

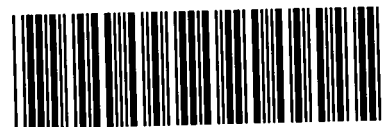
Company Registration No. 04738931

Stage Three Music (Catalogues) Limited

Reports and Financial Statements

31 December 2016

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Stage Three Music (Catalogues) Limited

Reports and Financial Statements 2016

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Stage Three Music (Catalogues) Limited

Reports and Financial Statements 2016

Officers and professional advisers

Directors

Paul Wilson
Hartwig Masuch
Maximilian Dressendörfer
Alexi Cory-Smith

Company Secretary

Erika Brennan

Registered Office

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

Solicitors

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

Independent Auditors

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

Stage Three Music (Catalogues) Limited

Strategic report

The directors present their Strategic report for the year ended 31 December 2016 for Stage Three Music (Catalogues) Limited (the "Company").

Business review

Stage Three Music (Catalogues) Limited is the United Kingdom wholly-owned subsidiary of Stage Three Music Publishing Limited. The Company's music publishing business owns and administers rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use.

Strategy

Stage Three Music (Catalogues) 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, operating (loss)/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.

Business performance 2016

As shown in the Company's Statement of comprehensive income on page 8, the Company reported revenues of £7,172,000 (2015: £6,389,000) and Gross profit of £2,123,000 (2015: £2,896,000). Revenue has increased due to the assignment of copyrights from fellow group companies. Gross profit has decreased reflecting the increased royalty rates of these catalogues.

The net assets as at 31 December 2016 were £44,394,000 (2015: £46,704,000). The Company received a dividend of £4,173,000 (2015: £1,358,000) from its subsidiary BMG FM Music Limited. Impairment of £6,188,000 (2015: £2,268,000) was recognised during the year, all attributable to the investment in BMG FM Music Ltd which was disposed in the year.

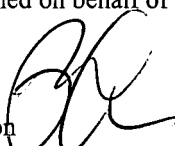
Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the BMG UK group and are not managed separately. Accordingly, the principal risks and uncertainties of BMG Rights Management (UK) Ltd, which include those of the company, are discussed on page 2 of the those financial statements which does not form part of this report. BMG Rights Management (UK) Limited's financial statements are publically available and can be accessed at Companies House.

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

P Wilson
Director

6 March 2017



Stage Three Music (Catalogues) Limited

Directors' report

The directors present their Directors' report and the audited financial statements for the year ended 31 December 2016 for Stage Three Music (Catalogues) Limited (the "Company").

Principal activities

The principal business of the Company during the year ended 31 December 2016 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

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

Going concern

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

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

Directors

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

Paul Wilson
Hartwig Masuch
Maximilian Dressendörfer
Alexi Cory-Smith

Dividends

The directors did not recommend a dividend for the year (2015: £1,358,000).

Stage Three Music (Catalogues) Limited

Directors' report

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.

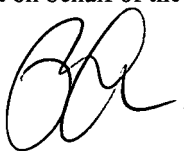
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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



6 March 2017

Stage Three Music (Catalogues) Limited

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.

Stage Three Music (Catalogues) Limited

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

Report on the revised financial statements

Our opinion

In our opinion, Stage Three Music (Catalogues) 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 2016 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 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity 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 IFRSs as adopted by the European Union, and applicable law.

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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

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.

the information given in the Strategic Report and the Directors' Report for the financial year for which the revised financial statements are prepared is consistent with the revised financial statements.

Stage Three Music (Catalogues) Limited

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

Responsibilities for the financial statements and the audit

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.

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 5, 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. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements



Jonathan Ford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2017

Stage Three Music (Catalogues) Limited

Statement of comprehensive income for the year ended 31 December 2016

		Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
	Note		
Revenue	2	7,172	6,389
Cost of sales		(5,049)	(3,493)
Gross profit		2,123	2,896
Administrative expenses		(2,071)	(2,909)
Operating profit/(loss)	3	52	(13)
Finance expense	4	(444)	(455)
Finance income	4	24	13
Dividend income	3	4,173	1,358
Impairment of investments		(6,188)	(2,268)
Loss before taxation		(2,383)	(1,365)
Taxation	5	73	49
Loss and total comprehensive expense for the year		(2,310)	(1,316)

The accompanying notes are an integral part of this Statement of comprehensive income. For the year ended 31 December 2016 and 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 2016

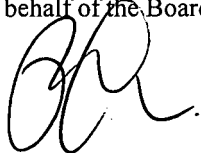
	Note	2016 £'000	2015 £'000
Non-current assets			
Intangible assets	6	31,355	25,961
Investments	7	34,725	40,914
Long term loans	11	340	328
Total non-current assets		66,420	67,203
Current assets			
Trade and other receivables	8	7,603	7,653
Total current assets		7,603	7,653
Total assets		74,023	74,856
Non-current liabilities			
Long term loans	11	25,729	23,930
Total non-current liabilities		25,729	23,930
Current liabilities			
Trade and other payables	9	3,900	4,222
Total current liabilities		3,900	4,222
Total liabilities		29,629	28,152
Net Assets		44,394	46,704
Equity			
Share capital	10	-	-
Retained earnings		44,394	46,704
Total equity		44,394	46,704

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

The financial statements of Stage Three Music (Catalogues) Limited, registered number 04738931 were approved by the Board of Directors on 6 March 2017.

Signed on behalf of the Board of Directors

P Wilson
Director



Stage Three Music (Catalogues) Limited

Statement of changes in equity for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2015	-	58,268	(8,890)	49,378
Cancellation of entire share premium	-	(58,268)	58,268	-
Loss and total comprehensive expense for the year	-	-	(1,316)	(1,316)
Dividends paid	-	-	(1,358)	(1,358)
As at 31 December 2015	-	-	46,704	46,704
Loss and total comprehensive expense for the year	-	-	(2,310)	(2,310)
As at 31 December 2016	-	-	44,394	44,394

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 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Loss before taxation	(2,383)	(1,365)
Adjustment for:		
Amortisation	1,445	1,326
Finance costs	444	455
Finance income	(24)	(13)
Dividend income	(4,173)	(1,358)
Impairment on investments	6,188	2,268
Management charge	762	1,522
Other non-cash movements	(127)	(21)
Operating profit before movements in working capital and provisions	2,132	2,814
Increase in receivables	(79)	(1,322)
Decrease in payables	(1,197)	(1,958)
Cash used in operations	(1,276)	(3,280)
Net cash used in operating activities	856	(466)
Increase in loans receivable	-	-
Increase in loans payable	1,810	466
Net cash from financing activities	1,810	466
Dividend income	4,173	1,358
Dividend payable	-	(1,358)
Acquisition of intangible assets	(6,839)	-
Net cash from investing activities	(2,666)	-
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

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 2016

1. Accounting policies

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

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

The Company has taken exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006, because it is a wholly owned subsidiary of Bertelsmann SE & Co KGaA which prepares consolidated financial statements which are publicly available (refer to note 14).

Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

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

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

Measurement convention

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and 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 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 (continued) Year ended 31 December 2016

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 catalogue	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 (continued)

Year ended 31 December 2016

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.

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.

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 stated at amortised cost which approximates to cost.

Revenue

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

Revenue from royalty 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. Any other royalty licensing income is recognised on a cash basis.

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.

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued)

Year ended 31 December 2016

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 year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

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

Critical accounting judgements and key sources of estimation uncertainty

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

The Company uses estimates to calculate the writer royalties due for the second half of the year for all the royalty receipts and 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 standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the group or parent company.

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 2016, 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 group or parent company, except the following, set out below:

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 2018 and earlier application is permitted, subject to EU endorsement. The impact of IFRS 15 is being assessed by management. Implementation of IFRS15 requires a thorough review of existing contractual arrangements. At present, the directors anticipate there may be some changes in the recognition of royalty income leading to earlier recognition of some income although the amounts involved are relatively immaterial. The transition work in respect of other areas is on-going but has not, as yet, highlighted potentially material adjustments.

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

2. Revenue

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
United Kingdom	1,291	751
United States of America	5,091	4,197
Europe	768	1,318
Rest of World	22	123
	<u>7,172</u>	<u>6,389</u>

The operations of the Company take place wholly in the United Kingdom and United States of America. 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 / (crediting):

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Amortisation of intangible assets	<u>(1,445)</u>	<u>(1,326)</u>

The audit fee for the year of £16,000 (2015: £15,000) has been borne by the intermediate United Kingdom holding Company, BMG Rights Management (UK) Limited.

4. Finance (income)/expenses

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest expense from Group companies	444	455
Interest income from Group companies	<u>(24)</u>	<u>(13)</u>
	<u>420</u>	<u>442</u>

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

5. Taxation

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Current taxation		
Foreign tax	6	17
UK corporation tax – current year	(78)	(66)
Adjustments in respect of prior years	(1)	-
Total tax credit	(73)	(49)

The current tax credit represents amounts receivable from fellow UK subsidiaries of Bertelsmann SE & Co KGaA in respect of current year tax profits surrendered in the United Kingdom.

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

Tax Reconciliation

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Loss before taxation	(2,383)	(1,365)
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	(477)	(276)
Effects of:		
Permanent differences	1,238	474
Dividends received from wholly owned UK subsidiary	(835)	(275)
Foreign tax	6	17
Permanent difference – withholding tax suffered during the year	(1)	(4)
Other timing differences	-	15
Non-deductible items	(3)	-
Adjustments in respect of prior years	(1)	-
	(73)	(49)

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued)

Year ended 31 December 2016

5. Taxation (continued)

The standard rate of corporation tax in the United Kingdom is 20%. Accordingly the Company's loss is taxed at an effective rate of 20% (2015: 20.25%).

During 2016 changes to the UK corporation tax rate were enacted. The tax rate has fallen to 19% with effect from 1 April 2017 and to 17% from 1 April 2020.

After the offset of £1,686,000 (2015: £1,686,000) deferred tax asset on tax losses against the deferred tax liability of £259,000 (2015: £272,000) on intangible assets, the remaining deferred tax asset of £1,427,000 (2015: £1,414,000) has not been recognised as future recovery is uncertain. There is currently insufficient evidence that suitable taxable profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised.

	31 December 2015 £'000	Movement £'000	31 December 2016 £'000
Intangible assets	272	(13)	259
Tax losses carried forward	(1,686)	-	(1,686)
Unrecognised deferred tax asset	(1,414)	(13)	(1,427)

6. Intangible assets

	Music Catalogues £'000
Cost	
As at 31 December 2015	44,720
Additions	6,839
At 31 December 2016	51,559
Accumulated amortisation	
At 31 December 2015	18,759
Charge for the year	1,445
At 31 December 2016	20,204
Net book amount	
At 31 December 2016	31,355
At 31 December 2015	25,961

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

7. Investments

The movement in the year was as follows:

	2016 £'000
Cost	
As at 31 December 2015 and 31 December 2016	43,181
Amounts provided	
As at 31 December 2015	(2,268)
Charge in year	(6,188)
Total amounts provided	<u>(8,456)</u>
Net book amount at beginning of year	<u>40,914</u>
Net book amount at end of year	<u>34,725</u>

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.

During the year, the investment in BMG FM Music Limited was impaired by £6,188,000 (2015: £2,268,000)

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
BMG VM Music Limited	United Kingdom	Music Publishing	100%	Direct
BMG 10 Music Limited	United Kingdom	Music Publishing	100%	Indirect

On 29 March 2016, BMG VM Songs Limited was dissolved.

On 6 December 2016, BMG FM Music Limited was dissolved.

BMG 10 Music Limited was filed for liquidation in January 2017.

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

8. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	907	15
Trade and other receivables from Group companies	4,989	6,219
Other receivables	1,707	1,419
	<u>7,603</u>	<u>7,653</u>

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

9. Trade and other payables

	2016 £'000	2015 £'000
Due within one year		
Trade and other payables	3,169	2,153
Trade and other payables to Group companies	731	2,069
	<u>3,900</u>	<u>4,222</u>

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

10. Share capital

	2016 £'000	2015 £'000
Authorised, issued and fully paid		
5 (2015: 5) ordinary shares of £1 each	-	-
	<u>-</u>	<u>-</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

11. Long term loans

	2016 £'000	2015 £'000
Loans from Group companies	(25,729)	(23,930)
Loans to Group companies	340	328
	<u>(25,389)</u>	<u>(23,602)</u>

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

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.

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.

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

12. Financial instruments (continued)

(a) Fair values of financial instruments (continued)

Fair values

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

	2016		2015	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Trade receivables	907	907	15	15
Other receivables	1,707	1,707	1,419	1,419
Trade and other receivables from Group companies	4,989	4,989	6,219	6,219
Loans to Group companies	340	340	328	328
Trade and other payables	(3,169)	(3,169)	(2,153)	(2,153)
Trade and other payables to Group companies	(731)	(731)	(2,069)	(2,069)
Loans from Group companies	(25,729)	(25,729)	(23,930)	(23,930)
	<u>(21,686)</u>	<u>(21,686)</u>	<u>(20,171)</u>	<u>(20,171)</u>
Unrecognised gains/losses				<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.

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, no exposure to credit risk, shown in the table above.

(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.

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

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 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

A one percent weakening of the USD against the pound sterling at 31 December 2016 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.

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

	Loss for the year ended	
	2016 £'000	2015 £'000
USD	51	33

A one percent strengthening of the USD against the pound sterling at 31 December 2016 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

There is 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 increase the Company's loss before taxation by approximately £210,000 (2015: £210,000).

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

Stage Three Music (Catalogues) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

13. Related parties (continued)

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)	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
BMG Rights Management (UK) Ltd	(634)	(1,913)	3,303	4,108	(24,365)	(23,930)
Stage Three Music Publishing Ltd	1,120	708	(424)	(1,787)	(1,030)	328
BMG Rights Management US LLC	1,978	1,338	-	-	-	-
BMG Rights Management (France) SARL	117	99	-	-	-	-
BMG Rights Administration (Spain) S.L	66	33	-	-	-	-
BMG Rights Management (Benelux) B.V	85	83	-	-	-	-
BMG Rights Management (Italy) S.R.L	79	85	-	-	-	-
BMG Rights Management GmbH	112	286	4	-	-	-
BMG Chrysalis Scandanavia AB	65	42	-	-	-	-
BMG Rights Management (Dist.) GmbH	-	515	-	405	-	-
BMG Rights Management (Canada) Inc.	(28)	90	17	66	-	-
BMG VM Music Ltd	6	-	1,358	1,358	6	-
Total	2,966	1,366	4,258	4,150	(25,389)	(23,602)

14. Ultimate parent Company and controlling party

The immediate parent company is Stage Three Music Publishing Limited, a company incorporated in United Kingdom. The ultimate parent company is Bertelsmann SE & Co. KGaA. The results of the Company are included in the consolidated financial statements of Bertelsmann SE & Co. KGaA which is registered at Carl-Bertelsmann-Strasse 270, 33311 Gütersloh, Germany. These consolidated financial statements are publicly available.

No other Group financial statements include the results of the Company.

15. Dividends distributed

The dividends paid in 2016 and 2015 were £nil and £1,358,000 (£272,000 per issued share) respectively.