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WMG Acquisition (UK) Limited

Report and Financial Statements

25 September 2009

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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 (continued)

The directors present their report and group financial statements for the year ended 25 September 2009

Results and dividends

The profit for the year, after taxation, amounted to £18,434,000 (2008 – loss £4,954,000)

The directors recommend the payment of a dividend of £35,000,000 (2008 – £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

	2009 £000	2008 £000	Change %
Profit/(loss) after tax	18,434	(4,954)	+472%
Shareholders' funds	97,554	114,120	-15%
Current assets as % of current liabilities	36%	44%	-17%

Profit/(loss) after tax has increased by 472% due to dividends received from subsidiaries during the year.

Shareholder's funds has decreased by 15% due to the dividend paid.

Current assets as a % of current liabilities has decreased by 17% due to payment of dividend and interest, financed by an increased loan.

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 25 September 2009 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

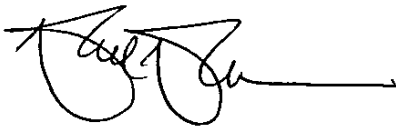
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take 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)

Re-appointment of Auditors

In accordance with s 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company

By order of the board



P Robinson
Director

Date 23 June 2010

Statement of directors' responsibilities in respect of the accounts

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 financial statements of WMG Acquisition (UK) Limited for the year ended 25 September 2009, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 explained more fully in the Statement of Directors' Responsibilities on page 4, the directors are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the company's affairs as at 25 September 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

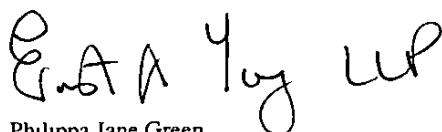
OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures or directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Philippa Jane Green
Ernst & Young LLP
Registered Auditor
London

23/10/10

Profit and loss account

for the year ended 25 September 2009

		<i>Year ended 25 September 2009 £000</i>	<i>Year ended 26 September 2008 £000</i>
Administrative expenses		(53)	(44)
Operating loss	2	(53)	(44)
Dividend income from investments		23,000	—
Interest receivable	3	681	871
Interest payable	4	(6,970)	(7,804)
Profit/(loss) on ordinary activities before taxation		16,658	(6,977)
Tax on profit/(loss) on ordinary activities	5	1,776	2,023
Profit/(loss) on ordinary activities after taxation	11	18,434	(4,954)

All activities are continuing

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company had no recognised gains or losses other than the profit of £18,434,000 for the year ended 25 September 2009 and the loss of £4,954,000 for the year ended 26 September 2008

Company Balance Sheet

at 25 September 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Investments	6	201,974	201,974
Current assets			
Debtors	7	26,396	13,241
Cash at bank and in hand		—	4,740
		<u>26,396</u>	<u>17,981</u>
Creditors: amounts falling due within one year	8	(72,405)	(41,164)
Net current liabilities		<u>(46,009)</u>	<u>(23,183)</u>
Total assets less current liabilities		<u>155,965</u>	<u>178,791</u>
Creditors amounts falling due after more than one year	9	(58,411)	(64,671)
		<u>97,554</u>	<u>114,120</u>
Capital and reserves			
Called up share capital (£2)	10	—	—
Profit and loss account	11	97,554	114,120
Shareholders' funds		<u>97,554</u>	<u>114,120</u>



P Robinson
Director

Date 23 June 2010

Notes to the financial statements

at 25 September 2009

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

Going concern

The financial statements are prepared on the going concern basis because WMG Acquisition Corp has committed to provide financial support to the company to enable it to meet its debts as they fall due, and for the foreseeable future

Consolidated accounts

Consolidated accounts have not been prepared as WMG Acquisition (UK) Limited was, at 25 September 2009, 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 401 of the Companies Act 2006 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 25 September 2009

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 25 September 2009 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 profit/(loss)

This is stated after charging

	<i>Year ended 25 September 2009 £000</i>	<i>Year ended 26 September 2008 £000</i>
Auditors' remuneration – audit services	4	4

There are no employees of the company other than the directors. The directors received no remuneration for their services during the year (2008 – £nil)

3 Interest receivable

	<i>Year ended 25 September 2009 £000</i>	<i>Year ended 26 September 2008 £000</i>
Receivable from group undertakings	681	871
	<u>681</u>	<u>871</u>

4. Interest payable

	<i>Year ended 25 September 2009 £000</i>	<i>Year ended 26 September 2008 £000</i>
Payable to group undertakings	6,970	7,804
	<u>6,970</u>	<u>7,804</u>

Notes to the financial statements

at 25 September 2009

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 25 September 2009 £000</i>	<i>Year ended 26 September 2008 £000</i>
Taxation based on the profit/(loss) for the year		
Group relief receipts	(1,776)	(2,023)
Total current tax credit (note 5b)	(1,776)	(2,023)

(b) Circumstances affecting current credit

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 28% (2008 29%). The current tax credit for the year differs from the standard rate for the reasons in the reconciliation below

	<i>Year ended 25 September 2009 £000</i>	<i>Year ended 26 September 2008 £000</i>
Profit/(loss) on ordinary activities before tax	16,658	(6,977)
Tax on profit/(loss) on ordinary activities at standard rate	4,664	(2,023)
Factors affecting the tax credit		
Non-taxable income	(6,440)	–
Total current tax (note 5a)	(1,776)	(2,023)

6. Investments

	<i>£000</i>
Cost and net book value	
At 25 September 2009 and 26 September 2008	201,974

	<i>25 September 2009 £000</i>	<i>26 September 2008 £000</i>
Unlisted investments	201,974	201,974

Notes to the financial statements

at 25 September 2009

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 25 September 2009 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	100%	Record company
679 Recordings Limited*	England and Wales	Ordinary shares	100%	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

Notes to the financial statements

at 25 September 2009

7. Debtors

	2009 £000	2008 £000
Due from group undertakings	24,619	11,184
Group relief receivable	1,776	2,023
Prepayments and accrued income	1	34
	<u>26,396</u>	<u>13,241</u>

8 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Bank overdraft	3,098	–
Due to group undertakings	68,954	40,815
Other creditors	342	342
Accruals and deferred income	11	7
	<u>72,405</u>	<u>41,164</u>

9. Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Amounts due to group undertakings	<u>58,411</u>	<u>64,671</u>

The principal amount of the loan of £59,227,248 (2008 £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 25 September 2009

10. Share capital

	<i>Allotted, called up and fully paid</i>		<i>Authorised</i>	
	2009	2008	2009	2008
	£	£	£	£
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 27 September 2008	–	114,120	114,120
Profit for the year	–	18,434	18,434
Dividend paid	–	(35,000)	(35,000)
At 25 September 2009	–	97,554	97,554

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 £nil (2008 – £4,740,000).

13. Post-balance sheet events

Since the year end the company has decreased the amount of short-term loans due to group undertakings by £15,238,000.

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.