

**BMG Europe Limited**

**Directors' report and financial  
statements**

**Registered number 3185450**

**31 December 2004**



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## Directors' report

The directors present their annual report and audited financial statements for the year to 31 December 2004.

### Activities

The principal activity of the company is that of an investment holding company.

### Business review and results

The company made a profit after taxation of £4,701,829 (2003: loss of £156,684). The company did not trade during the year 2004. However, interest has been accrued to Bertelsmann AG in the current year in accordance with a loan facility agreement with Bertelsmann AG. In addition, a profit on disposal has been realised on the sale of its subsidiary, Sonopress (UK) Limited.

### Directors

The directors who served during the year were:

Jorg Hernler  
Dennis Kooker

In addition D Pearce was appointed as director on 1 February 2005.

None of the directors held an interest in the shares of the company or any other group undertaking at 31 December 2003 or 31 December 2004.

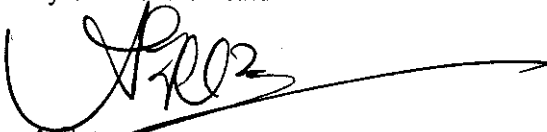
### Company Secretary

EJP Wareham resigned and A George was appointed as company secretary on 29 July 2005.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



A George  
Secretary

3 May 2006

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 which disclose 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 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 BMG Europe Limited**

We have audited the financial statements on pages 4 to 10.

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 are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*kpmg LLP*  
**KPMG LLP**  
Chartered Accountants  
Registered Auditors

*3 May* 2006

## Balance sheet

at 31 December 2004

	Note	2004 £	2003 £
<b>Current assets</b>			
Investments in subsidiary undertakings	7	161,058,336	151,894,336
Debtors	8	8,643,859	-
		<u>169,702,195</u>	<u>151,894,336</u>
<b>Creditors: amounts falling due within one year</b>	9	(155,759,714)	(151,817,684)
<b>Net assets</b>		<u>13,942,481</u>	<u>76,652</u>
<b>Equity capital and reserves</b>			
Called up share capital	10	233,336	233,336
Profit and loss account	11	4,545,145	(156,684)
Capital reserve	11	9,164,000	-
<b>Equity shareholders' funds</b>	12	<u>13,942,481</u>	<u>76,652</u>

These financial statements were approved by the Board on 3 May 2006, and were signed on its behalf by:



**D Pearce**  
Director

The notes on pages 6 to 10 form part of these financial statements.

## 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 in relation to the company's financial statements.

#### ***Basis of preparation***

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

The company is exempt from the requirement of Financial Reporting Standard No.1 Revised, Cash Flow Statements, being a wholly owned subsidiary of Sony BMG Music Entertainment B.V., a company incorporated in The Netherlands and which prepares consolidated financial statements in English containing a consolidated cash flow statement dealing with the cash flows of the group and of the company.

As provided under Section 228 of the Companies Act 1985, BMG Europe Limited is exempt from the requirement to prepare consolidated financial statements. The financial statements therefore present information concerning the company only and not the group.

#### ***Investments***

Investments are stated at cost less amounts written off as a result of impairments.

### 2 Staff numbers and costs

There were no persons employed by the company during the year (2003: *£nil*) and consequently no staff costs (2003: *£nil*).

### 3 Remuneration of directors

The directors receive emoluments from the group for their services to the company and certain other subsidiaries in the group. The total emoluments are charged in the accounts of the company's subsidiary, Sony BMG Music Entertainment (UK) Limited (formerly known as BMG UK & Ireland Limited).

Retirement benefits are accruing to 1 director (2003:1) under a money purchase pension scheme, and are charged in the accounts of the company's subsidiary, Sony BMG Music Entertainment (UK) Limited.

### 4 Profit on ordinary activities before taxation

The audit fee for the company is borne by the company's subsidiary company, Sony BMG Music Entertainment (UK) Limited.

### 5 Other interest payable and similar charges

Other interest payable and similar charges comprised an amount payable to Bertelsmann AG in accordance with a loan facility agreement with Bertelsmann AG.

**Notes** *(continued)*

**6 Tax on profit on ordinary activities**

	2004 £	2003 £
UK corporation tax		
Current tax on income for the period	1,182,609	-
Adjustment relating to prior periods	-	-
	<u>1,182,609</u>	<u>-</u>

*Factors affecting the tax charge for year*

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

	2004 £	2003 £
<b>Profit / (Loss) on ordinary activities before tax</b>	<b>3,519,220</b>	<b>(156,684)</b>
	<u>          </u>	<u>          </u>
Profit / (Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003:30%)	1,055,766	(47,005)
<i>Effects of:</i>		
Group relief surrendered for nil consideration	-	47,005
Sale of investment in Sonopress (UK) Limited which is part of a Capital gains tax Group	(2,238,375)	-
	<u>          </u>	<u>          </u>
<b>Current tax credit for year</b>	<b>(1,182,609)</b>	<b>-</b>



## Notes (continued)

### 7 Investments in subsidiary undertakings

	2004 £	2003 £
At 1 January 2004	151,894,336	233,336
Additions	9,164,000	151,661,000
	<hr/>	<hr/>
At 31 December 2004	161,058,336	151,894,336
	<hr/>	<hr/>

On 8 December 2004 BMG Europe Limited received a capital contribution comprising 100% of the ordinary share capital of Creation Records Limited and 50% of the ordinary share capital of Loaded Records Limited. The capital contribution has been valued at fair value in accordance with Financial Reporting Standard Number 7. The company also has an option to buy out the remaining 50% of the ordinary share capital of Loaded Records Limited. The option expires on 31 May 2006.

On 7 July 2004 the company sold its investment in Sonopress (UK) Limited for a consideration of £7,461,250.

All investments are unlisted. The subsidiaries of BMG Europe Limited, which are incorporated in England and Wales, are:

Subsidiary	Principal activity	Class and percentage of shares held
Sony BMG Music Entertainment (UK) Limited	Record production and promotion	100% ordinary share capital
Creation Records Limited	Record production and promotion	100% ordinary share capital
Loaded records Limited	Record production and promotion	50% ordinary share capital

### 8 Debtors

	2004 £	2003 £
Amounts owed by group undertakings	7,461,250	-
Corporation tax – group relief	1,182,609	-
	<hr/>	<hr/>
	8,643,859	-
	<hr/>	<hr/>

### 9 Creditors: amounts falling due within one year

	2004 £	2003 £
Amounts due to group undertakings	155,759,714	151,661,000
Accruals	-	156,684
	<hr/>	<hr/>
	155,759,714	151,817,684
	<hr/>	<hr/>

## Notes (continued)

### 10 Called up share capital

	2004 £	2003 £
<i>Authorised:</i>		
300,000 (2003: 300,000) ordinary shares of £1 each	300,000	300,000
	<hr/>	<hr/>
<i>Allotted and fully paid:</i>		
233,336 (2003: 233,336) ordinary shares of £1 each	233,336	233,336
	<hr/>	<hr/>

### 11 Reserves

	Capital reserve £	Profit and loss account £
Opening balance	-	(156,684)
Retained profit for the year	-	4,701,829
Capital contribution	9,164,000	-
	<hr/>	<hr/>
<b>Closing balance</b>	<b>9,164,000</b>	<b>4,545,145</b>
	<hr/>	<hr/>

The capital contribution reserve relates to interests in Creation Records Limited and Loaded Records Limited (see note 7).

The contribution was made subject to the condition that the reserve created would not be distributable.

### 12 Reconciliation of movements in equity shareholders' funds

	2004 £	2003 £
Opening equity shareholders' funds	76,652	233,336
Profit/(loss) for the year/period	4,701,829	(156,684)
Capital contribution (note 11)	9,164,000	-
	<hr/>	<hr/>
<b>Closing equity shareholders' funds</b>	<b>13,942,481</b>	<b>76,652</b>
	<hr/>	<hr/>

## Notes (continued)

### 13 Ultimate parent company

The company's immediate holding company is Sony BMG Music Entertainment Holdings B.V., a company incorporated in the Netherlands.

Following approval by the European Commission and U.S Federal Trade Commission, Bertelsmann AG (the company's former ultimate parent undertaking) and Sony Inc received clearance to proceed with a joint venture to create Sony BMG worldwide from the recorded music businesses of Sony Inc and Bertelsmann AG, effective from 1 August 2004.

Sony BMG Music Entertainment Holdings B.V. was one of the Bertelsmann owned businesses forming part of the joint venture. As a result, as at 1 August 2004 the ultimate holding company was Sony BMG Music Entertainment B.V., a company registered in The Netherlands which is 50% owned by Bertelsmann AG and 50% owned by Sony Corporation of America.

The largest and smallest group for which group accounts are prepared, and of which the company is a member, is as follows:

Name	Sony BMG Music Entertainment B.V.
Country of incorporation	The Netherlands
Address from where copies of the Group accounts can be obtained	Heuvellaan 50, 1217 JN Hilversum The Netherlands

### 14 Related Party Transactions

The company is exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions with entities that are part of the Bertelsmann AG group of companies. There are no other related party transactions.

3 May 2006

KPMG LLP  
PO Box 486  
1 Puddle Dock  
London  
EC4V 3PD

Dear Sirs

The Board understands that auditing standards require you to obtain representations from directors on certain matters material to your opinion. The Board has made appropriate enquiries of those directors and staff of BMG Europe Limited (the "Company") with the relevant knowledge and experience in relation to matters noted below. Accordingly the Board confirms to the best of its knowledge and belief the following representations given to you in connection with your audit of the financial statements for the year ended 31 December 2004.

- 1 The full effects of all transactions in the period have been reflected in the financial statements in accordance with agreements including side agreements, amendments and oral agreements.
- 2 The Board:
  - understands that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
  - is responsible for the design and implementation of internal control to prevent and detect fraud and error;
  - has disclosed to you its knowledge of fraud or suspected fraud affecting the Company involving:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements.
  - has disclosed to you its knowledge of any allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others;
  - has disclosed to you the results of its assessment of the risks that the financial statements may be materially misstated as a result of fraud.

- 3 The Board is not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the Company to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 December 2004.
- 4 The Board has disclosed all material related party transactions relevant to the Company and that the Board is not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.
- 5 The financial statements disclose all of the matters of which the Board is aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, and our plans.
- 6 The carrying values of the Company's investments have been appropriately reviewed in accordance with UK Financial Reporting Standards and provision has been made for any impairment losses related to goodwill and investments.

This letter was tabled and agreed at the meeting of the Board of Directors on 3 May 2006.

  
D Pearce  
Director