

WMG Acquisition (UK) Limited

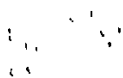
Report and Financial Statements

30 September 2005

MONDAY



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30/04/2007
COMPANIES HOUSE



WMG Acquisition (UK) Limited

Registered No 04987681

Directors

E M Bronfman
D H Johnson
P M Robinson

Secretary

Olswang Cossec Limited

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 group financial statements for the year ended 30 September 2005

Results and dividends

The group's profit for the year, after taxation, amounted to £357,000 (2004 loss – £21,310,000)

The directors do not recommend the payment of a final dividend (2004 – £nil)

Principal activities

The group's principal activities during the year were the production, marketing and sale of recorded music, the ownership and administration of music copyrights and the provision of group services

Review of the business and future developments

The directors consider the results for the year to be satisfactory

It is the group's intention to continue to exploit new business opportunities as and when appropriate projects arise

Company Secretary

On 15 February 2005 Anne Mansbridge resigned as company secretary and was replaced by Olswang Cossec Limited

Post balance sheet events

Post balance sheet events have been disclosed in note 27 of the accounts

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate

Employee involvements

During the year, the policy of providing employees with information about the group has been continued and employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas

Directors' report

Directors and their interests

The directors who served during the year ended 30 September 2005 are as follows

| | |
|--------------|----------------------|
| E M Bronfman | |
| D H Johnson | (appointed 26/10/04) |
| P M Robinson | (appointed 28/10/04) |
| S M Sperling | (resigned 26/10/04) |
| M J Masiello | (resigned 26/10/04) |
| I M Loring | (resigned 26/10/04) |

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

Auditors

A resolution to appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting

By order of the Board



Director

23rd April 2007

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 group and of the profit or loss of the company and group 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of WMG Acquisition (UK) Limited

We have audited the group's financial statements for the year ended 30 September 2005 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet and the related notes 1 to 28. These financial statements have been prepared on the basis of 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 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 group 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.

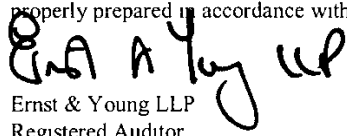
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 group'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 affairs of the company and of the group as at 30 September 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

25th April 2007

Group profit and loss account

for the year ended 30 September 2005

| | | <i>Year ended 30 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|---|----|--|---|
| Turnover | | | |
| Turnover group and share of joint ventures turnover | | 325,109 | 173,285 |
| Less share of joint ventures turnover | | (730) | (7,093) |
| Group turnover | 3 | 324,379 | 166,192 |
| Cost of sales | | (236,272) | (124,065) |
| Gross profit | | 88,107 | 42,127 |
| Distribution costs | | (3,773) | (3,872) |
| Administrative expenses | | (67,954) | (59,546) |
| | | (71,727) | (63,418) |
| Group operating profit/(loss) | 4 | 16,380 | (21,291) |
| Share of operating profit in joint ventures | | 1,065 | 263 |
| Share of operating profit in associates | | 89 | 37 |
| Total operating profit/(loss) | 4 | 17,534 | (20,991) |
| Loss on disposal of fixed asset investments | | — | (769) |
| Interest receivable | 6 | 2,617 | 1,566 |
| Interest payable | 7 | (16,399) | (5,214) |
| | | (13,782) | (4,417) |
| Profit/(loss) on ordinary activities before taxation | | 3,752 | (25,408) |
| Tax on profit/(loss) on ordinary activities | 8 | (3,395) | 4,098 |
| Profit/(loss) on ordinary activities after taxation | 21 | 357 | (21,310) |

All activities are continuing

WMG Acquisition (UK) Limited

Group statement of total recognised gains and losses
for the year ended 30 September 2005

| | <i>Year ended 30 September</i> | <i>Period ended 1 October</i> |
|--|------------------------------------|-----------------------------------|
| | <i>2005</i> | <i>2004</i> |
| | <i>£000</i> | <i>£000</i> |
| Profit/(loss) for the financial year | | |
| Group | (648) | (21,619) |
| Joint ventures | 1,005 | 309 |
| | <hr/> | <hr/> |
| Profit/(loss) for the financial year | 357 | (21,310) |
| Currency translation difference on foreign currency net investments | 117 | 98 |
| | <hr/> | <hr/> |
| Total recognised gains and losses relating to the year | 474 | (21,212) |

WMG Acquisition (UK) Limited


Group balance sheet

at 30 September 2005

| | Notes | 2005 £000 | 2004 £000 |
|---|-------|--------------|--------------|
| Fixed assets | | | |
| Intangible assets | 10 | 155,461 | 167,965 |
| Tangible assets | 11 | 16,813 | 18,982 |
| Investments | | | |
| Investments in joint ventures | 12 | | |
| Share of gross assets | | 136 | 112 |
| Share of gross liabilities | | (110) | (86) |
| | | 26 | 26 |
| Investments in associates | 12 | — | — |
| Other investments | 12 | 17 | 17 |
| | | 43 | 43 |
| Total fixed assets | | 172,317 | 186,990 |
| Current assets | | | |
| Stocks | 14 | 7,307 | 5,985 |
| Debtors | | | |
| - amounts falling due within one year | 15 | 148,997 | 110,989 |
| - amounts falling due after more than one year | 15 | 750 | 1,502 |
| Cash at bank and in hand | | 8,688 | 9,153 |
| | | 165,742 | 127,629 |
| Creditors amounts falling due within one year | 16 | (182,964) | (122,809) |
| Net current (liabilities)/assets | | (17,222) | 4,820 |
| Total assets less current liabilities | | 155,095 | 191,810 |
| Creditors amounts falling due after more than one year | 17 | (73,207) | (106,463) |
| Provision for liabilities and charges | 19 | (12,404) | (16,337) |
| | | 69,484 | 69,010 |
| Capital and reserves | | | |
| Called up share capital (£2) | 20 | — | — |
| Profit and loss account | 21 | 69,484 | 69,010 |
| Equity shareholders' funds | | 69,484 | 69,010 |

Director

Date


April 23, 2007

WMG Acquisition (UK) Limited

Company Balance Sheet

at 30 September 2005

| | Notes | 2005 £000 | 2004 £000 |
|---|-------|--------------|--------------|
| Fixed assets | | | |
| Investments | 12 | 201,974 | 201,974 |
| Current assets | | | |
| Debtors | | | |
| - amounts falling due within one year | 15 | 11,557 | 1,548 |
| Creditors amounts falling due within one year | 16 | (69,502) | (19,559) |
| Net current liabilities | | (57,945) | (18,011) |
| Total assets less current liabilities | | 144,029 | 183,963 |
| Creditors amounts falling due after more than one year | 17 | (64,129) | (97,382) |
| | | 79,900 | 86,581 |
| Capital and reserves | | | |
| Called up share capital (£2) | 20 | — | — |
| Profit and loss account | 21 | 79,900 | 86,581 |
| Shareholders' funds | | 79,900 | 86,581 |

Director



Date

April 23, 2007

Notes to the financial statements

at 30 September 2005

1 Corporate information

WMG Acquisition (UK) Limited is a limited company incorporated and domiciled in England and Wales. The company was incorporated on 8 December 2003 as Trushelfco (No 3014) Limited. The company name was changed to WMG Acquisition (UK) Limited on 7th January 2004. On 1 March 2004 the company acquired the UK subsidiaries of the Warner Music Group from Time Warner Limited and Warner Music Newco Limited.

2 Accounting policies

Basis of preparation

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

Basis of consolidation

The group financial statements consolidate the financial statements of WMG Acquisition (UK) Limited and all its subsidiary undertakings drawn up to 30 September 2005. No profit and loss account is presented for WMG Acquisition (UK) Limited as permitted by section 230 of the Companies Act 1985.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method. Where the terms of the joint venture agreement stipulate that the group has an obligation to cover 100% of the cumulative losses of the joint venture, and the joint venture is in a retained loss position, it is accounted for as a subsidiary of the group.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Other investments are stated at cost and, where appropriate, are provided for over the expected revenue-generating life of the investment.

Acquisition and disposals of all investments are accounted for on the date of completion.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a maximum period of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the financial statements

at 30 September 2005

2 Accounting policies (continued)

Intangible Assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on acquisition. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

Depreciation is provided on all tangible fixed assets, excluding freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as set out below:

| | | |
|-------------------------|---|--|
| Freehold buildings | - | over 20 and 38 years |
| Leasehold improvements | - | over the estimated useful life of the improvements |
| Furniture and equipment | - | over 3 to 8 years |
| Motor vehicles | - | over 4 years |

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Provisions for liabilities and charges

Provisions are recorded when the group has a present, legal or constructive obligation as a result of a past event which it is probable that the Group will be required to settle by an outflow of resources and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation.

Deferred taxation

Deferred taxation 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 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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves.

Notes to the financial statements

at 30 September 2005

2 Accounting policies (continued)

Royalty advances

Artists, publishers and songwriters are classified as proven or unproven depending on earnings potential. Advances to unproven artists, publishers and songwriters are expensed as incurred. Advances to proven artists, publishers and songwriters under contract are held at net book value equal to the expected future royalty earnings. Specific provisions are made against these advances where the balance outstanding exceeds anticipated future royalty earnings.

Royalty income

Credit is taken for royalty income that has been received from or declared by users by the year end.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Pensions

The company is a member of the Warner Music Pension scheme, which requires contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Cash flow statements

The company has taken advantage of the exemption in Financial Reporting Standard No. 1 Revised ('FRS 1'). A cash flow statement has not been prepared as the company was at 30 September 2005 a wholly-owned subsidiary undertaking of WMG Acquisition Corp., a company incorporated in the United States of America, which prepared a group cash flow statement.

Notes to the financial statements

at 30 September 2005

3. Turnover and segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities stated net of value added tax. The group operates in three principal areas of activity, that of music publishing, recorded music and group services. It also operates within two geographical areas, the United Kingdom and the rest of the world.

Turnover and group profit on ordinary activities before tax and net assets are analysed as set out below.

| | <i>Music publishing</i> | | <i>Recorded music</i> | | <i>Group services</i> | | <i>Total</i> | |
|--|-------------------------|--------|-----------------------|---------|-----------------------|----------|--------------|-----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Group turnover by area of activity | | | | | | | | |
| Total sales | 65,030 | 38,799 | 173,499 | 89,532 | 93,458 | 49,044 | 331,987 | 177,375 |
| Intra-segment sales | (1,000) | (525) | (400) | (333) | — | — | (1,400) | (858) |
| Inter-segment sales | — | — | — | — | (5,478) | (3,232) | (5,478) | (3,232) |
| Less: share of joint venture turnover | (134) | (28) | (596) | (7,065) | — | — | (730) | (7,093) |
| Net sales | 63,896 | 38,246 | 172,503 | 82,134 | 87,980 | 45,812 | 324,379 | 166,192 |
| Profit/(loss) | | | | | | | | |
| Segment profit/(loss) | 7,876 | 3,063 | 15,740 | (4,907) | 2,171 | (14,637) | 25,787 | (16,481) |
| Common costs | | | | | | | (1,285) | (30) |
| Less goodwill amortisation | | | | | | | (8,122) | (4,780) |
| Group operating profit/(loss) | | | | | | | 16,380 | (21,291) |
| Share of joint ventures' operating profit | 61 | 12 | 1,004 | 251 | — | — | 1,065 | 263 |
| Share of associates' operating profit | 89 | 37 | — | — | — | — | 89 | 37 |
| Net interest expense | | | | | | | (13,782) | (4,417) |
| Profit/(loss) on ordinary activities before tax | | | | | | | 3,752 | (25,408) |
| Net assets | | | | | | | | |
| Net assets by segment | 56,480 | 58,154 | 138,283 | 123,869 | (3,231) | 5,345 | 191,532 | 187,368 |
| Net assets/(liabilities) of associates/ joint ventures by segment | 26 | 26 | — | (2,991) | — | — | 26 | (2,965) |
| Unallocated net liabilities | | | | | | | (122,074) | (115,393) |
| Net asset | | | | | | | 69,484 | 69,010 |
| Unallocated net liabilities comprise loan notes, net debt and taxation | | | | | | | | |

Notes to the financial statements

at 30 September 2005

3. Turnover and segmental analysis (continued)

Geographical area

| | <i>United Kingdom</i> | | <i>Rest of the World</i> | | <i>Total</i> | |
|---|-----------------------|---------|--------------------------|---------|--------------|----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Turnover | | | | | | |
| <i>Turnover by destination</i> | | | | | | |
| Sales to third parties | 192,110 | 91,972 | 132,269 | 74,220 | 324,379 | 166,192 |
| <i>Turnover by origin</i> | | | | | | |
| Total sales | 199,718 | 103,155 | 132,269 | 74,220 | 331,987 | 177,375 |
| Intra segment sales | (1,400) | (858) | - | - | (1,400) | (858) |
| Inter segment sales | (5,478) | (3,232) | - | - | (5,478) | (3,232) |
| Less share of joint venture turnover | (730) | (7,093) | - | - | (730) | (7,093) |
| Net sales | 192,110 | 91,972 | 132,269 | 74,220 | 324,379 | 166,192 |
| Loss | | | | | | |
| Segment profit/(loss) | 15,272 | (9,121) | 10,515 | (7,360) | 25,787 | (16,481) |
| Common costs | | | | | (1,285) | (30) |
| Less goodwill amortisation | | | | | (8,122) | (4,780) |
| Operating profit/(loss) | | | | | 16,380 | (21,291) |
| Operating profit of joint ventures | 1,065 | 263 | - | - | 1,065 | 263 |
| Operating profit of associates | 89 | 37 | - | - | 89 | 37 |
| Net interest expense | | | | | (13,782) | (4,417) |
| Profit/(loss) on ordinary activities before taxation | | | | | 3,752 | (25,408) |
| Net assets | | | | | | |
| Net assets by segment | 63,226 | 67,123 | 6,232 | 4,852 | 69,458 | 71,975 |
| Net assets/(liabilities) of associates and joint ventures | 26 | (2,965) | - | - | 26 | (2,965) |
| | | | | | 69,484 | 69,010 |

Notes to the financial statements

at 30 September 2005

4 Operating profit/(loss)

This is stated after charging/(crediting)

| | <i>Year ended 30 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|---|--|---|
| Auditors' remuneration – audit services | 249 | 235 |
| – non-audit services | 62 | 24 |
| Depreciation | 3,055 | 2,358 |
| Operating lease rentals – land and buildings | 4,072 | 2,057 |
| – plant and machinery | 133 | 95 |
| Amortisation of goodwill | 8,122 | 4,780 |
| Amortisation of other intangible fixed assets | 2,648 | 3,160 |
| Foreign exchange (gain)/loss | (7) | 44 |
| Re-organisation costs (note 4a) | 1,687 | 18,001 |
| Provision releases | (2,453) | – |
| Exploitation licence in respect of ex-group member | 2,922 | – |
| | <u>1,687</u> | <u>18,001</u> |
| (a) Re-organisation costs are made up as follows | | |
| Future running costs for empty buildings | 483 | 10,620 |
| Severance costs | 1,054 | 4,267 |
| Artist termination provisions | – | 2,956 |
| Restructuring costs | 150 | – |
| Early termination of partnership agreement | – | 158 |
| | <u>1,687</u> | <u>18,001</u> |

5 Directors and staff costs

| | <i>Year ended 30 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|-----------------------|--|---|
| Wages and salaries | 28,115 | 18,464 |
| Social security costs | 4,016 | 2,066 |
| Other pension costs | 1,518 | 1,124 |
| | <u>33,649</u> | <u>21,654</u> |

The average monthly number of employees during the year was made up as follows

| | <i>No</i> | <i>No</i> |
|-------------------------------------|------------|------------|
| Office and management | 196 | 220 |
| Selling, marketing and distribution | 143 | 153 |
| | <u>339</u> | <u>373</u> |

The directors of the company received no remuneration for their services during the year

Notes to the financial statements

at 30 September 2005

6 Interest receivable

| | <i>Year ended 30 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|---|--|---|
| Bank and other interest | 1,935 | 1,251 |
| Receivable from group and associated undertakings | 677 | 250 |
| | <u>2,612</u> | <u>1,501</u> |
| Share of joint ventures' interest | 5 | 65 |
| | <u>2,617</u> | <u>1,566</u> |

7 Interest payable

| | <i>Year ended 30 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|--|--|---|
| Bank loans and overdrafts | 865 | 854 |
| Payable to parent and group undertakings | 15,534 | 4,360 |
| | <u>16,399</u> | <u>5,214</u> |

8 Tax on profit/(loss) on ordinary activities

(a) The credit based on the profit/(loss) for the year is as follows.

| | <i>Year ended 30 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|---|--|---|
| Taxation based on the profit/(loss) for the year | | |
| Corporation tax | 3,283 | (2,821) |
| Double taxation relief | (834) | (447) |
| Over provision for prior years | (788) | - |
| Group relief payments | - | 236 |
| Overseas taxation suffered | 836 | 536 |
| Associated undertakings | 29 | 15 |
| Total current tax charge/(credit) (note 8b) | <u>2,526</u> | <u>(2,481)</u> |
| Deferred tax | | |
| Timing differences, origination and reversal | 869 | (1,617) |
| Total deferred tax | <u>869</u> | <u>(1,617)</u> |
| Total tax charge/(credit) on loss on ordinary activities | <u>3,395</u> | <u>(4,098)</u> |

Notes to the financial statements

at 30 September 2005

8. Tax on profit/(loss) on ordinary activities (continued)

(b) Circumstances affecting current credit

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 September 2005 £000</i> | <i>Period ended 1 October 2004 £000</i> |
|--|--|---|
| Profit/(loss) on ordinary activities before tax | 3,752 | (25,408) |
| Tax on profit/(loss) on ordinary activities at standard rate | 1,126 | (7,622) |
| Factors affecting the tax charge | | |
| Disallowable expenses | 708 | 2,001 |
| Goodwill amortisation | 2,483 | 1,434 |
| Overseas tax suffered | 2 | 89 |
| Capital allowances in excess of depreciation | (162) | 527 |
| Tax overprovided in previous years | (788) | — |
| Utilisation of tax losses | (555) | — |
| Tax losses not previously recognised | (169) | — |
| Tax losses carried forward | — | 378 |
| Other timing differences | (119) | 712 |
| Total current tax (note 8a) | 2,526 | (2,481) |

(c) Deferred tax

The deferred tax balance included in the balance sheet is as follows

| | <i>2005 £000</i> | <i>2004 £000</i> |
|--|----------------------|----------------------|
| Included in debtors (note 15) | 3,796 | 4,738 |
| Depreciation in excess of capital allowances | 1,275 | 1,471 |
| Tax losses carried forward | — | 693 |
| Other timing differences | 2,521 | 2,574 |
| Deferred tax asset | 3,796 | 4,738 |
| Analysis of movement in the deferred tax asset | | |
| Provision at start of year | 4,738 | |
| Movements on disposal | (73) | |
| Charged to the profit and loss account | (869) | |
| Provision at end of year | 3,796 | |

Notes to the financial statements

at 30 September 2005

9 Loss attributable to members of the parent undertaking

The loss dealt with in the financial statements of the parent undertaking is £6,681,000 (2004 – £3,641,000)

10 Intangible fixed assets

Group

| | <i>Goodwill</i> £000 | <i>Copyrights</i> £000 | <i>Total</i> £000 |
|----------------------|-------------------------|---------------------------|----------------------|
| Cost | | | |
| At 1 October 2004 | 163,894 | 12,011 | 175,905 |
| Additions | 31 | 48 | 79 |
| On acquisition | – | 3,200 | 3,200 |
| Disposals | (4,757) | (742) | (5,499) |
| At 30 September 2005 | 159,168 | 14,517 | 173,685 |
| Amortisation | | | |
| At 1 October 2004 | 4,780 | 3,160 | 7,940 |
| Charge for the year | 8,122 | 2,648 | 10,770 |
| Disposals | (297) | (189) | (486) |
| At 30 September 2005 | 12,605 | 5,619 | 18,224 |
| Net book value | | | |
| At 30 September 2005 | 146,563 | 8,898 | 155,461 |
| At 1 October 2004 | 159,114 | 8,851 | 167,965 |

Company

The company does not hold any intangible fixed assets

Notes to the financial statements

at 30 September 2005

11 Tangible fixed assets

Group

| | <i>Freehold land and buildings</i> | <i>Furniture and equipment</i> | <i>Motor vehicles</i> | <i>Leasehold improve- ments</i> | <i>Total</i> |
|--------------------------|--|--|---------------------------|---|--------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost | | | | | |
| At 1 October 2004 | 9,828 | 6,530 | 32 | 4,941 | 21,331 |
| Additions | 3 | 371 | 14 | 851 | 1,239 |
| Disposals | – | (281) | (32) | (100) | (413) |
| At 30 September 2005 | 9,831 | 6,620 | 14 | 5,692 | 22,157 |
| Depreciation | | | | | |
| At 1 October 2004 | 259 | 1,703 | 12 | 375 | 2,349 |
| Provided during the year | 444 | 2,144 | 12 | 455 | 3,055 |
| Disposals | – | (32) | (22) | (6) | (59) |
| At 30 September 2005 | 703 | 3,815 | 2 | 824 | 5,344 |
| Net book value | | | | | |
| At 30 September 2005 | 9,128 | 2,805 | 12 | 4,868 | 16,813 |
| At 1 October 2004 | 9,569 | 4,827 | 20 | 4,566 | 18,982 |

Company

The company does not hold any tangible fixed assets

Notes to the financial statements

at 30 September 2005

12. Investments

| | 2005 £000 | 2004 £000 |
|--|--------------|--------------|
| Joint ventures (a) | 26 | 26 |
| Associates (b) | — | — |
| Other fixed asset investments (c) | 17 | 17 |
| | <u>43</u> | <u>43</u> |
| <i>Group</i> | | |
| (a) Joint ventures | | £000 |
| Share of net assets/(liabilities) | | |
| At 1 October 2004 | | 26 |
| Share of profits retained by joint ventures | | 1,005 |
| | | <u>1,031</u> |
| Transfer to creditors | | (1,005) |
| | | <u>26</u> |
| At 30 September 2005 | | <u>26</u> |
| <i>Group</i> | | |
| (b) Associates | | £000 |
| Share of net assets/(liabilities) | | |
| At 1 October 2004 | | — |
| Share of net profits retained by associates and write down of investment | | — |
| | | <u>—</u> |
| At 30 September 2005 | | <u>—</u> |

The group's share of retained losses of associates at 1 October 2005 is £nil

The group has an investment in Jewel Music Limited an associated company, which had a total turnover for the year of £410,000 (2004 – £74,000)

Notes to the financial statements

at 30 September 2005

12. Investments (continued)

Group

(c) Other fixed asset investments

| | <i>Listed on the London Stock Exchange £000</i> |
|----------------------|---|
| Cost | |
| At 1 October 2004 | 17 |
| At 30 September 2005 | 17 |
| Net book value | |
| At 30 September 2005 | 17 |

The market value of the investments listed on the London Stock Exchange at 30 September 2005 was £30,000 (2004 – £28,000). If they had been sold at this value there would have been no liability to corporation tax on the capital gain arising from the sale.

Company

| | <i>Subsidiary undertakings £000</i> |
|---|---|
| Cost | |
| At 30 September 2005 and 1 October 2004 | 201,974 |
| Net book value | |
| At 30 September 2005 and 1 October 2004 | 201,974 |

Notes to the financial statements

at 30 September 2005

12. Investments (continued)

Details of the principal investments in which the group and the company held more than 20% of the nominal value of any class of share capital as at 30 September 2005 were as follows

Subsidiary undertakings

| <i>Name of Company</i> | <i>Country of registration (or incorporation and operation)</i> | <i>Holding</i> | <i>Proportion of voting rights and shares held</i> | <i>Nature of business</i> |
|--|---|-----------------|--|---|
| Warner Music International Services Limited | England and Wales | Ordinary shares | 100% | Group services and investment holding company |
| WMIS Limited* | England and Wales | Ordinary shares | 100% | Group services |
| Warner Music UK Limited* | England and Wales | Ordinary shares | 100% | Record company |
| A+E Records Limited* | England and Wales | Ordinary shares | 100% | Record company |
| Infectious Records Limited* | England and Wales | Ordinary shares | 100% | Record company |
| 1967 Limited*† | England and Wales | Ordinary shares | 50% | Record company |
| 679 Recordings Limited*†# | England and Wales | Ordinary shares | 51% | Record company |
| Warner/Chappell Music Group (UK) Limited* | England and Wales | Ordinary shares | 100% | Investment holding company |
| Warner/Chappell Music Limited* | England and Wales | Ordinary shares | 100% | Music Publishing |
| Warner/Chappell Music International Limited* | England and Wales | Ordinary shares | 100% | Music Publishing |
| Drvinestate Limited | England and Wales | Ordinary shares | 100% | Investment holding company |
| London Records 90 Limited* | England and Wales | Ordinary Shares | 100% | Record company |

* Held by a subsidiary undertaking

† Financial statements prepared to 30 November 2005

Holding increased by 1% to 51% during the year

Notes to the financial statements

at 30 September 2005

13. Sale of subsidiary undertaking

On 31 May 2005 the group sold its 100% interest in the ordinary share capital of International Music Publications Limited

Net assets disposed of and the related sale proceeds were as follows

| | £000 |
|----------------------|---------|
| Fixed Assets | |
| Fixed Asset | 563 |
| Current assets | 1,278 |
| Creditors | (6,301) |
| Net assets | (4,460) |
| Related goodwill | 4,460 |
| | <hr/> |
| Profit on sale | — |
| | <hr/> |
| Sale proceeds | <hr/> |

14 Stocks

Group

| | 2005 | 2004 |
|-------------------------------------|-------|-------|
| | £000 | £000 |
| Work in progress | — | 83 |
| Finished goods and goods for resale | 7,307 | 5,902 |
| | <hr/> | <hr/> |
| | 7,307 | 5,985 |
| | <hr/> | <hr/> |

Company

The company does not hold any stocks

The difference between the purchase price or production cost of stocks and their replacement cost is not material

Notes to the financial statements

at 30 September 2005

15. Debtors

| | <i>Group</i> | | <i>Company</i> | |
|---|----------------|----------------|----------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 |
| Amounts falling due within one year | | | | |
| Trade debtors | 35,705 | 23,147 | — | — |
| Royalty advances | 31,133 | 22,101 | — | — |
| Due from group undertakings | 66,643 | 47,816 | 5,000 | — |
| Due from joint ventures and associates | 72 | 78 | — | — |
| Group relief receivable | — | 443 | 6,554 | 1,548 |
| Corporation tax recoverable | 1,825 | 8,573 | — | — |
| Deferred tax asset | 3,796 | 4,738 | — | — |
| VAT | 1,077 | 1,204 | 3 | — |
| Other debtors | 1,137 | 1,520 | — | — |
| Prepayments and accrued income | 7,609 | 1,369 | — | — |
| | <u>148,997</u> | <u>110,989</u> | <u>11,557</u> | <u>1,548</u> |
| Amounts falling due after more than one year | | | | |
| Due from group undertakings | — | 2 | — | — |
| Other debtors | 750 | 1,500 | — | — |
| | <u>750</u> | <u>1,502</u> | <u>—</u> | <u>—</u> |

16 Creditors: amounts falling due within one year

| | <i>Group</i> | | <i>Company</i> | |
|---------------------------------------|----------------|----------------|----------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 |
| Bank overdraft | 3,986 | 2,984 | — | — |
| Trade creditors | 27,166 | 28,293 | 48 | — |
| Due to group undertakings | 90,449 | 26,206 | 62,682 | 12,777 |
| Due to joint ventures and associates | 16 | 3,793 | — | — |
| Group and consortium relief payable | 494 | — | — | — |
| Other taxes and social security costs | 778 | 656 | — | — |
| Other creditors | 6,754 | 9,743 | 6,752 | 6,752 |
| Accruals and deferred income | 53,321 | 51,134 | 20 | 30 |
| | <u>182,964</u> | <u>122,809</u> | <u>69,502</u> | <u>19,559</u> |

Notes to the financial statements

at 30 September 2005

17 Creditors: amounts falling due after more than one year

| | <i>Group</i> | | <i>Company</i> | |
|-----------------------------------|--------------|-------------|----------------|-------------|
| | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Amounts due to group undertakings | 73,207 | 106,463 | 64,129 | 97,382 |

Company

The principal amount of the loan of £65,667,208, is payable in full on or prior to 15 April 2014. Interest accrues on the outstanding amount at a fixed annual interest rate of 8.125%, and is payable semi-annually. The company has the option to make prepayments on the outstanding principle amount at a redemption charge of a percentage of the applicable premium, the percentage being the proportion of the principle being redeemed. The applicable premium is the greater of

- i) 1.0% of the outstanding principle amount
- ii) the excess over the outstanding principle amount of the present value of future payments discounted at the UK Government Bond Treasury Yield to maturity at the redemption date plus 50 basis points

18 Other financial commitments

Annual commitments under non-cancellable operating leases are as set out below

Group

| | <i>2005</i> | | <i>2004</i> | |
|-------------------------------|------------------|--------------|------------------|--------------|
| | <i>Land and</i> | <i>Other</i> | <i>Land and</i> | <i>Other</i> |
| | <i>Buildings</i> | | <i>Buildings</i> | |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Operating leases which expire | | | | |
| Within one year | – | 57 | – | 143 |
| Between two and five years | – | 57 | – | 40 |
| Over five years | 4,149 | – | 4,149 | – |
| | <u>4,149</u> | <u>114</u> | <u>4,149</u> | <u>183</u> |

Company

The company does not have any other financial commitments

Notes to the financial statements

at 30 September 2005

19. Provisions for liabilities and charges

| | <i>Onerous Lease Provisions £000</i> | <i>Onerous Contract Provisions £000</i> | <i>Trading Provisions £000</i> | <i>Dropped Artists Provisions £000</i> | <i>Total Provisions £000</i> |
|--------------------------|--|---|--|--|--------------------------------------|
| At 1 October 2004 | 9,521 | 3,228 | 2,110 | 1,478 | 16,337 |
| Provided during year | 319 | 216 | 311 | — | 846 |
| Released during year | (487) | (656) | (286) | (1,024) | (2,453) |
| Utilised during the year | (1,782) | (100) | (33) | (411) | (2,326) |
| At 30 September 2005 | <u>7,571</u> | <u>2,688</u> | <u>2,102</u> | <u>43</u> | <u>12,404</u> |

The majority of the onerous lease provision relates to the premises occupied by the group services business at 83 and 89 Baker Street, which were vacated in July 2004, when the business relocated to other premises in Kensington and Hammersmith. The leases on the Baker Street premises are due to expire in 2010. Part of 89 Baker St will be leased from 2006, with the possibility that 83 Baker St may be subleased prior to expiry of leases in 2010.

Onerous contract provisions relate to obligations under contracts which may be fulfilled after more than one year. Trading provisions comprise royalty audit provisions, copyright audit provisions and losses on share disposal provisions charged through operating profit. Dropped artist provisions relate to costs expected to be incurred in terminating contracts with specific artists signed to group entities, and are expected to be utilised within one year.

The provision brought forward at 1 October 2004 have been reclassified because £1,417,000 of onerous contract provisions were reclassified as onerous lease provisions and £250,000 of onerous lease provisions were reclassified as onerous contract provisions.

During the year management undertook a review of the re-organisation provisions made in previous periods. Where the situation relating to those provisions had crystallised and it became apparent that a specific provision was no longer necessary the provision was released.

Company

The company does not have any provisions for liabilities and charges.

20. Share capital

| | <i>Allotted, called up and fully paid</i> | | <i>Authorised</i> | |
|----------------------------|---|-------------|-------------------|-------------|
| | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| | <i>£</i> | <i>£</i> | <i>£</i> | <i>£</i> |
| Ordinary shares of £1 each | <u>2</u> | <u>2</u> | <u>100</u> | <u>100</u> |

Notes to the financial statements

at 30 September 2005

21. Reconciliation of shareholders' funds and movements on reserves

Group

| | Share Capital £000 | Profit and loss account £000 | Total £000 |
|--|--------------------------|------------------------------------|---------------|
| At 1 October 2004 | – | 69,010 | 69,010 |
| Foreign currency translation adjustments | – | 117 | 117 |
| Profit for the year | – | 357 | 357 |
| At 30 September 2005 | – | 69,484 | 69,484 |

Company

| | Share capital £000 | Profit and loss account £000 | Total £000 |
|----------------------|--------------------------|------------------------------------|---------------|
| At 1 October 2004 | – | 86,581 | 86,581 |
| Loss for the year | – | (6,681) | (6,681) |
| At 30 September 2005 | – | 79,900 | 79,900 |

22. Contingent liabilities

The company has entered into a group composite accounting agreement with its bankers. The terms of the agreement permit the bankers, without notice, to draw down funds deposited into the system, to offset borrowings drawn down from the system by other group members who are also parties to these arrangements. At the balance sheet date, funds deposited by the company into the system and potentially at risk to cover liabilities elsewhere in the group amounted to £nil.

Group undertakings outside the WMG Acquisition (UK) Limited group are a party to the above banking arrangement. At 30 September 2005 the amounts deposited by the Group undertakings under the terms of the arrangement was £9,086,000 (2004 – £10,823,000).

23. Other financial commitments

The group is contracted to pay advances to authors, songwriters and artists in the normal course of business. The payment of these advances is dependent on the fulfilment of contract requirements, accordingly it is not practicable to estimate the future commitments that will crystallise.

Notes to the financial statements

at 30 September 2005

24. Pensions

The individual subsidiary undertakings of WMG Acquisition (UK) Limited are members of a defined contribution pension scheme, the Warner Music Pension scheme, for their directors. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year end, included in accruals (note 16) were £106,000.

The group has also borne set up costs for the pension scheme of £188,940.

25. Related party transactions

In the normal course of conducting their businesses the Warner Music UK group has had various transactions with members of the Warner Music International group of companies, generally on terms resulting from the negotiations between the affected businesses. In the opinion of the directors such transactions are not material. The group has taken advantage of the exemptions of FRS 8 not to disclose related party transactions between wholly owned group undertakings.

26. Other related party transactions

During the year the group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 30 September 2005, are as follows:

| | <i>Amounts due from related party</i> | | <i>Amounts owed to related party</i> | |
|------------------------|---|-------------|--|-------------|
| | <i>2005</i> | <i>2004</i> | <i>2005</i> | <i>2004</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| 679 Recordings Limited | – | – | 2,074 | 3,786 |
| 1967 Limited | 505 | 411 | – | – |

27. Post-balance sheet events

On 15 May 06 the company repaid £42,000,000 of the short-term loan due to a group undertaking. The payment was funded by taking out two short-term loans from two other group undertakings.

On 14 August 06 the company repaid the remaining balance on the short-term loan of £33,908,000. The payment was funded by taking out an overdraft with an external bank.

28. Ultimate parent undertaking

The ultimate parent undertaking at the balance sheet date is WMG Acquisition Corp., a company incorporated in the United States of America, copies of whose financial statements are available from 1209 Orange Street, Wilmington, DE 19801, USA.