Company Registration No. 07295096

Stage Three Music Publishing Limited

Reports and Financial Statements

31 December 2015

Stage Three Music Publishing Limited

Reports and financial statements 2015

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Stage Three Music Publishing Limited

Reports and financial statements 2015

Officers and professional advisers

Directors

Paul Wilson
Hartwig Masuch
Maximilian Dressendörfer
Alexi Cory-Smith

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Solicitors

Simons Muirhead & Burton
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Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
1 Embankment Place
London
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Stage Three Music Publishing Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2015 for Stage Three Music Publishing Limited (the "Company").

Business review

Stage Three Music Publishing Limited is a United Kingdom subsidiary of BMG Rights Management (UK) Limited. The Company owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. It additionally contracts as a sub-publisher for collection and transfer of monies to other affiliated companies within the Stage Three Music Group.

Strategy

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

Key performance indicators

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, gross profit/net publisher's share (revenue received by a music publisher less royalties payable), operating 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.

Business performance 2015

As shown in the Company's Statement of comprehensive income on page 9, the Company reported revenues of £6,496,000 (2014: £6,131,000) and gross profit of £82,000 (2014: £114,000). The Company has a strong roster of internationally successful songwriters and artists and therefore there remains a healthy mix of income from all traditional sources.

Principal risks and uncertainties

There are a number of market and business risks that could affect Stage Three Music Publishing 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

Stage Three Music Publishing 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. Stage Three Music Publishing 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 Stage Three Music Publishing Limited.

Stage Three Music Publishing Limited

Strategic report (continued)

Music industry regulatory and business legal risk

The music publishing industry is regulated, with mechanical and performance royalty rates set by industry bodies, over which the Company has no control. Any significant change to the payment structures operated within the music industry or any decrease in current mechanical or performance royalty rates could have a material adverse effect on the Company's business. Also, future copyright royalty rate arbitration and other industry wide regulations can change the relationships between record labels, artists and music publishers/writers. Such change in regulations could materially and adversely affect the business of Stage Three Music Publishing Limited. Copyright royalties are either collected or controlled by third parties, such as collection societies, ceding control over royalty collections to such entities. This diminishes control and might result in lower revenues, if collection fees were revised upwards or collection scope was narrowed, thus affecting the business of Stage Three Music Publishing Limited. The Company's business is highly dependent upon copyright ownership, a subject which has encountered increased litigation in recent years. If the Company is alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management of Stage Three Music Publishing Limited, regardless of the merits of the claim. If Stage Three Music Publishing Limited were to lose a litigation relating to intellectual property, it could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect the Company's business.

Business risks

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

Client retention and performance of releases

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

Dependency on third party service partners and shareholder affiliates

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

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

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

P Wilson
Director
4 March 2016

Stage Three Music Publishing Limited

Directors' report

The directors present their Directors' report and audited financial statements for the year ended 31 December 2015 for Stage Three Music Publishing Limited (the "Company").

Principal activities

The principal businesses of the Company during the year ended 31 December 2015 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 Publishing Limited retains a share of revenues generated from the use of the recording.

Outlook

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

Going concern

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 BMG Rights Management (UK) Limited when considering the going concern of the Company. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The ultimate parent company has confirmed its continued support of the Company.

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

Directors

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

Mark Ranyard (resigned 23 December 2015)
Paul Wilson (appointed 1 October 2015)
Hartwig Masuch
Maximilian Dressendörfer
John Dobinson (resigned 11 June 2015)
Alexi Cory-Smith

Dividends

The directors do not recommend a dividend (2014: £nil).

Directors' report (continued)

Political and charitable contributions

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

Statement of disclosure of information to auditors

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

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

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

Independent Auditors

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

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

P Wilson
Director

4 March 2016

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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.

Independent auditors' report to the members of Stage Three Music Publishing Limited

Report on the financial statements

Our opinion

In our opinion, Stage Three Music Publishing 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 2015 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.

What we have audited

The financial statements, included within the Reports and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Statement of cash flows for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report to the members of Stage Three Music Publishing 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 Annual Report 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
4 March 2016

Stage Three Music Publishing Limited

Statement of comprehensive income for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Continuing operations			
Revenue	2	6,496	6,131
Cost of sales		(6,414)	(6,017)
Gross profit		82	114
Administrative (expenses)/income		(51)	160
Profit from operations	3	31	274
Finance income	5	6	10
Finance expense	5	(253)	(264)
(Loss) / profit before taxation		(216)	20
Taxation	6	(48)	(12)
(Loss) / profit for the year		**(264)**	**8**

The accompanying notes are an integral part of this Statement of comprehensive income for the year ended 31 December 2015 and the Company did not have any items of other comprehensive income. All results relate to continuing operations.

Stage Three Music Publishing Limited

Statement of financial position
As at ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Intangible assets	8	667	695
Investments	7	58,268	58,268
Goodwill	9	300	300
Total non-current assets		59,235	59,263
Current assets			
Trade and other receivables	10	5,230	6,211
Total current assets		5,230	6,211
Total assets		64,465	65,474
Non-current liabilities			
Long term loans	12	13,261	13,012
Total non-current liabilities		13,261	13,012
Current liabilities			
Trade and other payables	11	1,376	2,370
Total current liabilities		1,376	2,370
Total liabilities		14,637	15,382
Net Assets		49,828	50,092
Equity			
Share capital	13	-	-
Share premium		55,554	55,554
Accumulated losses		(5,726)	(5,462)
Total equity		49,828	50,092

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

The financial statements of Stage Three Music Publishing Limited, registered number 07295096, were approved by the Board of Directors on 4 March 2016.

Signed on behalf of the Board of Directors

P Wilson
Director

Stage Three Music Publishing Limited

Statement of financial position
as at ended 31 December 2015

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2014	-	55,554	(5,470)	**50,084**
Profit and Total comprehensive income for the year	-	-	8	**8**
At 1 January 2015	-	55,554	(5,462)	**50,092**
Loss and Total comprehensive expense for the year	-	-	(264)	**(264)**
At 31 December 2015	-	55,554	(5,726)	**49,828**

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

Stage Three Music Publishing Limited

Statement of cash flows
for the year ended 31 December 2015

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
(Loss) / profit before taxation	(216)	20
Adjustment for:		
Amortisation	28	5
Finance expense	253	264
Finance income	(6)	(10)
Management charge	42	51
Decrease in receivables	188	8,882
(Decrease) in payables	(289)	(8,494)
Cash generated from operations	-	718
Acquisition of intangible assets	-	(700)
Cash used in investing activities	-	(700)
Net increase in cash and cash equivalents	-	18
Cash and cash equivalents at the beginning of the year	(1)	(19)
Cash and cash equivalents at the end of the year	(1)	(1)

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

Notes to the financial statements
Year ended 31 December 2015

1. Accounting policies

Stage Three Music Publishing Limited (the "Company") is a company incorporated in the UK.

The 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").

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 publically available (see note 16).

Basis of preparation

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

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

Measurement convention

The financial statements are prepared on the historical cost basis except financial instruments classified as fair value through the profit or loss.

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 5. Stage Three Music Publishing Limited made a loss of £264,000 in the year (2014: £8,000 profit) and has net current assets of £3,854,000 at 31 December 2015 (2014: £3,841,000). 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 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.

Notes to the financial statements (continued)
Year ended 31 December 2015

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 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	25 years

Investments in subsidiaries

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

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.

Reversal of impairment

An impairment loss in respect of receivable 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 and are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the financial statements (continued)
Year ended 31 December 2015

1. Accounting policies (continued)

Loan receivables and payables

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

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 amortised costs which approximates to cost.

Employee benefits

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

Revenue

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

Revenue from royalty licensing is recognised in accordance with IAS 18: 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.

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.

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the Statement of comprehensive income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1. **Accounting policies (continued)**

Taxation

Tax on the loss 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.

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.

Business Combinations

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

Writer advances provisions were made during the year based on a recoupment profile calculation used across the BMG Group.

New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the financial year beginning 1 January 2015, 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.

Notes to the financial statements (continued)
Year ended 31 December 2015

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 2015, 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 financials 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.

Notes to the financial statements (continued)
Year ended 31 December 2015

2. Revenue

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

	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000
UK	807	1,124
North America	2,780	2,086
Europe	2,766	2,921
Other	143	-
	6,496	6,131

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 before taxation

(Loss)/profit before taxation is stated after charging:

	2015 £'000	2014 £'000
Amortisation of intangible assets	28	5

The audit fee of £14,000 (2014: £14,000) was borne by the immediate UK holding company, BMG Rights Management (UK) Limited.

Notes to the financial statements (continued)
Year ended 31 December 2015

4. Staff numbers and costs

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

Number of employees

	2015 No.	2014 No.
Management and administration	-	-

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	-	84
Social security costs	-	15
	-	99

Remuneration of directors

The directors received no remunerations from the Company for services during the year (2014: £73,000).

	2015 £'000	2014 £'000
Emoluments (excluding pension contributions)	-	55
Social security costs	-	14
Pension costs	-	4
	-	73

Highest paid director

	2015 £'000	2014 £'000
The above amounts for remuneration including the following in respect of the highest paid director:	-	73

5. Finance income/(expense)

	2015 £'000	2014 £'000
Finance income	6	10
Finance expense	(253)	(264)
	(247)	(254)

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

Notes to the financial statements (continued)
Year ended 31 December 2015

6. Taxation

	2015 £'000	2014 £'000
Current taxation		
UK corporation tax credit – current year	(44)	-
Adjustments in respect of prior years	65	(1)
Foreign tax	27	13
Total tax charge	48	12

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

There is no deferred tax charge for the year (2014:none).

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

Tax reconciliation

	2015 £'000	2014 £'000
(Loss)/profit before taxation	(216)	20
Tax using the UK corporation tax rate of 20.25% (2014: 21.5%)	(44)	4
Effects of:		
Permanent differences	-	1
Utilisation of unrecognised losses brought forward	-	(5)
Foreign tax	27	13
Adjustments in respect of prior years	65	(1)
	48	12

The standard rate of corporation tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2015. Accordingly the Company's profits / losses are taxed at an effective rate of 20.25%.

During 2015 changes to the UK corporation tax rate were enacted. The tax rate has fallen to 19% with effect from 1 April 2017 and to 18% from 1 April 2020.

A deferred tax asset of £1,508,000 (2014: £1,508,000) arises in the UK which has not been recognised in the financial statements as these assets can only be deducted against future suitable taxable profits. There is currently insufficient evidence that suitable profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised. The unrecognised asset is at 19%.

Notes to the financial statements (continued)
Year ended 31 December 2015

6. **Taxation (continued)**

Deferred tax

	1 January 2015 £'000	Movement £'000	Change in tax rate £'000	31 December 2015 £'000
Unrecognised deferred tax on tax losses carried forward	1,505	-	(89)	1,416
Unrecognised deferred tax on timing differences	3	-	-	3
	1,508	-	(89)	1,419

7. **Investments**

The movement in the year was as follows:

	2015 £'000	2014 £'000
Cost		
At beginning of year	58,268	58,268
Additions	-	-
	58,268	58,268
Amounts provided		
Beginning and end of the year	-	-
Net book amount at end of year	58,268	58,268
Net book amount at beginning of year	58,268	58,268

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.

Details of the investments of the Company are as follows:

Subsidiary undertakings	Country of incorporation / operation	Principal activity	Description and proportion of ordinary shares held %	Direct or indirect investment
Stage Three Music (Catalogues) Limited	United Kingdom	Music Publishing	100%	Direct
BMG VM Music Limited	United Kingdom	Music Publishing	100%	Indirect
BMG VM Songs Limited	United Kingdom	Music Publishing	100%	Indirect
BMG 10 Music Limited	United Kingdom	Music Publishing	100%	Indirect
BMG FM Music Limited	United Kingdom	Music Publishing	100%	Indirect

Notes to the financial statements (continued)
Year ended 31 December 2015

8. Intangible assets

	Catalogues £'000
Cost	
At 1 January 2014	-
Additions	700
At 1 January 2015	700
At 31 December 2015	700
Accumulated amortisation	
At 1 January 2014	-
Charge for the year	5
At 1 January 2015	5
Charge for the year	28
At 31 December 2015	33
Net book amount	
At 31 December 2014	695
At 31 December 2015	667

At 31 December 2015 the remaining useful life of the catalogues was 24 years (2014:25 years).

9. Goodwill

Stage Three Music Publishing Limited purchased the trade and assets of Stage Three Music Limited on 13 July 2010 for £23,652,000 which included £300,000 of goodwill. The goodwill relates to the custom and connections of the seller in relation to the business together with the exclusive right for the Company and its successors and assignees to represent itself as carrying on the business under the name "Stage Three Music". The transaction was completed at fair value. Goodwill is reviewed for impairment on an annual basis and no impairment is required.

10. Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	3,847	4,135
Trade and other receivables from Group companies	1,383	1,972
Other receivables	-	104
	5,230	6,211

Notes to the financial statements (continued)
Year ended 31 December 2015

11. Trade and other payables

	2015 £'000	2014 £'000
Due within one year		
Bank overdraft	1	1
Trade and other payables	1,079	1,475
Other payables	-	13
Trade and other payables to Group companies	296	881
	1,376	2,370

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

12. Long term loans

	2015 £'000	2014 £'000
Loans from Group companies	13,261	13,012
	13,261	13,012

Intercompany loans are interest-bearing and have no fixed repayment date.

13. Share capital

	2015 £	2014 £
Issued and fully paid:		
2 (2014: 2) ordinary shares of £1 each	2	2

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.

14. Financial instruments

Exposure to credit, 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.

Notes to the financial statements (continued)
Year ended 31 December 2015

14. Financial instruments (continued)

Cash and cash equivalents

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

Interest-bearing borrowings

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

Fair values

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

	2015		2014	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	3,847	3,847	4,135	4,135
Other receivables	-	-	104	104
Trade and other receivables from Group companies	1,383	1,383	1,972	1,972
Trade and other payables	(1,079)	(1,079)	(1,475)	(1,475)
Trade and other payables to Group companies	(296)	(296)	(881)	(881)
Other payables	-	-	(13)	(13)
Loans from Group companies	(13,261)	(13,261)	(13,011)	(13,011)
	(9,406)	(9,406)	(9,170)	(9,170)
Unrecognised gains/losses				-

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's principal financial assets are 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 £3,847,000 (2014: £4,135,000) being the total of the carrying amount of trade receivables, shown in the table above.

Notes to the financial statements (continued)
Year ended 31 December 2015

14. Financial instruments (continued)

Financial assets and impairment losses

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

	2015			2014		
	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	3,847	-	3,847	4,135	-	4,135

(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.

The Company's financial liabilities are shown in note 11 and 12. All amounts are repayable within contracted terms.

(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 purchase are invoiced in foreign currency (Euros) 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 in the year and so exposure to foreign currency risk is minimal.

Market risk – interest rate risk

The Company has no exposure to interest rate risk.

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 decrease the Company's profit before taxation by approximately £133,000 (2014: £116,000).

Notes to the financial statements (continued)
Year ended 31 December 2015

14. 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.

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 year with subsidiaries of Bertelsmann SE & Co. KGaA, and with its directors and executive officers:

Related party transactions

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

	Sales/(purchases) of goods		Trade balances receivable/(payable)		Loan balances receivable/(payable)	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
BMG Rights Management US LLC	2,482	1,891	-	320	-	-
Stage Three Music (Catalogues) Limited	(708)	(845)	429	(84)	(328)	(322)
BMG Rights Management (UK) Limited	(224)	(265)	822	1,074	(9,199)	(9,026)
BMG Rights Management (Italy) S.R.L	209	222	-	(17)	-	-
BMG Rights Management (Spain) SL	141	149	-	-	-	-
BMG Rights Management Benelux)	318	422	-	-	-	-
BMG Chrysalis (Scandinavia)	234	260	-	-	-	-
BMG Rights Management GmbH	1,539	1,217	-	224	-	-
BMG Rights Management (France) SARL	454	636	-	(12)	-	-
BMG Rights Management (Canada)	148	184	-	22	-	-
BMG VM Music Limited	(5,774)	(5,065)	(164)	(436)	(3,734)	(3,664)
Total	**(1,181)**	**(1,194)**	**1,087**	**1,091**	**(13,261)**	**(13,012)**

16. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management UK Limited, 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.