by the amounts shown below. This calculation assumes that the change occurred at the Statement of financial position date and had been applied to risk exposures existing at that date.

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

At the year-end it is estimated that an increase of one percentage rise in the 3 month LIBOR market rate would increase the Company's profit before taxation by approximately £30,000 (2017: £23,000).

# Stage Three Music (Catalogues) Limited

## Notes to the financial statements Year ended 31 December 2018 (continued)

### 12. Financial instruments (continued)

#### (e) Capital risk management

The Company manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

### 13. 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 and services		Trade balances receivable/ (payable)	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
BMG Rights Management (US) LLC	2,734	2,217	93	(705)
BMG Rights Management Services (UK) Limited	(483)	-	(265)	-
Stage Three Music Publishing Limited	871	1,250	(500)	269
BMG Rights Management (UK) Limited	(900)	(1,011)	5,210	2,134
BMG Rights Management (Italy) S.R.L	92	87	-	-
BMG Rights Management (Spain) S.L	24	62	-	58
BMG Rights Management Benelux B.V	106	94	-	-
BMG Rights Management (Scandinavia) AB	44	397	-	-
BMG Rights Management GmbH	340	67	-	-
BMG Rights Management (Europe) GmbH	151	219	-	45
BMG Rights Management (France) SARL	76	139	-	-
BMG Rights Management (Canada) Inc.	56	43	-	10
BMG Rights Management (Australia) Pty Limited	142	93	-	-
<b>Total</b>	<b>3,253</b>	<b>3,657</b>	<b>4,538</b>	<b>1,811</b>

### 14. Ultimate parent company and controlling party

As at 31 December 2018, the immediate parent company was Stage Three Music Publishing Limited, a company incorporated in the United Kingdom.

On 28 February 2019, 100% of the shareholdings of the Company were acquired by intermediate parent company BMG Rights Management (UK) Limited. The ultimate 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.