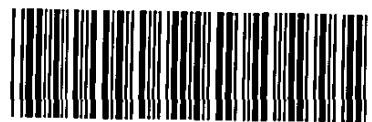


WMG Acquisition (UK) Limited

Report and Financial Statements

30 September 2007

WEDNESDAY



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30/07/2008

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COMPANIES HOUSE

WMG Acquisition (UK) Limited

Registered No 04987681

Directors

E M Bronfman
D H Johnson
P M Robinson

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 group financial statements for the year ended 30 September 2007

Results and dividends

The profit for the year, after taxation, amounted to £45,872,000 (2006 – loss £6,698,000)

The directors do not recommend the payment of a final dividend (2006 – £nil)

Principal activity and review of the business

WMG Acquisition (UK) Limited is a non-trading holding company. The principal activity of the company during the year continued to be as an investment holding company.

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

	2007 £000	2006 £000	Change %
Profit/(loss) after tax	45,872	(6,698)	+785%
Shareholders' funds	119,704	73,203	+63%
Current assets as % of current liabilities	46%	18%	+153%

Profit/(loss) after tax has increased by 785% due to dividends received from subsidiaries during the year.

Shareholder's funds has increased by 63% due to the retained profit.

Current assets as a % of current liabilities has increased by 153% due to repayment of intercompany loans and making a loan to a group company, financed by the dividends received.

Principal risks and uncertainties

The main risks and uncertainties facing the company relate to the risks and uncertainties facing its subsidiaries, which affects the value of its investments in its subsidiaries. The main risks and uncertainties facing its subsidiaries is the speed with and extent to which new digital revenue streams replace traditional income based on physical (mainly CD) sales, and that market forces may lead to a rise in the cost of acquiring song writing talent.

Future developments

The directors do not envisage any change in the company's activities in the foreseeable future.

Directors and their interests

The directors who served during the year ended 30 September 2007 are as follows:

E M Bronfman
D H Johnson
P M Robinson

There are no 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.

Directors' report (continued)

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



P Robinson
Director

Date 7/22/08

Statement of directors' responsibilities in respect of the accounts

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgments 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,
- 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 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 WMG Acquisition (UK) Limited

We have audited the company's financial statements for the year ended 30 September 2007, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 14. 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 considered the implications for our report if we become aware of any apparent misstatement 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.

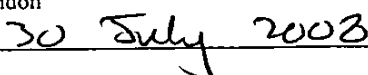
Opinion

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 September 2007 and of its profit 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 September 2007

		<i>Year ended 30 September 2007 £000</i>	<i>Year ended 30 September 2006 £000</i>
Administrative expenses		(61)	(89)
Operating loss	2	(61)	(89)
Dividend income from investments		51,900	—
Interest receivable	3	392	—
Interest payable	4	(8,942)	(9,492)
Profit/(loss) on ordinary activities before taxation		43,289	(9,581)
Tax on profit/(loss) on ordinary activities	5	2,583	2,883
Profit/(loss) on ordinary activities after taxation	11	45,872	(6,698)

All activities are continuing

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company had no recognised gains or losses other than the profit of £45,872,000 for the year ended 30 September 2007 and the loss of £6,698,000 for the year ended 30 September 2006

Company Balance Sheet

at 30 September 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Investments	6	201,974	201,974
Current assets			
Debtors	7	13,790	14,445
Cash at bank and in hand		2,163	18
		<u>15,953</u>	<u>14,463</u>
Creditors amounts falling due within one year	8	(34,363)	(78,926)
		<u>(18,410)</u>	<u>(64,463)</u>
Net current liabilities			
		<u>183,564</u>	<u>137,511</u>
Total assets less current liabilities			
Creditors amounts falling due after more than one year	9	(64,490)	(64,309)
		<u>119,074</u>	<u>73,202</u>
Capital and reserves			
Called up share capital (£2)	10	—	—
Profit and loss account	11	119,074	73,202
		<u>119,074</u>	<u>73,202</u>
Shareholders' funds			
		<u>119,074</u>	<u>73,202</u>



P Robinson
Director

Date 7/28/08

Notes to the financial statements

at 30 September 2007

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below

Accounting convention

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

Accounting period

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

Consolidated accounts

Consolidated accounts have not been prepared as WMG Acquisition (UK) Limited was, at 30 September 2007, a wholly-owned subsidiary of Warner Music Group Corp, a company incorporated in the United States of America, which prepares group accounts. Consequently these accounts only include information about the company as an individual undertaking and not about the group, as is allowed by UITF Abstract 43 and the exemption in section 228A of the Companies Act 1985 has been claimed

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

Investments

Investments are carried at cost, less provisions for impairment in value

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 2007

1 Accounting policies (continued)

Related parties

The company has taken advantage of the exemption in FRS 8 not to disclose details of transactions between fellow wholly-owned group undertakings

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 2007 a wholly-owned subsidiary undertaking of Warner Music Group Corp, a company incorporated in the United States of America, which prepared a group cash flow statement

2. Operating loss

This is stated after charging

	<i>Year ended 30 September 2007 £000</i>	<i>Year ended 30 September 2006 £000</i>
Auditors' remuneration – audit services	4	6

There are no employees of the company other than the directors The directors received no remuneration for their services during the year (2006 – £nil)

3. Interest receivable

	<i>Year ended 30 September 2007 £000</i>	<i>Year ended 30 September 2006 £000</i>
Receivable from group undertakings	392	–
	<u>392</u>	<u>–</u>

4. Interest payable

	<i>Year ended 30 September 2007 £000</i>	<i>Year ended 30 September 2006 £000</i>
Payable to parent and group undertakings	8,942	9,492
	<u>8,942</u>	<u>9,492</u>

Notes to the financial statements

at 30 September 2007

5. 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 2007 £000</i>	<i>Year ended 30 September 2006 £000</i>
Taxation based on the profit/(loss) for the year		
Group relief receipts	(2,583)	(2,883)
Total current tax credit (note 5b)	(2,583)	(2,883)

(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 credit for the year differs from the standard rate for the reasons in the reconciliation below

	<i>Year ended 30 September 2007 £000</i>	<i>Year ended 30 September 2006 £000</i>
Profit/(Loss) on ordinary activities before tax	43,289	(9,581)
Tax on profit/(loss) on ordinary activities at standard rate	12,987	(2,874)
Factors affecting the tax credit		
Disallowable expenses	–	(9)
UK dividend income	(15,570)	–
Total current tax (note 5a)	(2,583)	(2,883)

6. Investments

	£000	
Cost		
At 30 September 2007 and 30 September 2006	201,974	
Net book value		
At 30 September 2007 and 30 September 2006	201,974	
	30 September 2007 £000	30 September 2006 £000
Unlisted investments	201,974	201,974

Notes to the financial statements

at 30 September 2007

6. 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 2007 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
Divinestate 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 2007

^ After the year end the group acquired the remaining 49% of the shares in 679 Recordings Limited

Notes to the financial statements

at 30 September 2007

7 Debtors

	2007	2006
	£000	£000
Due from group undertakings	11,207	5,000
Group relief receivable	2,583	9,437
VAT	—	8
	<u>13,790</u>	<u>14,445</u>

8 Creditors, amounts falling due within one year

	2007	2006
	£000	£000
Due to group undertakings	34,016	78,533
Other taxes and social security	1	—
Other creditors	342	342
Accruals and deferred income	4	51
	<u>34,363</u>	<u>78,926</u>

9 Creditors, amounts falling due after more than one year

	2007	2006
	£000	£000
Amounts due to group undertakings	<u>64,490</u>	<u>64,309</u>

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 principal amount at a redemption charge of a percentage of the applicable premium, the percentage being the proportion of the principal being redeemed. The applicable premium is the greater of

i) 1.0% of the outstanding principal amount

ii) the excess over the outstanding principal 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

Notes to the financial statements

at 30 September 2007

10 Share capital

	<i>Allotted, called up and fully paid</i>		<i>Authorised</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Ordinary shares of £1 each	2	2	100	100

11 Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 1 October 2006	–	73,202	73,202
Profit for the year	–	45,872	45,872
At 30 September 2007	–	119,074	119,074

12 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 £2,163,000 (2006 – £18,000).

13. Post-balance sheet events

Since the year end the company has increased the amount of short-term loans due to group undertakings by £10,000,000.

14 Ultimate parent undertaking

The company is 100% owned by WMG Acquisition Corp, the immediate parent undertaking.

The ultimate parent undertaking at the balance sheet date is Warner Music Group 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.