

**Sony BMG Music Entertainment (UK Holdings)
Limited**

**Directors' report and financial
statements**

Registered number 3185450

31 December 2007



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Directors' report

The directors present their annual report and the audited financial statements for the year to 31 December 2007

Activities

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

Business review and results

The company made a loss on ordinary activities after taxation of £21,593,892 (*2006 profit of £12,447,323*). The directors do not recommend the payment of a dividend (*2006 interim dividend of £10,000,000*). Losses transferred from reserves amounted to £21,593,892 (*2006 profits transferred to reserves of £2,447,323*).

Directors

The directors who served during the year were

T Bowen	(resigned 17 April 2008)
D Constanda	(appointed 29 October 2007)
G Doherty	
D Mandil	(resigned 20 February 2008)
W Rowe	
M Steinkamp	
R Sanders	(appointed 17 April 2008)

None of the directors held an interest in the shares of the company or any other group undertaking at 31 December 2007 or 31 December 2006

Company Secretary

Abogado Nominees Limited was appointed as company secretary on 20 August 2007 acting jointly and severally with Simon Jenkins

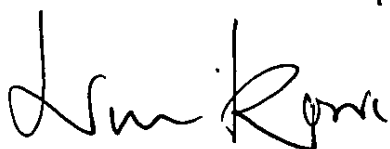
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make them self aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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 on 7 October 2008



W Rowe
Director

9 Derry Street
London
W8 5HY

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 judgements 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.

ABCD

KPMG LLP

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

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

We have audited the financial statements of Sony BMG Music Entertainment (UK Holdings) Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 2.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 (UK Holdings) 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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

7 October 2008

Profit and loss account

for the year to 31 December 2007

	<i>Note</i>	2007 £	2006 £
Administrative expenses		-	(100)
Operating loss		-	(100)
Investment income	5	-	20,000,000
Other interest receivable and similar income	6	2,992,713	-
Other interest payable and similar charges	7	(33,841,130)	(10,120,828)
(Loss) / profit on ordinary activities before taxation	4	(30,848,417)	9,879,072
Tax credit on (loss) / profit on ordinary activities	8	9,254,525	2,568,251
(Loss) / profit on ordinary activities after taxation	14	(21,593,892)	12,447,323
(Loss) / profit for the year	14	(21,593,892)	12,447,323

(Loss) / profit on ordinary activities for the year and prior year relate exclusively to continuing operations

There is no difference between the (loss) / profit as disclosed in the profit and loss account and the (loss) / profit on a historical cost basis

Statement of total recognised gains and losses
for the year to 31 December 2007

	2007 £	2006 £
(Loss) / profit for the financial year	(21,593,892)	12,447,323
Dividends paid	-	(10,000,000)
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	(21,593,892)	(2,447,323)
	<hr/>	<hr/>

The notes on pages 8 to 13 form part of these financial statements

Balance sheet

at 31 December 2007

	<i>Note</i>	2007 £	2006 £
Fixed assets			
Investments	8	550,799,140	449,192,140
Current assets			
Debtors	9	117,791,799	110,462,625
Creditors: amounts falling due within one year	10	(180,570,221)	(183,891,124)
Net current liabilities		(62,778,422)	(73,428,499)
Total assets less current liabilities		488,020,718	375,763,641
Creditors: amounts falling due after more than one year	10	(367,771,489)	(335,527,520)
Net assets		120,249,229	40,236,121
Share capital and reserves			
Called up share capital	11	23,789,136	13,628,436
Share premium	12	108,448,006	17,001,706
Profit and loss account	12	(11,987,913)	9,605,979
Shareholders' funds	13	120,249,229	40,236,121

These financial statements were approved by the Board on 7 October 2008 and were signed on its behalf by



W Rowe
 Director

The notes on pages 8 to 13 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, Sony BMG Music Entertainment (UK Holdings) Limited is exempt from the requirement to prepare group accounts. The financial statements therefore present information concerning the company only

Going concern

The management of SBME Holdings B V has informed the company that it is their intention to provide such financial support as is required by the company to meet its liabilities as they fall due for payment for a period not less than one year from the date of approval of these financial statements. In view of this continued support, the directors have prepared these financial statements on a going concern basis

Investments

Investments are stated at cost less provision for any impairment

Taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Sony BMG UK entities which include this company are able to relieve their taxable losses by surrendering them to other group companies where capacity to utilise those losses exists. Such losses will be purchased and paid for by the recipient company. Where there is reasonable certainty that taxable losses can be utilised the group relief receivable is included in the taxation charge or credit for the year

2 Staff numbers and employees

There were no persons employed by the company during the year (2006 nil) and consequently no staff costs (2006 £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 undertaking, Sony BMG Music Entertainment (UK) Limited and Sony BMG Music Entertainment (International) Limited, another group company

Retirement benefits are accruing to 3 directors (2006 3) under a money purchase pension scheme, and are charged in the accounts of Sony BMG Music Entertainment (UK) Limited and Sony BMG Music Entertainment (International) Limited

Notes (continued)

4 (Loss) / profit on ordinary activities before taxation

The audit fee for the company of £1,000 (2006 £1,000) is borne by the company's subsidiary undertaking, Sony BMG Music Entertainment (UK) Limited

5 Investment income

	2007 £	2006 £
Dividend received	-	20,000,000
	<u> </u>	<u> </u>

6 Other interest receivable and similar income

	2007 £	2006 £
Other loans	2,992,713	-
	<u> </u>	<u> </u>

Intercompany balances earned a rate of interest of 7.48% in 2007 (2006 6.27%)

7 Other interest payable and similar charges

	2007 £	2006 £
Other loans	33,841,130	(10,120,828)
	<u> </u>	<u> </u>

Intercompany balances carried a rate of interest of 7.48% in 2007 (2006 6.27%)

8 Tax on (loss) / profit on ordinary activities

	2007 £	2006 £
Current tax on income for the period	9,254,525	3,036,248
Adjustments in respect of prior periods	-	(467,997)
	<u> </u>	<u> </u>
	9,254,525	2,568,251
	<u> </u>	<u> </u>

Notes (continued)

7 Tax on profit on ordinary activities (continued)

Factors affecting the tax charge for year

The tax assessed for the period is equal to (2006 lower than) the standard rate of corporation tax in the UK (30%)

The differences are explained below

	2007 £	2006 £
(Loss) / profit on ordinary activities before tax	(30,848,417)	9,879,072
 (Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	 (9,254,525)	 2,963,722
<i>Effects of</i>		
Expenses not deductible for tax purposes	-	30
Adjustments to tax charge in respect of prior periods	-	467,997
Dividend income not taxable	-	(6,000,000)
 Current tax credit for year	 (9,254,525)	 (2,568,251)

8 Investments in subsidiary undertakings

	Subsidiary undertakings £
<i>Cost</i>	
At 1 January 2007	450,372,140
Additions	101,607,000
 At 31 December 2007	 551,979,140
 <i>Provisions for permanent diminution in value</i>	
At 1 January 2007 and 31 December 2007	(1,180,000)
 <i>Net book value</i>	
At 31 December 2007	550,799,140
 At 31 December 2006	449,192,140

Notes (continued)

8 Investments in subsidiary undertakings (continued)

On 30 April 2007 Sony BMG Music Entertainment (UK Holdings) Limited received shares in Sony BMG Music Entertainment France SAS and issued £10,160,700 shares in exchange. On the same day Sony BMG Music Entertainment (UK Holdings) Limited contributed the shares in SBME France to Sony BMG Music Entertainment (International) Limited in exchange for 10,160,700 shares in Sony BMG Music Entertainment (International) Limited.

The company has the following subsidiary undertakings, all of which are incorporated in Great Britain and wholly owned except where otherwise indicated. All companies are unlisted.

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

9 Debtors

	2007 £	2006 £
Amounts owed by group undertakings	105,501,025	105,124,738
Group relief debtor	12,290,774	5,337,887
	<u>117,791,799</u>	<u>110,462,625</u>

10 Creditors

	2007 £	2006 £
<i>Amounts falling due within one year</i>		
Amounts due to group undertakings	<u>180,570,221</u>	<u>183,891,124</u>
<i>Amounts falling due after one year</i>		
Amounts due to group undertakings	<u>367,771,489</u>	<u>335,527,520</u>

Notes (continued)

11 Called up share capital

	2007 £	2006 £
<i>Authorised:</i>		
23,789,136 (2006 13,628,436) ordinary shares of £1 each	23,789,136	13,628,436
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid:</i>		
23,789,136 (2006 13,628,436) ordinary shares of £1 each	23,789,136	13,628,436
	<u> </u>	<u> </u>

During the year a total of 10,160,700 ordinary shares of £1 each were allotted and fully issued for consideration of £101,607,000

12 Reserves

	Share Premium Reserve £	Profit and loss account £	Total £
Balance at 1 January 2007	17,001,706	9,605,979	26,607,685
Loss for the year	-	(21,593,892)	(21,593,892)
Premium arising on shares issued during the year	91,446,300	-	91,446,300
	<u> </u>	<u> </u>	<u> </u>
Closing balance	108,448,006	(11,987,913)	96,460,093
	<u> </u>	<u> </u>	<u> </u>

The share premium reserve relates to the European restructuring of the Sony BMG group and the further issue of shares as a result

13 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Opening shareholders' funds	40,236,121	7,391,992
(Loss) / profit for the year	(21,593,892)	12,447,323
Issue of ordinary shares	101,607,000	30,396,806
Dividends paid	-	(10,000,000)
	<u> </u>	<u> </u>
Closing shareholders' funds	120,249,229	40,236,121
	<u> </u>	<u> </u>

14 Deferred taxation

There were no deferred tax assets recognised and unrecognised as at 31 December 2007 or 31 December 2006 as all available tax losses were group relieved within the group

Notes (continued)

15 Immediate and ultimate holding company

The company's immediate holding company is SBME Holdings B V and the ultimate holding company is Sony BMG Music Entertainment B V, a company incorporated 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

16 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 Sony BMG Music Entertainment B V group of companies. There are no other related party transactions.