Company Registration No. 04738931

Stage Three Music (Catalogues) Limited

Report and Financial Statements

31 December 2010

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Officers and professional advisers

Directors

M Ranyard
J Dobinson
D Malter
H Masuch
A Pell
M Dressendoerfer
S Schneider

Secretary

O A Onile-Ere

Registered Office

50 Great Marlborough Street
London
W1F 7JS

Auditors

Deloitte LLP
Chartered Accountants and statutory auditor
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 2010 for Stage Three Music Catalogues Limited (the "Company" or "STMC") These financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB

Principal activities

The principal activity of the company during the year ended 31 December 2010 was music publishing

STMC'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, STMC 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

Outlook

STMC assumed strong growth in revenues and operating EBITDA in 2010 The business continues to undergo review to identify further optimisation potential, and cost structures are likewise being optimised and brought into alignment with business expectations STMC believes that its diversified portfolio of businesses and the measures already introduced or prepared will mitigate the impact of the financial crisis and economic downturn

Business review

STMC is the United Kingdom wholly-owned subsidiary of Stage Three Music Publishing Limited STMC'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

STMC is part of an international group of companies focused on the management of music rights STMC covers the entire range of rights administration, development and exploitation, placing the needs of songwriters and artists at the core of its business model STMC has established a presence in its core music markets and now represents rights to numerous songs and recordings At the core of STMC's strategy is delivering a high quality rights administration service to artists and writers

Business performance 2010

As shown in the company's Statement of Comprehensive Income on page 9, STMC reported revenues of £7,907k and gross profit of £3,169k Operating profit and profit for the period are £3,339 and £2,288k respectively The profit for the period principally reflects performance of the company during the year

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 generated by STMC publishing segment and contribution margin from STMC's Master recording segment, operating loss (Earnings Before Interest and Taxes, EBIT) and EBITDA (as adjusted for Depreciation and Amortisation) STMC also uses non financial performance indicators which include the number of employees STMC 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 STMC We set out below STMC's view of the main risks which, should any actually materialise, STMC's business, financial condition and return to stakeholders could be materially and adversely affected 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)

Capital structure

During the year STMC issued £1 ordinary share for Stage Three Music Publishing Limited for £17,713,664, which was settled fully in cash

Financial risk management objectives and policies

The company's activities expose it to financial risks including credit risk The directors do not believe that the company is exposed to any liquidity or cash flow risk The company is currently funded by its immediate parent company and has no external debtors or creditors However, in the event that additional liquidity was required for ongoing operations and future developments, the company participates in group cash pooling facility

Credit risk

The company's principal financial assets are its debtors The company's credit risk is primarily attributable to its intercompany debtors The amounts presented in the balance sheet are net of allowances for doubtful receivables An allowance for impairment is made when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows

Market risks

Global economic outlook

STMC 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 STMC's business STMC 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 recorded music industry is experiencing a period of ongoing 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 STMC

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 STMC 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 STMC'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 STMC 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 STMC If STMC 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 STMC, regardless of the merits of the claim If STMC 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 STMC's business

Stage Three Music (Catalogues) Limited

Directors' report (continued)

Business risks

Failure to fully exploit organic and acquisition growth opportunities

If STMC 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 STMC's business The future success of STMC therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions

Client retention and performance of releases

STMC'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 STMC or decisions of existing clients to remain with STMC are complex and involve considerations of many factors As such it is uncertain how many new clients STMC will sign and what proportion of existing clients will extend their agreements Equally, STMC has no control over the release schedule of partnering record companies and the phasing of album releases can impact STMC's results on an annual basis

Dependency on third party service partners and shareholder affiliates

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

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

The directors who held office during the period were as follows

Stanley Schneider	(appointed 15 September 2010)
Hartwig Masuch	(appointed 11 August 2010)
Tony Moss	(appointed on 11 August 2010 and resigned 4 December 2010)
Maximilian Dressendoerfer	(appointed 11 August 2010)
John Dobinson	(appointed 11 August 2010)
Mark Ranyard	(appointed 1 October 2010)
Alan Pell	(appointed 1 October 2010)
Donald Malter	(appointed 15 September 2010)
Richard Ewbank	(resigned 10 August 2010)
Steve Lewis	(resigned 10 August 2010)

Dividends

The directors do not recommend a dividend in the year (2009 £nil)

Directors and officers insurance

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

Stage Three Music (Catalogues) Limited

Directors' report (continued)

Employees

Disabled employees

We confirm that Stage Three Music (Catalogues) Limited complies with the Disability Discrimination Act 1995, which replaced the Disabled Persons (Employment) Act 1944

Where existing employees become disabled, it is the company's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate

Employment involvement

During the period, the policy of providing employees with information about the company has continued and employees are encouraged to present their suggestions and views on the company's performance Regular meetings are held between management and employees to allow a free flow of information and ideas

Political and charitable contributions

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

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 ought to have taken as a director in order to make himself 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

Baker Tilly LLP resigned as auditors of the company with effect from 10 August 2010, Deloitte LLP were appointed as auditors of the company with effect 11 August 2010

Deloitte 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

M Ranyard

Director

28/3/ 2011

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 with reasonable accuracy at any time the financial position of the company and to 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 2010 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in shareholders' equity, and the related notes 1 to 15 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 more fully explained in the Directors' Responsibilities Statements, 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 Practice Board's Ethical Standards for Auditors

Scope of the audit of 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

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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB)

In our opinion the Company financial statements comply with IFRSs as issued by the IASB

Opinion on matter prescribed in the Companies Act 2006

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

Independent auditor's 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

Under the Companies Act 2006 we are required 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
28 March 2011

Stage Three Music (Catalogues) Limited

Statement of comprehensive income
Year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Continuing operations			
Revenue	2	7,907	5,996
Cost of sales		(4,738)	(3,155)
Gross profit		3,169	2,841
Administrative (expenses)/income	3	170	(246)
Operating profit		3,339	2,595
Interest payable and similar charges	4	(1,051)	(1,003)
Interest receivable	5	-	1
Profit on ordinary activities before taxation		2,288	1,593
Taxation	7	-	-
Profit on ordinary activities after taxation attributable to equity shareholder		2,288	1,593

The accompanying notes are an integral part of this statement of comprehensive income For the year ended 31 December 2010 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
Year ended 31 December 2010

	Notes	2010 £'000	2009 £'000	2008 £'000
Non-current assets				
Intangible assets	8	34,159	27,302	28,720
Current assets				
Debtors	9	1,288	442	260
Cash at bank and in hand		-	301	303
Total current assets		1,288	743	563
Total assets		**35,447**	**28,045**	**29,283**
Equity				
Share capital	12	-	-	-
Share premium		17,714	-	-
Retained earnings	13	(4,103)	(6,391)	(7,984)
Total shareholder's equity		13,611	(6,391)	(7,984)
Current liabilities				
Trade and other payables	10	21,836	4,713	4,216
Total current liabilities		21,836	4,713	4,216
Non-current liabilities	11	-	29,722	33,051
Total equity and liabilities		**35,447**	**28,045**	**29,283**

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 28 / 3 / 2011

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 2010

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Opening shareholder's funds at 1 January 2010	-	-	(6,391)	(6,391)
Profit for the period	-	-	2,288	2,288
Shares issued	-	17,714	-	17,714
Closing shareholder's funds at 31 December 2010	-	17,714	(4,103)	13,611

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

Stage Three Music (Catalogues) Limited

Notes to the accounts
Year ended 31 December 2010

1. **Accounting policies**

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

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as issued by the IASB ("Adopted IFRSs")

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

Basis of preparation

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

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

These financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards The first date at which IFRS was applied was January 1, 2009

The Company's financial statements were previously prepared in accordance with accounting principles generally accepted in the UK (UK GAAP") UK GAAP differs in some areas from IFRS The Company did not do reconciliations for the effect of the transition from UK GAAP to IFRS on equity, earnings and comprehensive income along with line-by-line reconciliations of the statement of financial position as at December 31, 2010, December 31, 2009 and January 1, 2009, and the income statement and statement of comprehensive income for the year ended December 31, 2010, as there were not any changes

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

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the 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 that the following assets and liabilities are stated at their fair value financial instruments classified as fair value through the profit or loss or as available-for sale Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources and also the letter of support provided by BMG Rights Management GmbH to continue its operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Dividends

The directors do not recommend a dividend (2009 none)

Notes to the accounts
Year ended 31 December 2010

1. **Accounting policies (continued)**

Cash

Stage Three Music (Catalogues) Ltd does not have bank account and holds no cash or cash equivalents Accordingly no statement of cash flows has been presented

Foreign currency

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the statement of comprehensive income Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined

Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each statement of financial position date Other intangible assets are amortised from the date they are available for use The estimated useful lives are as follows

Music catalogue	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 or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the statement of comprehensive income

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

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

Calculation of recoverable amount

The recoverable amount of the company's receivables earned at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i e the effective interest

Stage Three Music (Catalogues) Limited

Notes to the accounts
Year ended 31 December 2010

1 **Accounting Policies (continued)**

rate computer 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

Trade and other receivables

Trade and other receivables at the statement of financial position date are stated at fair value 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, Stage Three Music Publishing Ltd The facility bears interest at 1 875% above the 3 month LIBOR market rate Trade and other payables are stated at fair value 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

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

Adopted IFRS not yet applied

The following Adopted IFRSs were available for early application but have not yet been applied by the company in these financial statements

- IFRS 1 Revised First-time Adoption of International Financial Reporting Standards
- IFRS 2 Share-based Payment (Amended)
- Amended IFRS 5 Non-current Assets Held For Sale and Discontinued Operations
- Amended IAS 27 Consolidated and Separate Financial Statements
- Amended IAS 39 Financial Instruments
- IFRIC 17 Distribution of Non-cash Assets to Owners

The company changed to IFRS reporting during the year In the previous years the accounts were prepared in accordance to UK GAAP

Notes to the accounts
Year ended 31 December 2010

2. Turnover

The company's turnover is derived from its principal activity Sales were made in the following geographical markets

	2010 £'000	2009 £'000
United Kingdom	1,956	888
United States of America	5,951	5,108
	7,907	5,996

3 Profit/(loss) on ordinary activities before taxation

	2010 £'000	2009 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting)		
Amortisation of intangible assets	2,165	1,767
Reversal of irrecoverable debt provision	(2,595)	-
Exchange (gain)/loss	210	(1,558)

The audit fee for the year of £6k has been borne by another group company

4. Interest payable and similar charges

	2010 £'000	2009 £'000
Bank interest	284	449
Group interest	767	554
	1,051	1,003

5 Interest receivable

	2010 £'000	2009 £'000
Bank interest receivable	-	1

6. Employees

The average monthly number of persons (including directors) employed by the company during the year was

	2010 No	2009 No.
Management	-	2

Director's remuneration

The directors did not receive any remuneration for their qualifying services as directors in the current or preceding financial periods

Stage Three Music (Catalogues) Limited

Notes to the accounts
Year ended 31 December 2010

7. **Taxation**

	2010 £'000	2009 £'000
Current taxation		
UK corporation tax	-	-
Deferred tax	-	-
Total tax	-	-

Tax on profit/(loss) on ordinary activities

Tax Reconciliation

	2010 £'000	2009 £'000
Profit/(loss) on ordinary activities before tax	2,288	1,593
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK at 28% (2009 28%)	641	446
Effects of		
Non-deductible amortisation	38	38
Amortisation in excess of capital allowances	28	-
Tax losses (utilised)	(1,578)	(484)
Chargeable gains on transfers of assets	1,598	-
Non-taxable income	(727)	-
	-	-

The UK corporation tax rate will decrease to 27% from 1 April 2011

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget It is proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements

No deferred tax asset has been recognised as future recovery is uncertain The unrecognised deferred tax asset at 31 December 2010 has been calculated using the rate of 27% applicable when the entity recovers the carrying value of the asset

	At 31 December 2009 £	2010 £
Intangible assets	-	492
Tax losses carried forward	(2,926)	1,626
Unrecognised deferred tax (asset)	(2,926)	2,118

Stage Three Music (Catalogues) Limited

Notes to the accounts
Year ended 31 December 2010

8 Intangible fixed assets

	Catalogues £'000
Cost	
At 1 January 2010	35,450
Additions	9,022
At 31 December 2010	44,472
Amortisation	
At 1 January 2010	8,148
Charge for the year	2,165
At 31 December 2010	10,313
Net book value	
At 31 December 2010	34,159
At 31 December 2009	27,302

Additions in the year mainly relate to purchases of music catalogues

9 Debtors· amounts falling due within one year

	2010 £'000	2009 £'000	2008 £'000
Amounts due from group undertakings	1,045	196	68
Advances to writers	243	246	192
	1,288	442	260

9 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000	2008 £'000
Bank loan	-	1,089	723
Amounts owed to group undertakings	19,991	2,056	1,524
Royalties payable	1,594	1,443	1,827
Accruals and deferred income	251	125	142
	21,836	4,713	4,216

The bank loan was repaid during the year

Stage Three Music (Catalogues) Limited

Notes to the accounts
Year ended 31 December 2010

10. Creditors: amounts falling due in more than one year

	2010 £'000	2009 £'000	2008 £'000
Bank loan	-	18,019	17,350
Amounts owed to group undertakings	-	11,703	15,701
	-	29,722	33,051

The bank loan was paid during the year

	2010 £'000	2009 £'000	2008 £'000
The bank loan is repayable as follows			
Due within one year	-	1,089	723
Due between one and two years	-	18,019	904
Due between two to five years	-	-	16,446
	-	19,108	18,073

11. Share capital

	2010 £	2009 £	2008 £
Allotted, issued and fully paid			
2 ordinary shares of £1 each	2	2	2

During the period, the company issued 2 ordinary £1 shares for a consideration of £17,714,000 settled in cash

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

12. Profit and loss account

	2010 £'000	2009 £'000	2008 £'000
At 1 January	(6,391)	(7,984)	(1,699)
Profit for the financial year	2,288	1,593	(6,285)
At 31 December	(4,103)	(6,391)	(7,984)

Notes to the accounts
Year ended 31 December 2010

13. Fınancıal ınstruments

Exposure to credıt, ınterest rate and currency rısks arıses ın the normal course of the company's busıness

(a) Fair values of financıal ınstruments

Trade and other receıvables

The faır value of trade and other receıvables ıs estımated as the present value of future cash flows, dıscounted at the market rate of ınterest at the statement of financıal posıtıon date ıf the effect ıs materıal

Trade and other payables

The faır value of trade and other payables ıs estımated as the present value of future cash flows, dıscounted at the market rate of ınterest at the statement of financıal posıtıon date ıf the effect ıs materıal

Cash and cash equıvalents

The faır value of cash and cash equıvalents ıs estımated as ıts carryıng amount where the cash ıs repayable on demand Where ıt ıs not repayable on demand then the faır value ıs estımated at the present value of future cash flows, dıscounted at the market rate of ınterest at the statement of financıal posıtıon date

Interest-bearıng borrowıngs

Faır value, whıch after ınıtıal recognıtıon ıs determıned for dısclosure purposes only, ıs calculated based on the present value of future prıncıpal and ınterest cash flows, dıscounted at the market rate of ınterest at the statement of financıal posıtıon date

Faır values

The faır values for each class of financıal assets and financıal lıabılıtıes together wıth theır carryıng amounts shown ın the statement of financıal posıtıon are as follows

	2010		2009	
	Carryıng amount £'000	Faır value £'000	Carrying amount £'000	Faır value £'000
Other receıvables	243	243	246	246
Trade and other receıvables from group companıes	1,045	1,045	196	196
Cash and cash equıvalents	-	-	301	301
Trade and other payables	(1,845)	(1,845)	(1,568)	(1,568)
Trade and other payables to group companıes	(19,991)	(19,991)	(13,760)	(13,760)
Bank loans	-	-	(19,108)	(19,108)
	(20,548)	(20,548)	(33,693)	(33,693)
Unrecognısed gaıns/losses				-

(b) Credıt rısk

Fınancıal rısk management

Credıt rısk ıs the rısk of financıal loss to the company ıf a customer or counterparty to a financıal ınstrument faıls to meet ıts contractual oblıgatıons, and arıses prıncıpally from the company's receıvables from customers

The company's prıncıpal financıal assets are bank balances and trade receıvables whıch represent the company's maxımum exposure to credıt rısk ın relatıon to financıal assets The company bears the bad debt rısk on all debtors The company's management make assessments on new customers before work ıs earned out, based on theır knowledge of the ındustry and the customer's acceptance of ımposed credıt terms

Stage Three Music (Catalogues) Limited

Notes to the accounts
Year ended 31 December 2010

13. Financial instruments (continued)

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 2010 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 31 December 2010 £'000	**Loss for the year ended 31 December 2009 £'000**
USD	40	32

A one percent strengthening of the USD against the pound sterling at 31 December 2010 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant

Market risk – interest rate risk

The company'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

13. Financial instruments (continued)

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 period 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 £76,000

14. 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) See note 15 for further detail 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 period the company entered into the following transactions with related parties The transactions were priced on an arm's length basis

	Sales/ (purchases) of goods £'000	Trade balances receivable/ (payable) £'000	Loan balances receivable/ (payable) £'000
BMG Rights Management (UK) Ltd	-	(328)	(19,662)
Stage Three Music Publishing Ltd	1,939	5	518
Stage Three Music US Inc	5,356	-	520
	7,295	(323)	(18,624)

15. 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