Company Registration No. 04738931

Stage Three Music (Catalogues) Limited

Report and Financial Statements

31 December 2012

Stage Three Music (Catalogues) Limited

Report and financial statements 2012

Contents

Stage Three Music (Catalogues) Limited

Report and financial statements 2012

Officers and professional advisers

Directors

Mark Ranyard
John Dobinson
Stanley Schneider
Donald Malter
Hartwig Masuch
Maximilian Dressendoerfer

Secretary

Simon Harvey

Registered Office

C/O Davenport Lyons
30 Old Burlington Street
London
W1S 3NL

Bankers

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

Solicitors

Russell's Solicitors
1-4 Warwick Street
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London
W1B 5LJ

Auditor

Deloitte LLP
Chartered Accountants
London
United Kingdom

Stage Three Music (Catalogues) Limited

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2012 for Stage Three Music (Catalogues) Limited (the "Company")

Principal activities

The principal businesses of the company during the year ended 31 December 2012 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

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

Business performance 2012

As shown in the Company's Statement of Comprehensive Income on page 9, the Company reported revenues of £7,181,000 (2011 £5,769,000) and gross profit of £2,923,000 (2011 £2,308,000) Operating loss of £1,589,000 (2011 £55,000) during the year of operations converts to £654,000 (2011 £2,169,000) EBITDA profit, when adjusted for amortisation movements of £2,243,000 (2011 £2,224,000)

Key performance indicators

The directors monitor the Company's performance in a number of ways including key performance indicators such as reported revenue, gross margin which comprises Net Publisher Share, 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

Principal risks and uncertainties

There are a number of market and business risks that could affect Stage Three Music (Catalogues) 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

Stage Three Music (Catalogues) Limited

Directors' report (continued)

Market risks

Global economic outlook

Stage Three Music (Catalogues) 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 (Catalogues) 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 (Catalogues) Limited

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 (Catalogues) 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 (Catalogues) 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 (Catalogues) Limited, regardless of the merits of the claim If Stage Three Music (Catalogues) 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 (Catalogues) 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 (Catalogues) 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 (Catalogues) 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 (Catalogues) Limited or decisions of existing clients to remain with Stage Three Music (Catalogues) Limited are complex and involve considerations of many factors As such it is uncertain how many new clients Stage Three Music (Catalogues) Limited will sign and what proportion of existing clients will extend their agreements Equally, Stage Three Music (Catalogues) 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

Stage Three Music (Catalogues) Limited

Directors' report (continued)

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 (Catalogues) 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 (Catalogues) Limited in international rights management and license income collections Stage Three Music (Catalogues) Limited is also supported through licensing and commercial joint venturing arrangements with Sony for a portion of its Recorded Music business

Additionally, Stage Three Music (Catalogues) 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

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 who held office throughout the year were as follows

Stanley Schneider
Hartwig Masuch
Maximilian Dressendoerfer
John Dobinson
Mark Ranyard
Donald Malter

Dividends

The directors do not recommend a dividend (2011 £nil)

Director's and officer's insurance

The company maintains liability insurance for directors and officers of the company

Employees

The company did not have any employees in the current or prior year

Political and charitable contributions

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

Stage Three Music (Catalogues) Limited

Directors' report (continued)

Auditor

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 auditor is 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 auditor is aware of that information

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

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

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

M Ranyard
Director

21 February 2013

Stage Three Music (Catalogues) Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 elected to prepare 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, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

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 auditor's report to the members of Stage Three Music (Catalogues) Limited

We have audited the financial statements of Stage Three Music (Catalogues) Limited for the year ended 31 December 2012 which comprise the statement of comprehensive income, statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 14 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, 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) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

James A. Bates

James Bates (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

21 February 2013

Stage Three Music (Catalogues) Limited

Statement of comprehensive income
Year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Continuing operations			
Revenue	2	7,181	5,769
Cost of sales		(4,258)	(3,461)
Gross profit		2,923	2,308
Administrative expenses	3	(4,512)	(2,363)
Operating loss	3	(1,589)	(55)
Finance cost	4	(1,398)	(1,226)
Investment revenue	4	56	50
Loss before taxation		(2,931)	(1,231)
Taxation	6	-	-
Loss after taxation attributable to equity shareholder		(2,931)	(1,231)

The accompanying notes are an integral part of this statement of comprehensive income For the year ended 31 December 2012 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 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Intangible assets	7	29,940	32,095
Long term loans	11	894	839
Total non-current assets		30,834	32,934
Current assets			
Trade and other receivables	8	11,584	5,874
Total current assets		11,584	5,874
Total assets		42,418	38,808
Equity			
Share capital	10	-	-
Share premium		17,714	17,714
Retained earnings		(8,265)	(5,334)
Total shareholder's equity		9,449	12,380
Non-current liabilities			
Long term loans	11	22,274	20,888
Total non-current liabilities		22,274	20,888
Current liabilities			
Trade and other payables	9	10,695	5,540
Total current liabilities		10,695	5,540
Total equity and liabilities		42,418	38,808

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 21 February 2013

Signed on behalf of the Board of Directors

M Ranyard
Director

Stage Three Music (Catalogues) Limited

Statement of changes in shareholder's equity
Year ended 31 December 2012

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2011	-	17,714	(4,103)	**13,611**
Loss for the year	-	-	(1,231)	**(1,231)**
At 1 January 2012	-	17,714	(5,334)	**12,380**
Loss for the year	-	-	(2,931)	-
At 31 December 2012	-	17,714	(8,265)	**9,449**

The accompanying notes are an integral part of this statement of changes in shareholder's equity

Stage Three Music (Catalogues) Limited

Statement of cash flows
Year ended 31 December 2012

	2012 £'000	2011 £'000
Loss before taxation	(2,932)	(1,231)
Adjustment for		
Amortisation	2,243	2,224
Finance costs	1,398	1,226
Investment revenue	(56)	(50)
Decrease in long terms loans	-	(72)
Other non-cash movements	2,011	(160)
Operating profit/(loss) before movements in working capital and provisions	2,664	1,937
Increase in receivables	(5,710)	(5,631)
Increase in payables	3,046	3,694
Cash generated from operations	-	-
Tax paid	-	-
Net cash from operating activities	-	-

Notes to the financial statements
Year ended 31 December 2012

1 Accounting policies

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

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") as adopted 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 accounts afforded by section 400 of the Companies Act 2006, because it is a wholly owned subsidiary of BMG RM Investments Sarl which prepares consolidated accounts which are publically 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

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell

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 Directors' Report on pages 2 to 5 Stage three Catalogues made a loss of £2,931,000 in the year 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 GMBH 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
Year ended 31 December 2012

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	20 years

Impairment excluding inventories and deferred tax assets

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

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

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in 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

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

Notes to the financial statements
Year ended 31 December 2012

1. **Accounting policies (continued)**

Cash and cash equivalents

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

Trade and other receivables

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

Trade and other payables

Trade and other payables to group companies include the group cash pooling financing facility with the parent company in Germany The facility bears interest at 0 25% 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

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

1 **Accounting policies (continued)**

Expenses

Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense

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

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

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*

Notes to the financial statements
Year ended 31 December 2012

1 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Adopted IFRS not yet applied

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective

Amendments to IFRS 7	*Disclosures – Transfers of Financial Assets*[1]
IFRS 9	*Financial Instruments*[1]
IFRS 10	*Consolidated Financial Statements*[1]
IFRS 11	*Joint Arrangements*[1]
IFRS 12	*Disclosure of Interests in Other Entities*[1]
IFRS 13	*Fair Value Measurement*[1]
Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*[2]
Amendments to IAS 12	*Deferred Tax – Recovery of Underlying Assets*[3]
IAS 19 (as revised in 2011)	*Employee Benefits*[1]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[1]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 January 2012

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Company in future periods

2. Revenue

An analysis of the company's revenue is as follows

	2012 £'000	2011 £'000
United Kingdom	2,764	2,308
United States of America	4,417	3,461
	7,181	5,769

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

Notes to the financial statements
Year ended 31 December 2012

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging

	2012 £'000	2011 £'000
Amortisation of intangible assets	2,243	2,224

The audit fee for the year of £15,000 (2011 £15,000) has been borne by the intermediate United Kingdom holding company, BMG Rights Management (UK) Limited

4. Finance cost/investment revenue

	2012 £'000	2011 £'000
Interest costs from group companies	1,398	1,226
Interest income from group companies	(56)	(50)
	1,342	1,176

5. Employee costs

The directors received no remunerations from the company for services during the year (2011 £nil)

The company did not have any employees, and as a result incurred no staff costs (2011 £nil)

6. Taxation

	2012 £'000	2011 £'000
Current taxation		
UK corporation tax	-	-
Deferred tax	-	-
Total tax	-	-

Tax Reconciliation

	2012 £'000	2011 £'000
Loss on ordinary activities before tax	(2,931)	(1,231)
Tax using the UK corporation tax rate of 24 5% (2011 26 5%)	(718)	(326)
Effects of		
Expenses non-deductible	33	36
Amortisation in excess of allowances	21	-
Unrecognised losses carried forward	664	-
Unrecognised temporary differences	-	290
	-	-

The standard rate of Corporation Tax in the United Kingdom changed from 26% to 24% with effect from 1 April 2012 Accordingly the company's profits / losses are taxed at an effective rate of 24 5%

During the year there was a change in the UK main corporation tax rate to 23% that was substantively enacted on 3 July 2012 and that will be effective from 1 April 2013

A further reduction to the UK corporation tax rate by 2% to 21% from 1 April 2014 has been announced and is expected to be enacted in the Finance Act 2013 The change has not been recognised in these financial statements as it had not been substantively enacted at the balance sheet date

After the offset of £1,955,000 deferred tax asset on tax losses against the deferred tax liability of £380,000 on intangible assets, the remaining deferred tax asset of £1,575,000 (2011 £1,031,000) has not been recognised as future recovery is uncertain There is currently insufficient evidence that suitable tax profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised

	31 December 2011 £'000	Movement £'000	31 December 2012 £'000
Intangible assets	434	(54)	380
Tax losses carried forward	(1,447)	(508)	(1,955)
Unrecognised deferred tax (asset)	(1,013)	(562)	(1,575)

Stage Three Music (Catalogues) Limited

Notes to the financial statements
Year ended 31 December 2012

7. Intangible fixed assets

	Catalogues £'000
Cost	
At 1 January 2011	44,472
Additions	160
At 1 January 2012	44,632
Additions	88
At 31 December 2012	44,720
Amortisation	
At 1 January 2011	10,313
Charge for the year	2,224
At 1 January 2012	12,537
Charge for the year	2,243
At 31 December 2012	14,780
Net book value	
At 31 December 2012	29,940
At 31 December 2011	32,095

At 31 December 2012 the remaining useful life of the catalogues was 13 years (2011 14 years)

8 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	48	-
Trade and other receivables from group companies	11,536	5,842
Other receivables	-	32
	11,584	5,874

9. Trade and other payables

Due within one year

	2012 £'000	2011 £'000
Trade and other payables	1,846	1,181
Trade and other payables to group companies	8,775	4,353
Accruals and deferred income	74	6
	10,695	5,540

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

10. Share capital

	2012 £	2011 £
Allotted, issued and fully paid		
2 ordinary shares of £1 each	4	4

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

	2012 £'000	2011 £'000
Loans from group companies	(22,274)	(20,888)
Loans to group companies	894	839
	(21,380)	(20,049)

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

Stage Three Music (Catalogues) Limited

Notes to the financial statements
Year ended 31 December 2012

12 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

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

	2012		2011	
	Carrying amount £'000	**Fair value £'000**	**Carrying amount £'000**	**Fair value £'000**
Trade and other receivables	48	48	32	32
Trade and other receivables from group companies	11,536	11,536	5,842	5,842
Loans to group companies	894	894	839	839
Trade and other payables	(1,846)	(1,846)	(1,181)	(1,181)
Trade and other payables to group companies	(8,775)	(8,775)	(4,353)	(4,353)
Loans from group companies	(22,274)	(22,274)	(20,888)	(20,888)
	(20,417)	(20,417)	(19,709)	(19,709)
Unrecognised gains/losses				-

Notes to the financial statements
Year ended 31 December 2012

12. Financial instruments (continued)

(b) Credit risk

Financial risk management

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

The company's principal financial assets are bank balances and trade receivables which represent the company's maximum exposure to credit risk in relation to financial assets The company bears the bad debt risk on all debtors The company's management make assessments on new customers before work is earned out, based on their knowledge of the industry and the customer's acceptance of imposed credit terms

The amounts presented in the statement of financial position are net of allowances for doubtful receivables after taking into consideration the amount of balances covered by the company's credit insurance policy These have been estimated by the company's management based on prior experience and their assessment of the current economic environment

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure Therefore, 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

(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 2012 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 other exchange rates and interest rates, remain constant

	Loss for the year ended	
	2012	**2011**
	£'000	**£'000**
USD	27	22

A one percent strengthening of the USD against the pound sterling at 31 December 2012 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant

Notes to the financial statements
Year ended 31 December 2012

12. Financial instruments (continued)

Market risk – interest rate risk

The company's exposure to interest rate risk arises from the fluctuations in the rate of interest charged on cash and cash equivalent balances payable as impacted on by the changes in the Bank of England base rate The company utilises a group cash pooling facility, on which interest is charged at variable rates, based on the 3 month LIBOR market rate

Sensitivity analysis – interest rate risk

A change of one percent in interest rates at the statement of financial position date would have increased the 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, remain 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 £214,000 (2011 £200,000)

13. Related parties

Identity of related parties

The company's parent company and group is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co (KKR) The company had a related party relationship in the period with subsidiaries of the Bertelsmann AG group and the KKR group, 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)	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
BMG Rights Management (UK) Ltd	(3,396)	(255)	(2,579)	(583)	(22,274)	(20,888)
Stage Three Music Publishing Ltd	1,151	2,180	2,535	1,492	305	286
Stage Three Music US Inc	4,177	3,461	2,802	581	589	552
BMG Rights Management US LLC	4	-	4	-	-	-
Total	**1,936**	**5,386**	**2,761**	**1,490**	**(21,380)**	**(20,049)**

14. Ultimate parent company and controlling party

The immediate parent company is Stage Three Music Publishing Ltd, a company incorporated in United Kingdom, which is in turn part of a holding group structure of which the parent is BMG RM Investments Luxembourg Sarl, a company incorporated in Luxembourg

BMG RM Investments Luxembourg Sarl is a joint venture between the international media company Bertelsmann AG and the global private equity firm Kohlberg Kravis Roberts & Co

The results of the Company are included in the consolidated financial statements of BMG RM Investments Luxembourg Sarl which is registered at 63, Rue Rollingergrund, L-2440 Luxembourg These consolidated accounts are publicly available

No other group financial statements include the results of the company