

# Report and Financial Statements

*1967 Limited*

**30 November 2006**

4618039



*1967 Limited*

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Registered No 04618039

**DIRECTORS**

D Glick  
C Tattersfield  
R Evers  
J Reid

**SECRETARY**

Olswang Cossec Limited  
90 High Holborn  
London  
WC1V 6XX

**AUDITORS**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**REGISTERED OFFICE**

90 High Holborn  
London  
WC1V 6XX

## DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 30 November 2006

### REVIEW AND DIVIDENDS

The loss for the year, after tax, amounted to £2,215,897 (2005 – £871,830) The directors do not recommend the payment of a dividend

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity during the year was the sale and distribution of recorded music

The company's key financial and other performance indicators during the year were as follows

	2006 £	2005 £	Change %
Turnover	5,133,256	3,681,591	+39%
Loss after tax	2,215,897	871,830	-154%
Shareholders' deficit	(7,103,597)	(4,887,700)	-45%
Current assets as % of current liabilities	23%	9%	+154%

Turnover has increased by 39% due to the success of new album releases

Loss after tax has increased by 154% due to the increases in advances to artists for new album releases, and increases in advertising spending

Shareholders' deficit has increased by 45% due to retained losses

Current assets as a % of current liabilities have increased by 154% due to retained losses

### PRINCIPLE RISKS AND UNCERTAINTIES

The main risks and uncertainties facing the company relate to the speed with and extent to which new digital revenue streams replace traditional income based on physical (mainly CD) sales

### FUTURE DEVELOPMENTS

The directors aim to continue the current management policy of maintaining the existing roster and making further substantial investments in new artists

The directors do not envisage any changes to the company's activities in the foreseeable future

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year ended 30 November 2006 were as follows

J Watson	(Resigned 20 July 2007)
C Tattersfield	
D Glick	
N J Phillips	(Resigned 27 April 2007)

In addition, R Evers and J Reid were each appointed a director on 20 July 2007

**DIRECTORS' REPORT**

The directors at 30 November 2006 and their interests in the share capital of the company was as follows

Director	No Ordinary Shares
J Watson	0
C Tattersfield	50
D Glick	0
N J Phillips	0

No director has any interests in any other group company

There are no other directors' interests requiring disclosure under the Companies Act 1985

**DISCLOSURE OF INFORMATION TO THE AUDITORS**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps that he is obliged to as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

**AUDITORS**

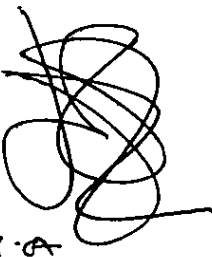
A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

J Reid

Director

Date



20.8.07

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which 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 year. 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, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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 AUDITORS' REPORT**  
to the members of 1967 Limited

We have audited the company's financial statements for the year ended 30 November 2006, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 13. These financial statements have been prepared under 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 auditors' 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 the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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, are properly prepared in accordance with the Companies Act 1985. We also report to you whether 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**

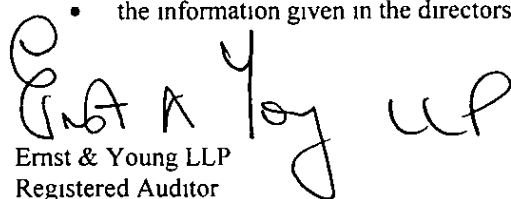
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2006 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.

  
Ernst & Young LLP  
Registered Auditor  
London

**PROFIT AND LOSS ACCOUNT**  
for the year ended 30 November 2006

		<i>year ended</i> <i>30 November</i> 2006 £	<i>year ended</i> <i>30 November</i> 2005 £
	<i>Notes</i>		
<b>TURNOVER</b>	2	5,133,256	3,681,591
Cost of sales		(3,684,179)	(2,297,614)
<b>GROSS PROFIT</b>		1,449,077	1,383,977
Administrative expenses	4,5	(3,209,693)	(1,954,168)
Distribution expenses		(455,281)	(301,639)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	(2,215,897)	(871,830)
Tax on loss on ordinary activities	6	–	–
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(2,215,897)	(871,830)
<b>RETAINED LOSS BROUGHT FORWARD</b>		(4,887,800)	(4,015,970)
<b>RETAINED LOSS CARRIED FORWARD</b>	11	(7,103,697)	(4,887,800)

All activities are continuing

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

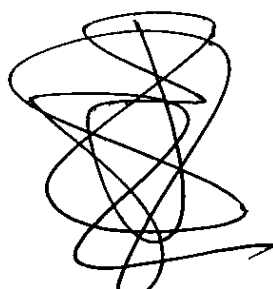
The company had no recognised gains or losses other than the loss of £2,215,897 for the year ended 30 November 2006 and the loss of £871,830 for the year ended 30 November 2005

**BALANCE SHEET**  
at 30 November 2006

		30 November 2006	30 November 2005
	Notes	£	£
<b>CURRENT ASSETS</b>			
Debtors	7	2,054,738	473,636
<b>CREDITORS amounts falling due within one year</b>	8	(9,127,960)	(5,334,824)
<b>NET CURRENT LIABILITIES</b>		(7,073,222)	(4,861,188)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	9	(30,375)	(26,512)
<b>NET LIABILITIES</b>		(7,103,597)	(4,887,700)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	100	100
Profit and loss account	11	(7,103,697)	(4,887,800)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	11	(7,103,597)	(4,887,700)

J Reid  
Director

Date

  
20.8.06



NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2006

1. ACCOUNTING POLICIES

*Accounting convention*

The financial statements are prepared under the historical cost convention and in accordance with accounting standards applicable in United Kingdom

*Adoption of new UK Financial Reporting Standards ("FRSs")*

In preparing the financial statements for the current year, the company has been required to adopt FRS 21 'Events after the balance sheet date', the presentation requirements of FRS 25 'Financial Instruments Disclosure and Presentation', and FRS 28 'Corresponding Amounts'

There is no significant impact on the company from adopting these standards

The Company is not required to adopt the following standards issued during the year FRS 22 'Earning per Share', FRS 23 'The Effects of Changes in Foreign Exchange Rates', FRS 24 'Financial Reporting in Hyperinflationary Economies', the disclosure requirements of FRS 25 'Financial instruments Disclosure and Presentation', FRS 26 'Financial Instruments Measurement', FRS 27 'Life Assurance' and FRS 29 'Financial Instruments Disclosures'

*Accounting period*

The company prepares accounts for either 52 or 53 week periods ending within one week of 30 November

*Advances paid*

Advances paid to artists are charged to the profit and loss account on a payment basis, other than proven artist advances, which are carried forward in debtors

*Royalty income*

Credit is taken for royalty income that has been received from or declared by licensees and other parties by the year end

*Royalties payable*

Royalties payable are calculated on the basis of the artists' share of the income received by the company after allowing for advances paid

*Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the rates of exchange ruling at the accounting date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction All differences are taken to the profit and loss account

*Deferred income*

Under the terms of the joint venture agreement, Warner Music UK Limited is responsible for the company's losses While the company is in a negative retained earnings position a receivable from Warner Music UK Limited and an equal deferred income balance is recognised to reflect Warner Music UK Limited's responsibility for the loss The deferred income balance represents cumulative losses incurred by the company

*Leasing commitments*

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

*Cash flow statement*

A cash flow statement has not been prepared as the company qualifies as a small company as defined in the Companies Act 1985

NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2006

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax balances are not discounted.

**Going concern**

The financial statements are prepared on the going concern basis because Warner Music UK Limited has committed to provide financial support to the company to enable it to meet its debts as they fall due, for the foreseeable future.

**2. TURNOVER**

Turnover, which is stated net of value added tax, is made up of royalties and advances recouped. The entire turnover originates from a single class of business.

Sales by destination were as follows:

	<i>year ended</i> <i>30 November</i> <i>2006</i> £	<i>year ended</i> <i>30 November</i> <i>2005</i> £
United Kingdom	4,868,905	3,235,726
Rest of World	264,351	445,865
	<u>5,133,256</u>	<u>3,681,591</u>

**3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

This is stated after charging:

	<i>year ended</i> <i>30 November</i> <i>2006</i> £	<i>year ended</i> <i>30 November</i> <i>2005</i> £
Auditors' remuneration	7,140	3,817
	<u>7,140</u>	<u>3,817</u>

NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2006

4 DIRECTORS' EMOLUMENTS

Certain directors of 1967 Limited also serve as directors for other group undertakings and therefore their emoluments have been excluded as they appear in other group accounts and are not recharged to 1967 Limited

	<i>year ended</i> <i>30 November</i> <i>2006</i> <i>£</i>	<i>year ended</i> <i>30 November</i> <i>2005</i> <i>£</i>
Emoluments	313,729	313,500
Company contributions paid to defined contribution pension schemes	16,140	15,992
	<i>No</i>	<i>No</i>
Members of defined benefit pension schemes	1	1

The highest paid director received emoluments of £313,729 (2005 – £313,500) and pension contributions of £16,140 (2005 – £15,992)

5. STAFF COSTS

	<i>year ended</i> <i>30 November</i> <i>2006</i> <i>£</i>	<i>year ended</i> <i>30 November</i> <i>2005</i> <i>£</i>
Wages and salaries	513,880	482,724
Social security costs	63,093	59,003
Other pension costs	30,559	36,321
	607,532	578,048

The average monthly number of employees during the year was 6 (2005 – 6)

NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2006

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	<i>year ended 30 November 2006</i>	<i>year ended 30 November 2005</i>
	£	£
<b>a) The charge based on the results for the year is as follows:</b>		
<u>Taxation based on the loss for the year</u>		
Corporation tax payable at 30%	-	-
Total Current Tax Charge	-	-
<u>Deferred tax</u>		
Timing differences, origination and reversal	-	-
Total Deferred Tax	-	-

**b) Circumstances affecting current charge**

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 30%. The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below

	<i>year ended 30 November 2006</i>	<i>year ended 30 November 2005</i>
	£	£
Loss on Ordinary activities before tax	(2,215,897)	(871,830)
Tax on loss on ordinary activities at standard rate	(664,769)	(261,549)
Factors affecting charge		
Disallowable expenses	1,902	6,338
Deferred tax not recognised	662,867	255,211
Total Current Tax Charge	-	-

**c) Deferred Tax**

The company has incurred taxable losses which are available to offset against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as, based on budgets, the company does not anticipate taxable profits to arise within the immediate future. It is anticipated that the losses will gradually be recovered as the business moves into profit. The estimated value of the deferred tax asset not recognised at 30 November 2006 measured at a standard rate of 30% is £2,104,000.

From financial year 2008, the UK corporation tax rate will reduce from 30% to 28%. It is estimated that as a result the company's deferred tax asset not recognised will decrease by £140,000.

NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2006

7 DEBTORS

	30 November 2006 £	30 November 2005 £
Amount due from associated undertaking	1,320,907	357,817
Royalty advances	512,321	—
Prepayments and accrued income	106,678	88,687
VAT Recoverable	114,832	27,132
	<u>2,054,738</u>	<u>473,636</u>

8 CREDITORS amounts falling due within one year

	30 November 2006 £	30 November 2005 £
Accruals	2,024,263	447,024
Deferred income	7,103,697	4,887,800
	<u>9,127,690</u>	<u>5,334,824</u>

As described in note 13, under the terms of the joint venture agreement, Warner Music UK Limited is responsible for the company's losses. While the company is in a negative retained earnings position a receivable from Warner Music UK Limited and an equal deferred income balance is recognised to reflect Warner Music UK Limited's responsibility for the loss. The deferred income balance represents cumulative losses incurred by the company.

9. PROVISIONS FOR LIABILITIES AND CHARGES

	Trading Provisions £
At 30 November 2005	26,512
Provided during the year	3,863
At 30 November 2006	<u>30,375</u>

Trading provisions comprise royalty audit provisions

NOTES TO THE FINANCIAL STATEMENTS  
at 30 November 2006

10 SHARE CAPITAL

	30 November 2006	30 November 2005
	<i>No</i>	<i>No</i>
Authorised 100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>
	<i>£</i>	<i>£</i>
Allotted, called up and fully paid 100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>

11 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i> <i>£</i>	<i>Profit and loss account</i> <i>£</i>	<i>Total share- holders' funds</i> <i>£</i>
At 30 November 2005	100	(4,887,800)	(4,887,700)
Loss for the year	-	(2,215,897)	(2,215,897)
	<hr/>	<hr/>	<hr/>
At 30 November 2006	100	(7,103,697)	(7,103,597)
	<hr/>	<hr/>	<hr/>

12 RELATED PARTY TRANSACTIONS

During the year the company received advances from Warner Music UK Ltd of which £5,133,256 (2005 – £3,681,591) have been recouped and are being recorded as turnover. Advances unrecouped at the end of the year of £7,103,697 (2005 – £4,887,800) are being recorded as deferred income. At 30 November 2006 £1,320,907 is owed by Warner Music UK Ltd (2005 – £357,817).

• **NOTES TO THE FINANCIAL STATEMENTS**  
at 30 November 2006

**13. PARENT UNDERTAKING AND CONTROLLING PARTY**

There are 100 shares in the company, 50 owned by C Tattersfield and 50 by Warner Music UK Limited. Control over the company is joint and the directors do not consider any party to have a controlling interest.

Under the terms of the joint venture agreement with the company, Warner Music UK Limited has an obligation to cover 100% of the cumulative losses of the company. At 30 November 2006 the company is in a retained loss position and accordingly the company has been treated as a subsidiary of Warner Music UK Limited for the purposes of the group accounts prepared by WMG Acquisition Corp.

On 30 November 2006 WMG Acquisition Corp, a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the smallest group of undertakings of which the company was a member and for which group financial statements are drawn up. Copies of WMG Acquisition Corp's financial statements can be obtained from 1209 Orange Street, Wilmington, DE 19801, USA.