Company Registration No. 7295096

Stage Three Music Publishing Limited

Report and Financial Statements

31 December 2011

Stage Three Music Publishing Limited

Report and financial statements 2011

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Stage Three Music Publishing Limited

Report and financial statements 2011

Officers and professional advisers

Directors

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

Secretary

Simon Harvey

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Winchester House
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Auditor

Deloitte LLP
Chartered Accountants and statutory auditor
London, United Kingdom

Stage Three Music Publishing Limited

Directors' report

The directors present their Directors' report and financial statements for the year ended 31 December 2011 for Stage Three Music Publishing Limited (the "Company")

Principal activities

The principal businesses of the company during the year ended 31 December 2011 was the collection and payment of royalties

The company's music publishing business can be summarised as an intellectual property business focused on the exploitation of the copyright of songs In return for promoting, placing, marketing and administering the creative output of a songwriter, the company retains a share of revenues generated from use of the song The services described above are also carried out on behalf of other rights holders such as catalogue owners and other publishing companies

On a selective basis, the company also signs self-contained artists for new recordings, typically in combination with the signing of a publishing deal In return for the licensing and administering the creative output of a recording artist, Stage Three Music Publishing Limited retains a share of revenues generated from the use of the recording

Outlook

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

Business review

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

Strategy

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

Business performance 2011

As shown in the Company's Statement of Comprehensive Income on page 9, the Company reported revenues of £2,814k and gross profit of £281k The loss before tax of £2,820k is primarily driven by the net interest cost of £311k and the loss on the disposal of an investment of £2,167k

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 Publishing Limited We set out below the Company's view of the main risks which could, should any actually materialise, materially and adversely affect the Company's business, financial condition and return to stakeholders. Further risks and uncertainties which are not presently known to the directors at the date of this document, or that the directors currently deem less significant, may also have an adverse effect on the business, financial condition or results of the group

Stage Three Music Publishing Limited

Directors' report (continued)

Market risks

Global economic outlook

Stage Three Music Publishing Limited received income from worldwide sources and is susceptible to changes in the global economy Failure to adjust to changes in the global economy could have a material adverse effect on the company's business Stage Three Music Publishing Limited is part of a broader group of rights administration companies which are actively building a business presence in the European, US and UK territories as a strategy to diversify this risk.

Music industry growth

The music industry is experiencing a period of 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 Stage Three Music Publishing 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 Publishing Limited Copyright royalties are either collected or controlled by third parties, such as collection societies, ceding control over royalty collections to such entities This diminishes control and might result in lower revenues, if collection fees were revised upwards or collection scope was narrowed, thus affecting the business of Stage Three Music Publishing Limited The company's business is highly dependent upon copyright ownership, a subject which has encountered increased litigation in recent years If the company is alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management of Stage Three Music Publishing Limited, regardless of the merits of the claim If Stage Three Music Publishing Limited were to lose a litigation relating to intellectual property, it could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology Any of the foregoing may adversely affect the company's business

Business risks

If Stage Three Music Publishing Limited fails to keep pace with industry trends and developments, it may experience competitive disadvantage, which may result in lower margins and loss of market share Failure to directly or indirectly exploit new growth areas, such as the use of music individual media, could have a material adverse effect on the company's business The future success of Stage Three Music Publishing Limited therefore depends on the successful implementation of its growth strategy, both through signings and acquisitions

Client retention and performance of releases

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

Stage Three Music Publishing 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 Publishing Limited relies on a number of third party business partners and shareholder affiliates to operate successfully These include sub-Publishers, who support Stage Three Music Publishing Limited in international rights management and license income collections

Additionally, Stage Three Music Publishing Limited outsources information technology infrastructure, certain finance and accounting 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 The ultimate parent company has confirmed its continued support of the company

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

Directors

The directors who held office during the year, except as noted, were as follows

Hartwig Masuch
Maximilian Dressendoerfer
John Dobinson
Mark Ranyard
Alan Pell (resigned 13 April 2011)
Donald Malter
Stanley Schneider

Dividends

The directors do not recommend a dividend (2010 £nil)

Directors and officers insurance

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

Employees

Disabled employees

We confirm that Stage Three Music Publishing 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 year or prior period

Stage Three Music Publishing 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

05 March 2012

Stage Three Music Publishing 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 Publishing Limited

We have audited the financial statements of Stage Three Music Publishing Limited for the period ended 31 December 2011 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 17 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 2011 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 auditor's report to the members of Stage Three Music Publishing 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 Bates (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

Date 8 March 2012

Stage Three Music Publishing Limited

Statement of comprehensive income
Year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Continuing operations			
Revenue	2	2,814	1,286
Cost of sales		(2,533)	(1,264)
Gross profit		281	22
Administrative expenses		(623)	(1,359)
Loss from operations	3	(342)	(1,337)
Loss on disposal of investment	7	(2,167)	-
Investment revenue	5	182	-
Finance costs	5	(493)	(41)
Loss before taxation		(2,820)	(1,378)
Taxation	6	-	-
Loss for the year/period		(2,820)	(1,378)

The accompanying notes are an integral part of this statement of comprehensive income for the year ended 31 December 2011 and the company did not have any items of other comprehensive income All results relate to continuing operations

Stage Three Music Publishing Limited

Statement of financial position
Year ended 31 December 2011

	Notes	31 December 2011 £'000	31 December 2010 £'000
Non-current assets			
Investments	7	17,714	17,714
Goodwill	8	300	300
Long term loans	12	1,599	3,585
Total non-current assets		19,613	21,599
Current assets			
Trade and other receivables	9	3,429	2,434
Cash and cash equivalents	10	-	713
Total current assets		3,429	3,147
Total assets		23,042	24,746
Equity			
Share capital	13	-	-
Share premium		15,000	15,000
Accumulated loss		(4,198)	(1,378)
Total equity		10,802	13,622
Non-current liabilities			
Long term loans	12	8,316	8,077
Total non-current liabilities		8,316	8,077
Current liabilities			
Cash and cash equivalents	10	7	-
Trade and other payables	11	3,917	3,047
Total current liabilities		3,924	3,047
Total equity and liabilities		23,042	24,746

The accompanying notes are an integral part of this statement of financial position

The financial statements of Stage Three Music Publishing Ltd registered number 7295096 were approved by the Board of Directors on 05 March 2012

Signed on behalf of the Board of Directors

M Ranyard
Director

Stage Three Music Publishing Limited

Statement of changes in shareholder's equity
Year ended 31 December 2011

	Share capital £'000	Share premium £'000	Accumulated Loss £'000	Total £'000
Opening shareholder's funds at 1 January 2011	-	15,000	(1,378)	13,622
Loss for the year/period	-	-	(2,820)	(2,820)
Closing shareholder's funds at 31 December 2011	-	15,000	(4,198)	10,802

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

Stage Three Music Publishing Limited

Statement of cashflows
Year ended 31 December 2011

	Notes	Year ended 31 December 2011 £'000	Period from 01 July 2010 31 December 2010 £'000
Net cash from operating activities	17	(720)	3,730
Cash flows from investing activities			
Goodwill		-	(300)
Acquisition of property, plant and equipment		-	(3)
Acquisition of subsidiary		-	(17,714)
Net cash from investing activities		-	(18,017)
Cash flows from financing activities			
Proceeds from issue of share capital		-	15,000
Net cash from financing activities		-	15,000
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year/period		713	-
Cash and cash equivalents at 31 December	10	(7)	713

The accompanying notes are an integral part of this statement of this statement of cash flows

Notes to the financial statements
Year ended 31 December 2011

1. Accounting policies

Stage Three Music Publishing 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 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 that are publically available (see note 15)

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 described in the accounting policies below

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 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 financial instruments classified as fair value through the profit or loss

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 2 to 5 Stage three publishing made a loss of £2,820k in the year and has net current liabilities of £495 at 31 December 2011 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

1. **Accounting policies (continued)**

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

Calculation of recoverable amount

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

Reversal of impairment

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

An impairment loss in respect of goodwill is not reversed

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

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

Fixed assets

Fixed assets that are acquired by the company are stated at cost less accumulated depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives The estimated useful lives are as follows

Office equipment	4 years

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 1 875% above the 3 month LIBOR market rate Trade and other payables are amortised costs which approximates to cost

Stage Three Music Publishing Limited

Notes to the financial statements
Year ended 31 December 2011

1. **Accounting policies (continued)**

Employee benefits

The company operates a non-contributory defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund Obligations for contributions to the defined contributions pension plan are recognised as an expense in the statement of comprehensive income as incurred

Revenue

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

Revenue from royalty licensing is recognised in accordance with IAS 18 where revenue streams have a forward visibility revenue is recognised on an accruals basis If there is no or minimal forward visibility of revenue streams it is not possible to measure the revenue streams reliably until cash is collected

Music publishing royalties

Music publishing royalties derived from the inclusion of the company's copyrights on recorded music products or from performance are recognised when they are earned by the company from the relevant collection society or record company The company considers that it can most reliably measure such royalties following receipt of cash or a statement

Where the company receives advances which are recoupable from future sales or profits, or are otherwise conditional on continued performance of duties by the company, these are recorded as liabilities Revenue is recognised as it is earned

Advance payments to artists are carried forward within other receivables where they relate to proven artists and where it is estimated that sufficient future income will be recouped against those advance payments The advance payments should be written off if these are not covered by future income In case of unproven contract the advance payments should be immediately written off

Master record royalties

Record royalties derived from the exploitation of the company's master record rights is included on a receivable and/or due basis calculated on sales of records arising during each accounting period as reported by licensees Based on the matching principle, royalties payable are accrued at the time the revenue is recognised

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

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 period comprises current and deferred tax Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position date

Notes to the financial statements
Year ended 31 December 2011

1. **Accounting policies (continued)**

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

Business Combinations

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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*[2]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*[3]
Amendments to IAS 12	*Deferred Tax – Recovery of Underlying Assets*[4]
IAS 19 (as revised in 2011)	*Employee Benefits*[2]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[2]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 July 2012
[4] 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 Group in future periods

2. **Revenue**

An analysis of the company's revenue is as follows

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Exploitation of music publishing rights	2,814	1,286

The operations of the company take place wholly in the United Kingdom and as such there are no overseas operations All assets used by the company are held in the United Kingdom

3. **Loss from operations**

Loss from operations has been arrived at after charging

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	-	12
The audit of the company's subsidiaries pursuant to legislation	-	6

The audit fee of £15,000 was borne by the intermediate UK holding company, BMG Rights Management (UK) Limited

4. **Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

Number of employees

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Management and administration	5	5

Stage Three Music Publishing Limited

Notes to the financial statements
Year ended 31 December 2011

4. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Wages and salaries	371	312
Compensation for loss of office	76	161
Social security costs	63	98
	510	571

Remuneration of directors

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Emoluments (excluding pension contributions)	216	154
Social security costs	27	18
Pension costs	12	-
Compensation for loss of office	-	114
	255	286

Highest paid director	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
The above amounts for remuneration include the following in respect of the highest paid director	216	103

Notes to the financial statements
Year ended 31 December 2011

5. Finance costs/investment revenue

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Investment Revenue	(182)	(112)
Finance costs	493	153
	311	41

Investment revenue and interest charges represent interest charged/received from the parent company and other related parties in respect of cash pooling facilities provided

6. Taxation

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Current taxation		
UK corporation tax	-	-
Deferred taxation		
Origination and reversal of temporary differences	-	-
Total tax expense	-	-

There is no current or deferred tax charge for the period

6. Taxation (continued)

The charge for the period can be reconciled to the loss per the statement of comprehensive income as follows

Tax reconciliation

	Year ended 31 December 2011 £'000	Period from 01 July 2010 to 31 December 2010 £'000
Loss before taxation	(2,820)	(1,378)
Tax using the UK corporation tax rate of 26 5% (2010 28%)	(747)	(386)
Effects of.		
Non-deductible loss on disposal	574	-
Degrouping charge	-	84
Permanent differences	2	7
Unrecognised losses carried forward	171	295
	-	-

No deferred tax asset has been recognised as future recovery is uncertain

Tax losses

	1 January 2011 £'000	Movement £'000	31 December 2011 £'000
Unrecognised deferred tax and tax losses carried forward	2,153	(436)	1,717
Unrecognised deferred tax on other balances	-	15	15
Total	2,153	(421)	1,732

The standard rate of Corporation Tax in the United Kingdom changed from 28% to 26% with effect from 1 April 2011 Accordingly the company's profits are taxed at an effective rate of 26 5%

During the year, as a result of the change in the UK main corporation tax rate to 25% that was substantively enacted on 5 July 2011 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured

Further reductions to the UK corporation tax rates by 1% per annum to 23% by 1 April 2014 have been announced and are expected to be enacted separately each year The changes have not been recognised in these financial statements as they had not been substantively enacted at the balance sheet date

No deferred tax asset has been recognised as future recovery is uncertain The unrecognised deferred tax asset at 31 December 2011 has been calculated using the rate of 25% (2010 27%)

Notes to the financial statements
Year ended 31 December 2011

6. Taxation (continued)

A deferred tax asset of £1,732k (2010 £175k) in respect of tax losses arises in the UK which has not been recognised in the accounts as these assets can only be deducted against future suitable tax profits 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

7 Investment in subsidiaries

The movement in the period was as follows

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Cost		
At beginning of period	17,714	-
Additions	2,252	17,714
Disposals	(2,252)	-
	17,714	17,714
Amounts provided		
Beginning and end of the period	-	-
Net book value at end of period	17,714	17,714
Net book value at beginning of period	17,714	17,714

Investments in subsidiaries shown above represent the cost of the shares of the wholly-owned subsidiary undertakings, less provisions made for any impairment in value

On 9 September 2011 the Company capitalised a portion of the outstanding book value of the intercompany loan receivable from a group company, Stage Three Music, Inc It subsequently sold the company to another group company at fair value, realising a loss on disposal of £2,167k The transaction was completed as part of a wider BMG Group reorganisation

Details of the principal investments of the Company are as follows

Subsidiary undertakings	Country of incorporation/ operation	Principal activity	Description and proportion of ordinary shares held %
Stage Three Music (Catalogues) Ltd	Great Britain	Music Publishing	100%
Stage Three Music Inc	USA	Music Publishing	100%

8. Goodwill

Stage Three Music Publishing Limited purchased the trade and assets of Stage Three Music Limited on 13 July 2010 for £23,652,000 which included £300,000 (2010 £300,000) of goodwill The goodwill relates to the custom and connections of the seller in relation to the Business together with the exclusive right for STMP and its successors and assignees to represent itself as carrying on the Business under the name "Stage Three Music" The transaction was completed at fair value

Stage Three Music Publishing Limited

Notes to the financial statements
Year ended 31 December 2011

9. Trade and other receivables

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Trade receivables	2,488	2,266
Trade and other receivables from group companies	923	60
Other receivables	18	108
	3,429	2,434

10. Cash and cash equivalents

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Bank overdraft/Cash at bank	(7)	713

11. Trade and other payables

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Due within one year		
Trade and other payables	956	1,557
Other payables	183	290
Trade and other payables to group companies	2,779	1,200
	3,918	3,047

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

12 Long term loans

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Loans to group companies	1,599	3,585
Loans from group companies	(8,316)	(8,077)
	(6,717)	(4,492)

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

13. Capital and reserves

Share capital

	Year ended 31 December 2011 £	Period ended 31 December 2010 £
Issued and fully paid:		
2 ordinary share of £1 each	2	2

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

14. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the company's business

(a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the statement of financial position date if the effect is material

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

14. Financial instruments (continued)

Fair values

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

	2011 Carrying amount £'000	2011 Fair value £'000	2010 Carrying amount £'000	2010 Fair value £'000
Trade receivables	2,488	2,488	18	18
Other receivables	18	18	2,353	2,353
Trade and other receivables from group companies	923	923	60	60
Loans to group companies	1,599	1,599	3,585	3,585
Cash and cash equivalents	(7)	(7)	713	713
Trade and other payables	(956)	(956)	(1)	(1)
Trade and other payables to group companies	(2,779)	(2,779)	(1,200)	(1,200)
Other payables	(183)	(183)	(1,691)	(1,691)
Loans from group companies	(8,316)	(8,316)	(8,077)	(8,077)
	(7,213)	(7,213)	(4,240)	(4,240)
Unrecognised gains/losses				-

(b) Credit risk

Financial risk management

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

The company's principal financial assets are 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 carried out, based on their knowledge of the industry and the customer's acceptance of imposed credit terms

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure Therefore, the maximum exposure to credit risk at the statement of financial position date was £2,432,065 being the total of the carrying amount of trade receivables, shown in the table above

14. Financial instruments (continued)

Financial assets and impairment losses

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

	2011			2010		
	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000	Gross trade receivables £'000	Doubtful debt provision £'000	Net trade receivables £'000
Not past due	2,488	-	2,488	18	-	18

(c) Liquidity risk

Financial risk management

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

Liquidity is managed by group via the cash pooling facility

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

(d) Market risk

Financial risk management

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

Market risk - Foreign currency risk

A proportion of sales and purchase are invoiced in foreign currency (Euros) and the company bears the foreign currency risk on these debtors and creditors The company does not take out forward contracts on currency

Sensitivity analysis — Foreign currency risk

The Company did not issue many foreign currency invoices in the period and so exposure to foreign currency risk is minimal

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 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 £67,000 (2010 £22,000)

(e) Capital risk management

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

15. Related parties

Identity of related parties

The company's 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 and there were no transactions to disclose other than directors' remuneration (see note 4) and as described below

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	Interest income/ (expense) on loan balances	Trade Balances receivable/ (payable) £'000	Loan Balances receivable/ (payable) £'000
BMG Rights Management (US) LLC	19	2	19	85
Stage Three Music (Catalogues) Ltd	(2,180)	162	(1,492)	1,227
BMG Rights Management (UK) Limited	(88)	(471)	(952)	(7,558)
Stage Three Inc	451	-	2,780	-
BMG Rights Management (France) SARL	7	-	7	-
BMG Rights Administration (Spain) SL	13	-	13	-
BMG Rights Management (Benelux)	4	-	-	-
BMG Rights Management (Scandinavia) AB	16	-	-	-
BMG Rights Management GmbH	1	-	(2)	-
Air Chrysalis Scandinavia AB	-	-	16	-
RTL Group	(5)	-	(5)	-
Total	(1,762)	(307)	384	(6,246)

16. Ultimate parent company and controlling party

The immediate parent company is BMG Rights Management (UK) Ltd, a company incorporated in England, which is owned by BMG Rights Management GmbH, a company incorporated in Germany, 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

Stage Three Music Publishing Limited

Notes to the financial statements
Year ended 31 December 2011

17. Notes to the cash flow statement

Cash flows from operating activities

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Loss before taxation	(2,820)	(1,378)
Adjustment for		
Depreciation	-	3
Finance costs	493	41
Investment revenue	(182)	-
Increase in long term loans	774	5,591
Operating loss before movements in working capital and provisions	(1,735)	(1,375)
Decrease in receivables	(1,056)	(2,374)
Increase in payables	2,071	1,847
Cash generated from operations	(720)	3,730
Tax paid	-	-
Net cash from operating activities	(720)	3,730