

Report and Financial Statements

1967 Limited

30 November 2007

FRIDAY



LHHUJ3GF

LD2

26/09/2008

207

COMPANIES HOUSE

1967 Limited

Registered No 04618039

DIRECTORS

J Reid
R Evers

SECRETARY

Olswang Cosec 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 2007

REVIEW AND DIVIDENDS

The loss for the year, after tax, amounted to £3,182,325 (2006 – £2,215,897) 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

	2007 £	2006 £	Change %
Turnover	3,182,325	5,133,256	-38%
Loss after tax	2,248,992	2,215,897	-1%
Shareholders' deficit	(9,352,589)	(7,103,597)	-32%
Current assets as % of current liabilities	9%	23%	-59%

Turnover has decreased by 38% due to the less new album releases

Loss after tax has increased by 1% due to the increased stock provisions, and advertising spending being less effective

Shareholders' deficit has increased by 32% due to retained losses

Current assets as a % of current liabilities have decreased by 59% due to retained losses and a reduction in the balance owed by the associated undertaking

PRINCIPAL 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 2007 were as follows

J Reid	(Appointed 20 July 2007)
R Evers	(Appointed 20 July 2007)
D Glick	(Resigned 1 February 2008)
C Tattersfield	(Resigned 1 February 2008)
J Watson	(Resigned 20 July 2007)
N J Phillips	(Resigned 27 April 2007)

DIRECTORS' REPORT

The directors at 30 November 2007 and their interests in the share capital of the company was as follows

Director	No Ordinary Shares
J Reid	0
R Evers	0
D Glick	0
C Tattersfield	50

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

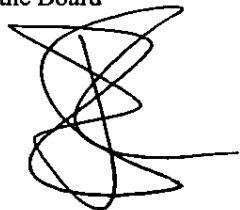
A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the Board

J Reid

Director

Date


26/9/08

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 2007, 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 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.

Ernst & Young LLP
Ernst & Young LLP
Registered Auditor
London

24/9/08

1967 Limited

PROFIT AND LOSS ACCOUNT for the year ended 30 November 2007

		<i>year ended</i> <i>30 November</i> <i>2007</i>	<i>year ended</i> <i>30 November</i> <i>2006</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER	2	3,182,325	5,133,256
Cost of sales		(2,605,902)	(3,684,179)
GROSS PROFIT		576,423	1,449,077
Administrative expenses		(2,632,946)	(3,209,693)
Distribution expenses		(192,469)	(455,281)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(2,248,992)	(2,215,897)
Tax on loss on ordinary activities	6	—	—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	11	(2,248,992)	(2,215,897)

All activities are continuing

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company had no recognised gains or losses other than the loss of £2,248,992 for the year ended 30 November 2007 and the loss of £2,215,897 for the year ended 30 November 2006

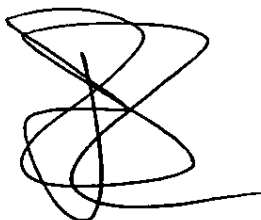
1967 Limited

BALANCE SHEET at 30 November 2007

		30 November 2007	30 November 2006
	Notes	£	£
CURRENT ASSETS			
Debtors	7	943,228	2,054,738
CREDITORS amounts falling due within one year	8	(10,243,113)	(9,127,960)
NET CURRENT LIABILITIES		(9,299,885)	(7,073,222)
PROVISIONS FOR LIABILITIES AND CHARGES	9	(52,704)	(30,375)
NET LIABILITIES		(9,352,589)	(7,103,597)
CAPITAL AND RESERVES			
Called up share capital	10	100	100
Profit and loss account	11	(9,352,689)	(7,103,697)
EQUITY SHAREHOLDERS' FUNDS	11	(9,352,589)	(7,103,597)

J Reid
Director

Date


26/9/08

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2007

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

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

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 International Services 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

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2007

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>2007</i> <i>£</i>	<i>year ended</i> <i>30 November</i> <i>2006</i> <i>£</i>
United Kingdom	2,463,860	4,868,905
Rest of World	718,465	264,351
	<u>3,182,325</u>	<u>5,133,256</u>

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging

	<i>year ended</i> <i>30 November</i> <i>2007</i> <i>£</i>	<i>year ended</i> <i>30 November</i> <i>2006</i> <i>£</i>
Auditors' remuneration	<u>7,354</u>	<u>7,140</u>

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2007**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>2007</i> <i>£</i>	<i>year ended</i> <i>30 November</i> <i>2006</i> <i>£</i>
Emoluments	313,545	313,729
Company contributions paid to defined contribution pension schemes	16,710	16,140
	<i>No</i>	<i>No</i>
Members of defined benefit pension schemes	1	1

The highest paid director received emoluments of £313,545 (2006 – £313,729) and pension contributions of £16,710 (2006 – £16,140)

5. STAFF COSTS

	<i>year ended</i> <i>30 November</i> <i>2007</i> <i>£</i>	<i>year ended</i> <i>30 November</i> <i>2006</i> <i>£</i>
Wages and salaries	485,219	513,880
Social security costs	58,696	63,093
Other pension costs	32,329	30,559
	576,244	607,532

The average monthly number of employees during the year was 6 (2006 – 6)

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2007

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	<i>year ended</i> <i>30 November</i> <i>2007</i>	<i>year ended</i> <i>30 November</i> <i>2006</i>
	£	£
a) The charge based on the results for the year is as follows:		
<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</i> <i>30 November</i> <i>2007</i>	<i>year ended</i> <i>30 November</i> <i>2006</i>
	£	£
Loss on Ordinary activities before tax	(2,248,992)	(2,215,897)
Tax on loss on ordinary activities at standard rate	(674,698)	(664,769)
Factors affecting charge		
Disallowable expenses	10,955	1,902
Deferred tax not recognised	663,743	662,867
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, measured at a future standard rate of 28% is £2,577,000.

1967 Limited

NOTES TO THE FINANCIAL STATEMENTS at 30 November 2007

7. DEBTORS

	30 November 2007	30 November 2006
	£	£
Amount due from associated undertaking	522,724	1,320,907
Royalty advances	233,447	512,321
Prepayments and accrued income	106,678	106,678
VAT Recoverable	80,379	114,832
	<u>943,228</u>	<u>2,054,738</u>

8. CREDITORS: amounts falling due within one year

	30 November 2007	30 November 2006
	£	£
Accruals	890,424	2,024,263
Deferred income	9,352,689	7,103,697
	<u>10,243,113</u>	<u>9,127,690</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 1 December 2006	30,375
Provided during the year	22,329
At 30 November 2007	<u>52,704</u>

Trading provisions comprise royalty audit provisions

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2007**10. SHARE CAPITAL**

	<i>30 November 2007</i>	<i>30 November 2006</i>
	<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>Profit and loss account £</i>	<i>Total share- holders' funds £</i>
At 1 December 2006	100	(7,103,697)	(7,103,597)
Loss for the year	—	(2,248,992)	(2,248,992)
	<hr/>	<hr/>	<hr/>
At 30 November 2007	100	(9,352,689)	(9,352,589)
	<hr/>	<hr/>	<hr/>

12. RELATED PARTY TRANSACTIONS

During the year the company received advances from Warner Music UK Ltd of which £3,182,325 (2006 – £5,133,256) have been recouped and are being recorded as turnover. Advances unrecouped at the end of the year of £9,352,689 (2006 – £7,103,697) are being recorded as deferred income. At 30 November 2007 £522,724 is owed by Warner Music UK Ltd (2006 – £1,320,907).

NOTES TO THE FINANCIAL STATEMENTS
at 30 November 2007

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 2007 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 Warner Music Group Corp.

On 30 November 2007 Warner Music Group 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 Warner Music Group Corp's financial statements can be obtained from 1209 Orange Street, Wilmington, DE 19801, USA.