WARNER/CHAPPELL MUSIC GROUP (UK) LIMITED

(Registered in England No. 1853621)

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

30TH NOVEMBER 2003



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WARNER/CHAPPELL MUSIC GROUP (UK) LIMITED

Registration No. 1853621

DIRECTORS
J Dyball
M Lavin

SECRETARY
Olswang Cosec Limited

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

REGISTERED OFFICE
Seventh floor
90 High Holborn
London
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WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of the company for the year ended 30th November 2003.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 5. The directors do not propose to declare a dividend in respect of the year ended 30th November 2003 (2002 - £nil).

REVIEW OF THE BUSINESS

The principal activity of the company during the year continued to be as an investment holding company. The company acts as a holding company for subsidiary investments and group funding transactions.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year ended 30 November 2003 were as listed on page 1.

At no time during the year did any director have any interest in the shares or debentures of the company or any other group undertaking. On 1 March 2004, B Jones resigned as company secretary and J Dyball was appointed in her place. On 1 July 2004, J Dyball resigned as company secretary and Olswang Cosec Limited was appointed in her place.

POST BALANCE SHEET EVENT

On 1 March 2004 Time Warner Inc., the company's ultimate parent undertaking, announced the sale of its Warner Music Group to an investor group for approximately $2.6 billion on a debt-free basis. The investor group is led by Thomas H. Lee Partners, Edgar Bronfman Jr.'s Lexa Partners, Bain Capital and Providence Equity Partners.

Time Warner Inc. has the option to buy up to 15% of Warner Music Group during the three years following closing, and as much as 19.9% under certain circumstances.

AUDITORS

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

ON BEHALF OF THE BOARD

Director

Dated: 26-10-04

WARNER/CHAPPELL MUSIC GROUP (UK) LIMITED

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 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 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 WARNER/CHAPPELL MUSIC GROUP (UK) LIMITED

We have audited the company's financial statements for the year ended 30 November 2003 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 13. 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 company 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 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 of the state of affairs of the company as at 30 November 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

26th October 2004

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH NOVEMBER 2003

	Notes	2003 £'000s	2002 £'000s
Income from shares in subsidiary undertakings		708	769
Interest receivable	4	304	325
Profit on ordinary activities before taxation		1,012	1,094
Taxation	5	(75)	(98)
Profit for the financial year		937	996
Accumulated profit brought forward		2,601	1,605
Accumulated profit carried forward	12	3,538	2,601

All activities are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30TH NOVEMBER 2003

There are no gains or losses other than those stated in the profit and loss account.

The notes on pages 7 to 11 form part of the financial statements.

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

BALANCE SHEET AT 30TH NOVEMBER 2003

	Notes	2003 £'000s	2002 £'000s
Fixed assets:			
Investments	6	73,000	73,000
Current assets:			
Debtors: falling due in greater than one year	7	14,735	13,850
Creditors: amounts falling due within one year	8	(46)	(98)
Net current assets		14,689	13,752
Total assets less current liabilities		87,689	86,752
Capital and reserves:			
Equity share capital	9	37,536	37,536
Revaluation reserve	10	46,615	46,615
Profit and loss account	12	3,538	2,601
Shareholders' funds	12	87,689	86,752

Director

Dated: 26-10-04

The notes on pages 7 to 11 form part of these financial statements.

1. ACCOUNTING POLICIES

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

Accounting convention

These financial statements are prepared under the historical cost convention, as modified by the revaluation of investments in subsidiary undertakings and in accordance with applicable accounting standards.

Group financial statements

In accordance with the company's exemption under S228 of the Companies Act, group financial statements have not been prepared as the company was, at 30 November 2003 and for the year then ended, a wholly-owned subsidiary undertaking of Time Warner Holdings Limited, registered in England and Wales, which prepares group financial statements. The financial statements present information as to the company as an individual undertaking and not as to the group.

Investments

Subsidiary undertakings are valued in the parent undertaking balance sheet as a multiple of the net publishers share. This method is considered by the directors to be reasonable. The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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.

Statement of Cash flows

The company has taken advantage of the exemption in the Financial Reporting Standard No.1 Revised (FRS1). A cash flow statement has not been prepared because as at the year end, and for the entire financial year, the company was a wholly owned subsidiary undertaking of Time Warner Inc, a company incorporated in the United States of America, which prepares a group cash flow statement.

Related parties

The company has taken advantage of the exemption in FRS 8 not to disclose related party transactions with fellow wholly-owned subsidiary undertakings.

2. EMPLOYEES AND DIRECTORS

The company has no employees other than directors. The directors' remuneration was £nil (2002 -£nil).

3. AUDITORS' REMUNERATION

Auditors' remuneration is borne by Warner/Chappell Music Limited, another group undertaking.

4. INTEREST RECEIVABLE

	2003 £'000s	2002 £'000s
Interest receivable from fellow subsidiary undertakings	304	325

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £'000s	2002 £'000s
a) The charge based on the results for the year is as follows:		
Taxation based on the profits for the period		
Corporation tax payable at 30%	91	-
Group relief payments	-	98
Over provision for prior year	(16)	-
Total current tax charge	75	98

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% (2002 – 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below.

Profit on ordinary activities before tax	1,012	1,094
Tax on profit on ordinary activities at standard rate	304	328
Factors affecting charge:-		
Non taxable income	(213)	(230)
Overprovision in prior year	(16)	-
Total current tax (note a above)	75	98

6. INVESTMENTS

	Subsidiary undertakings £'000s
Valuation:	
At 1st December 2002 and at 30th November 2003	73,000

Subsidiary undertakings

Subsidiary undertakings were revalued in 1992 as a multiple of the net publishers' share, which is considered by the directors to be reasonable. This policy is applied to give a fair value to the investment held.

The directors are of the opinion that the value of the company's investments in its subsidiary undertakings (including amounts owed by them to the company) is not less than the book value of the investments.

6. **INVESTMENTS (Continued)**

The cost of the investments in subsidiary undertakings is £26,385,856 (2002 - £26,385,856).
Details of investments in subsidiary undertakings are:

Subsidiary undertakings	Country of registration	Percentage of ordinary share capital held	Nature of business
Bubbles Music Ltd	England and Wales	100%	Investment holding company
Warner/Chappell Music International Ltd	England and Wales	100%	Music publishing
Warner/Chappell Music Ltd	England and Wales	100%	Music publishing
Subsidiary undertakings of Warner/Chappell Music International Ltd			
Warner Chappell Overseas Holdings Ltd	England and Wales	100%	Non Trading
Warner Chappell Artemis Music Ltd	England and Wales	100%	Music publishing
Ascherberg, Hopwood & Crew Ltd	England and Wales	100%	"
Burlington Music Ltd	England and Wales	100%	"
Chappell Music Ltd	England and Wales	100%	"
Intersong Music Ltd	England and Wales	100%	"
Warner Chappell North America Ltd	England and Wales	100%	"
Throat Music Ltd	England and Wales	100%	"
Chappell Morris Ltd	England and Wales	100%	"
Warner Chappell Ltd	England and Wales	100%	"
Subsidiary undertaking of Warner/Chappell Music Ltd			
Magnet Music Ltd	England and Wales	100%	Music publishing
Warner Chappell Music Publishing Ltd	England and Wales	100%	"
Warner Chappell UK Ltd	England and Wales	100%	"
International Music Publications Ltd	England and Wales	100%	"
Dizzy Heights Music Publishing Ltd	England and Wales	100%	"
Glissando Music Ltd	England and Wales	100%	"
Associated undertakings of Warner/Chappell Music Ltd			
Kirshner-Warner Bros Music Ltd	England and Wales	50%	Music publishing
Subsidiary undertaking of Burlington Music Ltd			
Palace Music Co Ltd	England and Wales	100%	Music publishing

6. **INVESTMENTS (Continued)**

Subsidiary undertakings	Country of registration	Percentage of ordinary share capital held	Nature of business
Associated undertakings of Warner/Chappell Music International Ltd			
Diplomat Music Ltd	England and Wales	50%	Music publishing
Jewel Music Publishing Company Ltd	England and Wales	50%	"
Patricia Music Ltd	England and Wales	50%	"

The accounting dates for all subsidiaries is 30th November except as follows: Warner Chappell Limited, Diplomat Music Limited, Jewel Music Publishing Limited and Warner Chappell UK Limited have a 30th June accounting date, Warner Chappell Music Publishing Limited has a 31st December accounting date and Warner Chappell North America Limited has a 31st May accounting date. The accounting period for all subsidiaries and associates is 12 months.

7. **DEBTORS**

	2003 £'000s	2002 £'000s
Amounts due from subsidiary undertakings	14,719	13,850
Group relief receivable	16	-
	14,735	13,850

Debtors relate to amounts due after more than one year.

8. **CREDITORS:** AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000s	2002 £'000s
Corporation tax payable	46	-
Group relief payable	-	98
	46	98

9. **SHARE CAPITAL**

	2003 £'000s	2002 £'000s
Authorised:		
40,000,000 ordinary shares of £1 each	40,000	40,000
Allotted, called up and fully paid:		
37,535,527 ordinary shares of £1 each	37,536	37,536

10. REVALUATION RESERVE

During 1992 the directors undertook a review of the value of the company's investment in subsidiaries resulting in a revaluation of £46,615,000. The directors consider this revaluation to remain appropriate.

11. CONTINGENT LIABILITIES

The company has entered into a 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 its own overdraft liability and liabilities elsewhere in the group amounted to £nil (2002: £nil).

12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND RESERVES

	Share capital £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total £'000s
Balance at 1 December 2002	37,536	46,615	2,601	86,752
Profit for the year	-	-	937	937
Balance at 30 November 2003	37,536	46,615	3,538	87,689

13. PARENT UNDERTAKING AND ULTIMATE PARENT UNDERTAKING

On 30 November 2003 Time Warner Holdings Limited was the company's immediate 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. Time Warner Holdings Limited is registered in England and Wales and copies of its financial statements can be obtained from the registrar of companies in England and Wales.

On 30 November 2003 Time Warner Inc., a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company was a member and for which group financial statements are drawn up. Copies of Time Warner Inc.'s financial statements can be obtained from One Time Warner Center, New York, NY 10019, USA.

Following the post balance sheet event disclosed in the directors' report, the ultimate parent undertaking is WMG Acquisition Corp.