

**Sony BMG Music Entertainment (International)
Limited**

**Directors' report and financial
statements**

Registered number 2019657

Year ended 31 December 2005

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2005

Principal activities and review of business

The principal activity of the company is to provide high level consultancy services and advice in the areas of management, marketing, production, export, copyright, financing and other commercial and industrial areas to the subsidiaries of Sony BMG Music Entertainment operating within the music industry in Europe and Africa

As noted below, the company made a loss during the year. The loss arose due to the implementation of the final stages of a restructuring plan which resulted in the company bearing redundancy costs and one-time losses on disposing of fixed assets. The restructuring plan was completed shortly after the year end.

Results

The results for the year are dealt with in the company's profit and loss account. The loss after taxation for the year was £1,185,000 (*9 months ended 31 December 2004: loss of £5,414,000*).

The directors do not recommend the payment of a dividend (*9 months ended 31 December 2004: nil*).

Directors and directors' interests

The directors who held office during the year are as shown below:

M Smellie (Resigned 31 December 2005)
D Mandil
T Bowen
M Steinkamp
W Rowe

In accordance with articles 112, 113 and 117 of the Company's Articles of Association, all the directors, save for the Chairman, are required to retire at annual general meetings.

Notwithstanding this, the company has dispensed with the requirement to hold annual general meetings as noted below.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Directors' report *(continued)*

Auditors

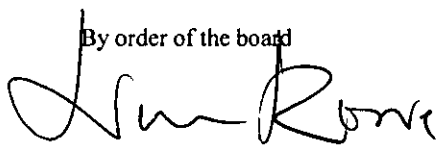
Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office

Annual general meeting

In accordance with section 252(1) of the Companies Act 1985, the company has passed a resolution electing to dispense with the obligations to lay financial statements and reports before the company in a general meeting

In accordance with section 366A(1) of the Companies Act 1985, the company has passed a resolution electing to dispense with the obligations to hold annual general meetings

By order of the board



W Rowe
Director

Bedford House
69-79 Fulham High Street
London
SW6 3JW

27 April 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Sony BMG Music Entertainment (International) Limited

We have audited the financial statements of Sony BMG Music Entertainment (International) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Sony BMG Music Entertainment (International) Limited *(continued)*

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985

kpmg LLP
KPMG LLP
Chartered Accountants
Registered Auditor

27th April 2007

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
Turnover			
Continuing operations	2	19,701	10,691
Discontinued operations	2	-	923
Operating expenses	2,3	(19,007)	(13,377)
Operating profit			
Continuing operations	2	694	(1,755)
Discontinued operations	2	-	(8)
Loss on sale of a discontinued operation	2	-	(1,104)
Restructuring	12	(1,834)	(5,192)
Loss on disposal of fixed assets – continuing operations	3	(504)	
Interest receivable and similar income	6	93	7
Interest payable and similar charges	7	(238)	
Loss on ordinary activities before taxation		(1,789)	(8,052)
Tax credit on loss on ordinary activities	8	604	2,638
Loss on ordinary activities after taxation	17	(1,185)	(5,414)

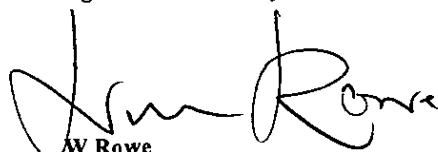
The notes on pages 9 to 18 form part of these accounts

There were no recognised gains and losses other than those shown in the profit and loss account

Balance sheet
at 31 December 2005

	<i>Note</i>	31 December 2005		31 December 2004	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9		37		527
Current assets					
Cash		-		605	
Debtors	10	4,318		17,316	
Creditors amounts falling due within one year	11	(7,364)		(15,830)	
Net current (liabilities)/assets			(3,046)		2,091
Total assets less current liabilities			(3,009)		2,618
Provisions on liabilities and charges	12		(750)		(5,192)
Net liabilities			(3,759)		(2,574)
Capital and reserves					
Called up share capital	15		10		10
Profit and loss account			(3,769)		(2,584)
Equity shareholders' funds	18		(3,759)		(2,574)

These financial statements were approved by the board of directors on
signed on its behalf by


W Rowe
Director

27 April 2007 and were

The notes on pages 9 to 18 form part of these accounts

Cash Flow Statement
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		694	(1,763)
Depreciation charges		73	824
Decrease/(increase) in debtors		13,496	(10,057)
(Decrease)/increase in creditors		(14,868)	11,601
		<hr/>	<hr/>
Net cash (outflow)/ inflow from operating activities		(605)	605
		<hr/>	<hr/>
Cash flow statement			
Cash flow from operating activities		(605)	605
		<hr/>	<hr/>
Increase/(decrease) in cash in the period		(605)	605
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net cash /(debt)			
Increase/(decrease) in cash in the period		(605)	605
Cash to repurchase debenture		-	-
Cash used to increase liquid resources		-	-
		<hr/>	<hr/>
Change in net debt resulting from cash flows		(605)	605
		<hr/>	<hr/>
Non cash movements in net debt		3	(3)
		<hr/>	<hr/>
Movement in net debt in the period		(602)	602
Net debt at the start of the period		602	-
		<hr/>	<hr/>
Net cash / (debt) at the end of the period	<i>19</i>	-	602
		<hr/>	<hr/>

Notes (forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the financial statements, except as noted below

In these financial statements the following new standards have been adopted for the first time

- FRS 21 'Events after the balance sheet date',
- the presentation requirements of FRS 25 'Financial instruments presentation and disclosure', and
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. FRS 25 'Financial instruments presentation and disclosure' has had no impact on the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £3,759,000, which the directors believe is appropriate for the following reason. The company is reliant on funds provided to it by its parent undertaking, Sony BMG Music Entertainment B.V., which has formally indicated that it will continue to make available such funds as are needed by the company for at least 12 months from the date of approval of these financial statements. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation.

Depreciation is provided at rates calculated to write off the cost, less the estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	-	shorter of useful life/term of lease
Computer equipment	-	33.3%
Motor vehicles	-	25%
Office equipment	-	20%
Furniture and Fixtures & Fittings	-	14.3%

Notes (continued)

1 Accounting policies (continued)

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred taxation is recognised on a full provision basis in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to apply less tax in the future, have occurred at the balance sheet date

Deferred tax is measured at the average tax rate that is expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax assets and liabilities recognised have not been discounted

When a deferred tax asset is regarded as recoverable, it is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Foreign currencies

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as at the date of the transactions

Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange prevailing at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the profit and loss account

Turnover

Turnover represents amounts, excluding value added tax, recharged to group companies to which consultancy services and advice are provided

Pensions

The company participates in the Sony Entertainment UK Pension Plan, a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown as creditors. The interest element is charged in the profit and loss account in proportion to the reducing capital element outstanding. The assets are depreciated over the shorter of the lease terms and their useful economic lives

Notes (continued)

2 Analysis of continuing and discontinued operations

	12 months ending 31 December 2005	12 months ending 31 December 2005	Total	9 months ending 31 December 2004	4 months ending 31 July 2004	Total
	Continuing £000	Discontinued £000	£000	Continuing £000	Discontinued £000	£000
Turnover	19,701	-	19,701	10,691	923	11,614
Operating expenses	(19,007)	-	(19,007)	(12,446)	(931)	(13,377)
Operating profit/(loss)	694	-	694	(1,755)	(8)	(1,763)

Operating expenses

Operating expenses consist of third party legal and consultancy costs together with salary costs borne by the company necessary to provide the services to the subsidiaries of SONY BMG Music Entertainment BV operating within the music industry in Europe and Africa

3 Notes to the profit and loss account

	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
<i>Loss on ordinary activities before taxation is stated after charging,</i>		
Auditors' remuneration		
Audit services	15	10
Other services	5	4
Depreciation		
Owned	57	800
Leased	16	24
Loss on disposal of fixed assets	504	-
Staff costs (note 5)	10,121	6,002

4 Remuneration of directors

	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
Directors' emoluments (excluding pension contributions)	1,854	589
Company contributions paid into money purchase pension schemes	377	19
Emoluments of highest paid director (excluding pension contributions)	996	382
Company contributions paid into pension schemes for highest paid director	127	-

Notes (continued)

5 Staff numbers and costs

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

	Year ended 31 December 2005	Number of employees 9 months ended 31 December 2004
Administration	68	90
	<u>68</u>	<u>90</u>

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
Wages and salaries	7,522	4,683
Social security costs	1,078	476
Pension costs (note 18)	1,521	843
	<u>10,121</u>	<u>6,002</u>

6 Interest receivable and similar income

	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
Group interest receivable	93	7
	<u>93</u>	<u>7</u>

7 Interest payable and similar charges

	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
Group interest payable	238	-
	<u>238</u>	<u>-</u>

Notes (continued)

8 Tax on profit on ordinary activities

The tax charge is based on the taxable profit for the year and comprises

	Year ended 31 December 2005		9 months ended 31 December 2004	
	£'000	£'000	£'000	£'000
<i>UK corporation tax</i>				
Current tax credit on income for the period	(984)		(1,358)	
Adjustments in respect of prior periods	371		(1,144)	
	<hr/>		<hr/>	
Total current tax credit		(613)		(2,502)
<i>Deferred tax (see note 13)</i>				
Deferred taxation – current year	418		(136)	
– prior year	(409)		-	
	<hr/>		<hr/>	
Total deferred tax		9		(136)
		<hr/>		<hr/>
Tax credit on profit on ordinary activities		(604)		(2,638)
		<hr/>		<hr/>

The tax assessed for the period is different from the standard rate of corporation tax in the UK (30%). The differences are explained below

	Year ended 31 December 2005 £'000	9 months ended 31 December 2004 £ 000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(1,789)	(8,052)
	<hr/>	<hr/>
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30% (2004 30%)	(536)	(2,415)
<i>Effects of</i>		
Expenses not deductible for tax purposes	(29)	589
Capital allowances in excess of depreciation	16	136
Deduction for restructuring costs incurred in a prior year	(435)	-
Loss on disposal of Publishing net assets	-	332
Adjustments to tax in respect of prior years	371	(1,144)
	<hr/>	<hr/>
Total current tax credit (see above)	(613)	(2,502)
	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets

	Leasehold improvements £'000	Machinery and equipment £'000	Motor vehicles £'000	Office Equipment £'000	Total £'000
<i>Cost</i>					
At 1 January 2005	261	4,516	265	1,138	6,180
Additions	106	19	-	1	126
Disposals	(261)	(4,516)	(206)	(1,113)	(6,096)
At 31 December 2005	106	19	59	26	210
<i>Depreciation</i>					
At 1 January 2005	261	4,229	176	987	5,653
Charged in year	46	9	16	2	73
Disposals	(221)	(4,220)	(145)	(967)	(5,553)
At 31 December 2005	86	18	47	22	173
<i>Net book value</i>					
At 31 December 2005	20	1	12	4	37
At 31 December 2004	-	287	89	151	527

Included in the total net book value is £nil (2005 £63,910) in respect of assets held under finance leases. Depreciation for the year on these assets was £16,245 (2005 £24,000).

10 Debtors

	31 December 2005 £'000	31 December 2004 £'000
Trade debtors recharges	113	3,748
Amounts owed by group undertakings	813	171
Group relief receivable	1,882	1,262
Other debtors	85	296
Deferred tax asset	422	431
Corporation tax receivable	53	60
Prepayments and accrued income	950	11,348
	4,318	17,316

Notes (continued)

11 Creditors, amounts falling due within one year

	31 December 2005 £'000	31 December 2004 £ 000
Trade creditors	450	-
Obligations under finance leases (note 14)	-	3
Amounts owed to group undertakings	-	12,274
Other creditors	4,704	-
Accruals and deferred income	2,210	3,553
	<u>7,364</u>	<u>15,830</u>

12 Provision for liabilities

	Restructuring provisions £'000
At beginning of year	5,192
Charge in the year	1,834
Utilised during the year	(6,276)
At end of year	<u>750</u>

13 Deferred taxation

	31 December 2005 £'000	31 December 2004 £ 000
At beginning of year	431	295
Credit/(charge) to the profit and loss account	(9)	136
Deferred tax asset at end of year	<u>422</u>	<u>431</u>
<i>Analysis of Deferred Tax Balance</i>		
Capital allowances in excess of depreciation	422	431
Other short term timing differences	-	-
Deferred tax asset at end of year	<u>422</u>	<u>431</u>

Notes (continued)

14 Finance leases

	31 December 2005 £'000	31 December 2004 £ 000
Gross obligations under finance leases	-	3
Less interest not yet incurred	-	-
	<u>-</u>	<u>3</u>
<i>Represented by</i>		
Amounts payable within one year	-	3
Amount payable between two and five years	-	-
	<u>-</u>	<u>3</u>

15 Called up share capital

	31 December 2005 £'000	31 December 2004 £ 000
<i>Authorised</i>		
10,000 Ordinary shares of £1 each	10	10
	<u>10</u>	<u>10</u>
<i>Allotted, called up and fully paid</i>		
10,000 Ordinary shares of £1 each	10	10
	<u>10</u>	<u>10</u>

16 Capital commitments

	31 December 2005 £'000	31 December 2004 £ 000
Approved by the company but not yet contracted for	-	47
	<u>-</u>	<u>47</u>

17 Reconciliation of movements in shareholders' funds

	31 December 2005 £'000	31 December 2004 £ 000
Loss for the period	(1,185)	(5,414)
Opening shareholders' funds	(2,574)	2,840
	<u>(3,759)</u>	<u>(2,574)</u>
Closing shareholders' funds	(3,759)	(2,574)

Notes (continued)

18 Pensions

The company participates in the Sony Entertainment UK Pension Plan, a defined pension contribution scheme

The assets of the pension plan are held separately from the assets of any group company. The latest actuarial valuation of the plan was carried out as at 31 December 2005. Details of this valuation are included in the accounts of Sony BMG Music Entertainment (UK) Limited.

The total cost of pension benefits, charged to the profit and loss account, amounted to £1,521,000 (2004 £843,000). Contributions amounting to £48,423 (2004 £nil) were payable to the scheme and are included in creditors.

19 Analysis of net debt

	At beginning of year £'000	Cash flow £'000	Other non cash changes £'000	At end of year £'000
Cash in hand, at bank	605	(605)	-	-
Overdrafts	-	-	-	-
Debt due after one year	-	-	-	-
Debt due within one year	(3)	3	-	-
Total	602	-	-	-

20 Post Balance Sheet Events

On 6th December 2006 the company undertook a group restructuring in which it issued 46,061,166 ordinary shares in exchange for the entire issued share capital of 19 affiliates of the SBME Group operating in Continental Europe.

21 Related Party Transactions

- (a) During the year the company charged service fees of £19,701,206 (2004 £10,691,241) to fellow wholly owned subsidiaries of the Sony BMG joint venture. In 2004 the company charged a service fee of £923,000 to Sony Music Publishing (UK) Limited a 100% subsidiary of the Sony Corporation.

- (b) The following amounts were owed by/(to) related parties

Company name	Debtor / (Creditor)	
	2005 £'000	2004 £'000
Sony BMG Music Entertainment (UK) Limited	813	(12,103)

During the year the company ceased to operate a bank account and its income/(expenses) were collected/(paid) by Sony BMG Music Entertainment (UK) Ltd and booked to an intercompany account. The amount shown above represents the net receivable at the year end.

22 Ultimate parent company and controlling party

The company is a 100% subsidiary of the Sony BMG joint venture, which is 50% owned by Bertelsmann AG and 50% owned by Sony Corporation