313music JWP AG

Consolidated Annual Financial Statements 2007

GROUP ANNUAL REPORT

OF

313 MUSIC JWP AKTIENGESELLSCHAFT

FOR THE BUSINESS YEAR

2007

Business and general conditions

General economic conditions

Macroeconomic conditions

In 2007, the German economy tended on a relatively high level. According to calculations by the German Federal Statistics Office, gross domestic product (GDP) increased by 2.5%. Internationally too, overall economic conditions in the report year were positive on balance, although in the second half the effects of the US sub-prime crisis increasingly made themselves felt. Global GDP increased by about 5% according to the Institut für Weltwirtschaft (Kiel Institute for the World Economy) (IfW), with the increase around 2.6% in Euroland. In the United States, the economy lost momentum more noticeably. Although it remained comparatively robust with growth of 2.2%, in the second half of the year the pressure on the financial markets and dwindling consumer confidence perceptibly dampened the mood.

Industry-specific development

In the recording industry, the long-term downturn actually picked up speed in 2007. According to data published by the Bundesverband Musikindustrie (German Music Industry Association) (BVMI) sales in Germany dipped 3.2% following a minus of 2.4% the previous year. In total, music amounting to a value of €1.65 billion was sold in financial 2007 – via CDs, music videos, downloads and cell phone features. This figure does not include income from other parts of the music value-added chain such as licenses, merchandising and advertising revenues, artist management and concert and ticket revenues, which in part increased significantly.

As regards music sales, increases, albeit on a low level, were seen exclusively in the online segment. In 2007, this segment reported a plus of almost 40% to over 35 million downloads; the share in the entire market edging up one point to 4%. Including sales via cell phones, the figure reached 6%. The strongest segment in the German music market in terms of sales remained the

CD, with a share of 81%. Here, sales were more or less unchanged on the previous year at around 149 million albums. Above all, German music once again enjoyed increasing popularity. With five entries, national productions dominated the top ten of the 2007 album charts. In total, the share of German music productions in the charts increased to around 40%.

The number of illegal downloads slightly decreased in 2007, which according to the BVMI can be attributed above all to immense pressure to enforce the laws. For the first time, more people worldwide used legal sites for music downloads than illegal file sharing networks. As a trading platform, too, the Internet continues to enjoy increasing popularity: Sales via digital media already counted for almost a quarter of all sales from music products. As regards the traditional channels, electrical retailers continued to dominate, contributing a share of almost 30% of sales.

In 2007, the music market came under the sign of long-term restructuring: In order to lessen dependence on the classic recording business, companies in the industry are working at full speed to expand and develop new sources of revenue, such as artist and concert management, licensing, merchandising and other services. In Germany alone, according to a study by the GfK, in first-half 2007 about 22% of total consumer spending on entertainment was on live music events. If we include the non-music segment, almost every third euro spent on entertainment goes to the events industry. Thus sales in the live music segment exceed those in the recorded music market by far.

Business conditions and organizational structure of the group

313 Music JWP AG, which traded under the name Jack White Productions AG until the beginning of September 2007, produces and releases music recordings with a number of artists, purchases recordings by other producers and exploits the rights. Alongside music productions, we are also involved in the area of artist management via our subsidiary 313 Music GmbH, in which we own a 51% stake. In this way, we not only participate in recorded music sales, but in an artist’s total revenue. In addition, through our 45% share in Manfred Hertlein Veranstaltungs-GmbH, we are committed to the events management segment. We also intend to continue advancing the publishing segment, which bundles the intellectual property of composers and songwriters. To this end, we are constantly establishing new copyrights, which our subsidiary Transcontinent Musikverlag OHG exploits. 313 Music JWP AG is headquartered in Unterföhring, near Munich.

One of the company’s foreign subsidiaries is VI Music Holding Inc., Puerto Rico, in which 313 Music JWP AG holds 50% plus one share. It acts as a holding company controlling our 50% stake in VI Music LLC, also headquartered in Puerto Rico. The object of the latter’s business is to produce and release music, especially in America. The remaining shares in VI Music LLC are owned by the Universal Music Group, which also handles global distribution of the company's VI Music label. The remaining shares in HoT JWP Music Inc., Miami, in which 313 Music JWP AG still held 48.3% in the report year, were sold retroactively as of December 31, 2007.

In addition, 313 Music JWP AG owns 100% of the shares in both ALDACO entertainment GmbH and White Records GmbH, both in Unterföhring. The companies merged on January 1, 2008 to form Seven Days Music GmbH, Unterföhring.

Distribution partners

313 Music JWP AG does not distribute productions by its labels itself, but relies on high-quality external partners. In terms of physical recordings, Sony BMG, one of the global market leaders, is responsible for most of the distribution in German, Austria and Switzerland. In terms of productions on the 313 Music label, we additionally use existing agreements with other distribution partners.

In the fast growing online sales segment, we have since July 2007 been cooperating with Zebralution GmbH, one of the world's leading specialists for digital distribution. The company guarantees prime availability and positioning of the titles with all important digital dealers. Zebralution's distribution partners include AOL, Apple iTunes, Jamba, MusicNet, Napster, T-Online, Universal Music Online, VirginMega and many others.

Strategy

313 Music JWP AG's primary strategic goal is to strengthen the company's existing business segments and develop new business areas in order to achieve more stable earnings in the long term. This stems from the realization that the existing business segment alone no longer has sufficient future potential and we therefore find ourselves forced to develop new business segments. In the traditional field of music productions, this includes above all signing more artists and young talented musicians, broadening our repertoire, e.g., with audio-play productions, and collaborating more strongly with established labels and producers. Alongside the physical distribution of records, we see great opportunities in the increasing use of online trade. We will also continue to advance the publishing business, i.e., the exploitation of music rights.

In developing additional market segments, 313 Music JWP AG is focusing above all on the fields of artist and event management. In this way, we will in the long term lock into larger sections of the value-added chain in the music industry and ensure the survival of our group of companies for the future.

Management system and company management

On the basis of the company strategy, the 313 Music JWP AG Management Board defines suitable measures for its implementation. Its success is measured using various data. These include sales, EBIT, cash flow and net income. Compliance with these data is controlled on a continual basis.

The Management Board consists of two members. The Chairman is Thomas M. Stein, who headed the company as sole Management Board member from the end of January 2007, when Jack White retired, until September 13, 2007. On that day, Volker Neumüller was appointed the second member of the 313 Music JWP AG Management Board.

The Management Board's work is constantly supervised by the Supervisory Board. At year-end 2007, the latter was made up of Manfred Atzert as Chairman, Deputy Chairmen Stefan Grau and Holm Tippner, who resigned his post as at year-end 2007. Karl-Heinz Klempnow was appointed in his place with effect from January 1, 2008. Mr. Atzert resigned his post as chairman on March 28, 2008 for health reasons. The courts appointed Mr. Uhlemann as his successor. Mr. Grau retired on the 31st of May 2008. The court appointed Dr. Griebe as his successor.

The group financial statement for 2007 of the company was prepared in accordance with the requirements of the International Financial Reporting Standard (IFRS), the data until 2003 according to the US General Accepted Accounting Principles (US-GAAP). When preparing the annual financial statements of 313 Music JWP AG, we have applied the accounting standards set by the German Commercial Code (HGB).

Business trends 2007 – An overview

In 2007, 313 Music JWP AG initiated extensive restructuring to broaden its business base and stabilize earnings. The primary goal was to develop new business segments. As the corresponding measures were only implemented in the course of the year, they did not generate significant income in the period covered in this report. Altogether, sales dropped on the prior year from €11.7 million to €5.2 million; a loss before interest and taxes was posted of € 5.3 million as compared with a loss of € 2.2 million in business 2006.

Although we were able to significantly reduce the net loss for the year, we are not satisfied with the development. The net loss dropped from €8.1 million to €7.3 million owing. The performance can be linked to the strong reduction in sales resulting from the dissolution of a business relationship and associated increased refunds. For the first time provisions for refunds of €0.4 million had been generated. A capital increase injected the company with new capital, the most part of which was used for new acquisitions and to increase our holdings in portfolio companies. Sale of usufruct in 2007 generated one-time earnings which, as revenue from portfolio companies, contributed € 2 million to company earnings.

Key occurrences 2007

Majority takeover of 313 Music GmbH

In July 2007, 313 Music JWP AG acquired 51% of 313 Music GmbH, which specializes in managing artists and has its own label. During the course of the year, we integrated the business segments of this Berlin-based company, thus expanding our existing range of business activities, and adapted the organizational structures accordingly. Among other things, the company has taken over management of the finalists in the RTL casting show “Deutschland sucht den Superstar”. Mark Medlock, the winner of the 2007 series, is also managed by 313 Music GmbH. Furthermore, our artist portfolio includes ex-Spice Girl Melanie C, the artist Ben, producer and composer Lukas Hilbert, artist and founder of “5 Sterne Deluxe” “Das BO”, and Kate Hall.

Cooperation with Zebralution GmbH

In early July, 313 Music JWP AG signed a contract with Zebralution GmbH, one of the world’s leading music industry specialists in online distribution. The agreement covers digitalization, electronic editing plus online retailing of all recordings in our back catalog as well as new productions. This distribution channel, which runs parallel to the traditional sale of CDs, is becoming increasingly important in the music industry as well as for our company.

Expansion of market position in event management

We increased our stake in Manfred Hertlein Veranstaltungs GmbH, Würzburg, from 20% to 45% in late December. In this way, we are strengthening our position in the event management business segment, which reported strong overall growth in 2007. The concert organizer, tour producer and music manager established itself above all with events and shows such as Max Raabe, Monty Roberts (“The horse whisperer”) and NIGHT of the JUMPs (Freestyle motocross artists). In addition, the company, which organizes roughly 400 tour dates and over 100 local concerts per year, is market leader in the “German Schlager” and folk music segment, with artists including Andrea Berg, Brunner & Brunner and “Andy Borg präsentiert den Musikantenstadl Unterwegs”.

Special audit in the USA

During 2007, the special audits in the USA which we initiated were concluded. An independent auditing firm investigated the irregularities which appeared there, especially the annual financial statements for the years 2004 and 2005 of HoT JWP Music Inc. in Miami and the consequences this had for 313 Music JWP AG and the consolidated annual financial statements. In addition, a legal expert clarified whether claims for damages should be brought against former Board members.

The final audit reports were made available to us in early November 2007 and confirmed severe errors in the above-mentioned annual financial statements of HoT JWP Music Inc. The mandatory write-down of the value of the stake in HoT as should have been entered in the parent company’s annual financial statements was not undertaken in the past, and only charged in the 2006 consolidated annual financial statements. Consequently, the AG and the consolidated annual financial statements for the years 2004 and 2005 also contain errors. In addition, the legal expert confirmed that the former Management Board had committed multiple breaches of its duties. This has led to claims for damages being brought against these members and against the management of the US subsidiary.

Earnings, financial and assets situation

Group Ratios	2007	2006
Turnover	5,168 TEuro	11,646 TEuro
EBITDA	-4,422 TEuro	-1,567 TEuro
EBIT(operating result)	-5,268 TEuro	-2,215 TEuro
Net loss for the year	-7,262 TEuro	-8,081 TEuro
Cash flow after DVFA/SG	-6,522 TEuro	-7,484 TEuro
Investments	604 TEuro	3,420 TEuro
Employees (as per 31.12.)	19	22

Group sales

The group turnover of 313 Music JWP AG in the business year 2007 amounted to 5.2 million Euro following 11.7 million Euro in the previous year. A significantly weaker media business was primarily responsible for the 56 % downturn. With VI Music LLC in Puerto Rico, the business volume shrank from 4.0 million Euro to 2.3 million Euro, the parent company, 313 Music JWP AG, achieved a turnover of about 2.6 million Euro following 6,1 million Euro in the previous year.

In addition, the changes in the consolidation group were noticed in the annual financial statement. In the previous year, the American subsidiary, HoT JWP Music Inc., which was no longer included in 2007, was included with a turnover of about 1.3 million Euro. 313 Music GmbH, with whom we expanded our range of activities in 2007 by the new business segment artist management, is being consolidated since 1 August 2007 and has since contributed a turnover of 473 TEuro. With the companies Aldaco entertainment GmbH and White Records GmbH, which are included for the first time as per 1 July 2007, no earnings are reported in the reporting period.

Chart: **Group turnover development**

in million Euro	2003 US-GAAP	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
Group Turnover	24.2	27.9	23.3	11.7	5.2

The most important releases in the 2007 business year included the productions of Mark Medlock. His debut album "Mr. Lonely" ranked at number 1 in the German charts, as did the singles "Now Or Never" and "You can get it". These publications went platinum without exception. The album "Dreamcatcher" also rose to place 1 of the charts and exceeded gold status. The successful producer, Dieter Bohlen, who signed a consultant agreement with 313 Music JWP AG in November 2007, was involved in the publications. In addition, the artist with his titles reached top rankings with the Internet music stores and the ringtone portals and published his first book in 2007, which was listed on the "Spiegel" bestseller list.

Above all the exclusive contract with Alex Christensen, which we concluded in November, was important for the further development of the company. With the number-1 hit "Du hast den schönsten Arsch der Welt" by his project Alex C. feat. Y-ass, the producer and artist conquered the sales charts immediately after signing. The successor song "Doktorspiele" also reached high ranks. As a producer, Alex Christensen, for example is behind Kate & Ben and the band Rednex, which we contracted with in 2008.

Hansi Hinterseer released two CDs in 2007, namely, the dialect album “Volksmusik der Berge” and the CD “Von Herz zu Herz”. Moreover, we released our first audio play in the report year, namely the “GIBLINGE-Projekt”, now a four-part series of audio plays and children’s books, with Roland Kaiser as the main author and narrator. The series was presented in late March at the Leipzig Book Fair.

Kate & Ben with their single "Bedingungslos", as well as the German hip hop band Die Firma with the song "Glücksprinzip“ and their album "Goldene Zeiten" were also able to reach the sales charts in 2007. The new album "Moving On" by ELLI we published via the label Hitch-Records of the successful US producers Gary Baker and Anthony Little – accompanied by numerous promotion activities.

Our young artists also booked initial successes in the report year. Thus the four-member punk rock band JENSON from Munich even entered the top 100 in the German charts with their first song “Wir werden”. Alexa Phazer also recently signed with us, who presented the single “Ich heirate mich selbst” in late July, as well as Lisa Bund, one of the finalist of DSDS. We released her first album “Born Again” in 2007.

Earnings development

The annual group deficit of 313 Music JWP AG was reduced from 8.1 million Euro to 7.2 million Euro compared to last year. Relative to the number of shared in circulation during the year on average, namely 7,088,889 (previous year 7 million), this yields earnings in 2007 of -1.02 (previous year -1.15) Euro per share.

Due to the reduced turnover in the year reported, the gross result of the group was reduced from 7.3 million Euro to 2.4 million Euro. The production costs, which were reduced from 4.4 million Euro to about 2.8 million Euro, included in particular expenditures for music production, license fees and depreciation of music exploitation rights.
The operating result, which corresponds to the EBIT (earnings before interest and taxes), was about -5.3 million Euro following -2,2 million Euro in the previous year. The sales cost was reduced from 5.7 million Euro to 4.1 million Euro, and the general and administrative costs from 3.7 million Euro to about 3.5 million Euro. They primarily relate to consulting and financial statement fees as well as wages and salaries. The personnel costs in the group were reduced by 692 TEuro to 1.4 million Euro. The value of 2.1 million Euro for the previous year included high bonus and severance payments to former members of the managing board of the company.

Adjusted by the depreciation, which increased from 648 TEuro to 740 TEuro, there is an EBITDA (earnings before interest, taxes and depreciation) of -4.4 million Euro following -1.6 million Euro in 2006. The depreciation of financial assets were reduced significantly: from 3.6 million Euro to 1.5 million Euro. In the previous year, high devaluations with the American subsidiary HoT JWP Music Inc. were included here. In the reported year, a claim of VI Music LLC against Vidal Investment is taken out of the books as a precaution because the recoverability of the claim appears in doubt. Furthermore, other expenditures in the amount of 4.2 million Euro were reported in 2006, which primarily involved value impairments of receivable of 313 Music JWP AG against HoT JWP Music Inc.

Result development in the group

In million Euro	2003 US-GAAP	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
EBIT	3.09	4.34	4.90	-2.22	-5.27
Annual surplus/deficit	1.54	2.32	3.26	-8.08	-7.26

The HGB financial statement of **313 Music JWP AG** reports a deficit of 4.8 million Euro following 7.9 million Euro in the previous year.

Business development by segments:

Data in T€	Labels 31.12.2007	Labels 31.12.2006	Publishing 31.12.2007	Publishing 31.12.2006	Group 31.12.2007	Group 31.12.2006
Segment revenues	5,668	12,103	1,911	398	7,579	12,501
of this intra-group	0	0	0	40	0	40
of this Europe	3,336	6,685	1,911	398	5,247	7,083
of this USA/Puerto Rico	2,332	5,418	0	0	2,332	5,418
Segment results	-5,482	-5,546	1,304	101	-4,178	-5,446
Result of associated companies	0	-1,002	0	0	0	-1,002
Interest result					6	129
Other financial result					-1,444	-3,532
Other non-segmented group-expenditures and/or revenues					119	-456
Result before taxes					-5,497	-10,307
Income tax					-1,765	2,226
					-7,262	-8,081
Regular depreciation	685	592	41	56	726	648
Value impairment expenses	-2,253	-8,372	-154	0	-2,408	-8,372
of this included in segment result	-785	-3,818	-154	0	-940	-3,818
of this included in result of associated companies	0	-1,002	0	0	0	-1,002
of this included in other financial result	-1,468	-3,552	0	0	-1,468	-3,552
Segment investments	604	3,420	0	0	604	3,420
of this Europe	604	3,399	0	0	604	3,399
of this USA/Puerto Rico	0	21	0	0	0	21
Segment assets	24,380	25,339	487	1,467	24,867	26,806
of this Europe	14,257	13,112	487	1,467	14,744	14,579
of this USA/Puerto Rico	10,123	12,227	0	0	10,123	12,227
Shares in associated companies	960	0	0	0	960	0
Non-segmented group assets					2,168	4,829
Group assets					27,995	31,635
Segment debts	3,816	3,672	62	19	3,878	3,691
Non-segmented group debts					3,667	3,210
Group debts					7,545	6,901
Number of employees	19	20	0	2	19	22
of this Europe	12	13	0	2	12	15
of this USA/Puerto Rico	7	7	0	0	7	7

The business activities of 313 Music JWP AG is subdivided into two segments according to the operative areas: Under Labels, the music production and marketing of the license rights are grouped; the publishing segments includes the acquisition and marketing of copyrights. The secondary segmentation is by the regions Europe and USA/Puerto Rico.

In the business year, the Labels segment reported a total turnover of 5.0 million Euro following 11.3 million Euro in the previous year. Of this, 2.0 (previous year 5,2) million Euro were earnings in the USA and/or Puerto Rico. The annual deficit improved from -8.1 million Euro to -7.3 million Euro. Outside Europe, -1.515 (previous year -308) TEuro of this were achieved.

In the Publishing segment, the sales revenues exclusively generated in the German language region were reduced from 392 TEuro to 212 TEuro. The sale of the exploitation rights of the music catalog of Transcontinent Musikverlag OHG resulted in 2007 in a positive result contribution of 1.6 million Euro, so that the segment result improved from 67 TEuro in the previous year to about 1.3 million Euro.

Flow of funds statement

Group flow of funds statement Abbreviated in TEuro	1.1.-31.12.2007	1.1.-31.12.2006
Funds outflow from ongoing business activities	-1,641	-541
Funds inflow from investment activities	633	-235
Funds inflow from financing activities	1,313	815
Change in the funds fund affecting payments	305	39
Funds fund at the beginning of the period	1,158	1,123
Funds fund at the end of the period	1,568	1,158

The cash flow according to DVFA/SG for the business year 2007 is T€ -6,522 (previous year: T€ -7,484). The funds outflow from ongoing business activities is T€ 1,641 (previous year: T€ 541). The payments of income tax and interest are included in the funds outflow from ongoing business activities. In the reporting period, income tax refunds of T€ 192 were added (previous year: income tax payments of T€ 8). The interest payments for the period amount to T€ 26 (previous year: T€ 98). The income from interest was reduced from T€ 227 in the previous year to T€ 32 in 2007.

The investment activities resulted in a total inflow of funds in the amount of T€ 633 (previous year: funds outflow of T€ 235). This is due to receipts from the sale of the music catalog of Transcontinent Musikverlag OHG (T€ 2,325).

The funds inflow from financing activities is T€ 1,313 (previous year: T€ 815) and primarily results from the capital increase of December 2007.

The funds consist of cash on hand and deposits with banks, and corresponds to the balance-sheet item Liquid funds.

Investments

In the business year 2007, 313 Music JWP AG invested a total of 0.6 million Euro after 3.4 million Euro in the previous year. The intangible assets increased by 1.6 million Euro to 17.8 million Euro, which is almost exclusively due to the acquisition of catalogs and music rights. The financial investments in the amount of 0,6 million Euro primarily resulted from the expansion of the interest in Manfred Hertlein Veranstaltungs GmbH.

The depreciation in the group slightly increased from 648 TEuro to 740 TEuro.

Chart: Investments in the group

In million Euro	2003 US-GAAP	2004 IFRS	2005 IFRS	2006 IFRS	2007 IFRS
Investments	1.4	1.1	0.8	3.4	0.6

The investments of the parent company, 313 Music JWP AG, in 2007 amounted to a total of 2,179 TEuro. Of this, about 41 TEuro were fixed and 2,138 TEuro financial assets. The depreciation within the AG amounted to a total of 1,410 TEuro.

Balance Sheet structure

The balance sheet total of 313 Music JWP AG as per the end of 2007 slightly dropped at 28.0 (previous year 31.6) million Euro in sum. The main asset-side developments were a drop in accounts receivable from €3.8 million to €1.2 million and of marketable securities from €794 thousand to €150 thousand. However, this contrasted with a climb in receivables from affiliated companies from €1.2 million to €1.6 million. In sum, the short-term assets were reduced from 11.7 million Euro to 7.7 million Euro comparing the reporting dates.

Among the long-term assets, which in sum slightly increased from 20.0 million Euro to 20.3 million Euro, above all the intangible assets increased: Due to the increased inventory of music rights, they increased by about 1.6 million Euro to 17.8 (previous year 16,2) million Euro. The shares in Manfred Hertlein Veranstaltungs GmbH, which we increased from 20 % to 45 % in the reported year, were reported as investment in associated companies in the amount of 960 TEuro. In the previous year, this item reported investments in the amount of 460 TEuro.

On the liabilities side, the short-term liabilities were reduced from 5.3 million Euro to about 5.1 million Euro, whereas the long-term ones increased from 1.6 million to 2.4 million Euro. In sum, the liabilities therefore increased by about 644 TEuro to 7.5 million Euro. An almost complete disposal of the short-term loans (previous year 815 TEuro) compares to a growth of about 524 TEuro with the long-term loans.

Due to the successfully placed first tranche of the capital increase as per the end of 2007, the subscribed capital as per the reporting date increased from 7.0 million Euro auf 8.6 million Euro and the capital reserve by TEuro 241. This only partly compensated the current losses, so that the equity capital in the group as per 31 December 2007, at 20.5 million Euro, was below that of previous year 24.7 million Euro. The equity capital ratio decreased to 73.0 %.

Asset and capital structure (in TEuro)	31.12.2007	%	31.12.2006	%
Short-term assets	7,733	28	11,676	37
Long-term assets	20,262	72	19,959	63
Sum of assets	**27,995**	**100**	**31,635**	**100**
Short-term liabilities	5,103	18	5,315	17
Long-term liabilities	2,442	9	1,586	5
Equity capital	20,450	73	24,734	78
Sum of liabilities	**27,995**	**100**	**31,635**	**100**

In the balance sheet of the parent company 313 Music JWP AG, which slightly decreased from 18.1 million Euro to 17.8 million Euro, the assets slightly increased from 11.1 million Euro to 11.2 million Euro, whereas the current assets decreased from 7.0 million Euro to 6.6 million Euro. The liquid funds increased form 0.9 million Euro to about 1.2 million Euro.

Social report

At year-end 2007, the group had nineteen employees, down from 22 at year-end 2006. Of these, as in the previous year, 7 persons worked in Puerto Rico/USA. At home, we primarily strengthened ourselves in the areas of TV and radio promotion and in the area of finances and accounting. A total of 9 people were employed by the parent company, 313 Music JWP AG on 31 December 2007.

Employees have no pension entitlements and there is no employee participation committee.

Supplementary report

We successfully placed the second tranche of the capital increase finalized in November 2007 in its entirety in mid-January 2008. Private investors and strategic investors subscribed to the remaining 483,333 shares as part of a private placing at a fixed subscription price. Altogether, 313 Music JWP AG thus issued 2,083,333 new shares at a subscription price of €1.20 per share as part of the corporate action, which thus sparked a total inflow of funds of €2.5 million.

Since that time, the rest of the shares in our erstwhile US subsidiary HoT JWP Music Inc., Miami, amounting to 48.3%, have been sold retroactively as of January 1, 2008. The shares in ALDACO entertainment GmbH and White Records GmbH, in which we each hold 100%, were merged with effect from January 1, 2008 into Seven Days Music GmbH, Unterföhring.

In early April 2008, the Supervisory Board of 313 Music JWP AG filed claims for damages against Jack White and Frank Nußbaum. Following completion of the special audits of the HoT JWP Music Inc., Miami, subsidiary, the former members of the Management Board were requested in writing to compensate the company for the damages incurred, provisionally calculated at €1.9 million.
This sum encompasses only the audit and consulting costs as well as loans guaranteed impermissibly. Should the former Board members in question refuse to pay compensation, we intend to take legal action. The damages which have presumably arisen in the United States are not included in this sum and will be identified separately in the course of litigation there.

The chairman of the Management Board, Mr. Thomas M. Stein, will not extend his contract which ends on the 31st of August 2008. He will still be part of the company as a consultant.

Risk report

Risk policy

313 Music JWP AG's business model and business activities are by nature exposed to risks, which, despite the utmost care, we can never fully eliminate. The central task of the company-wide risk policy is to identify risks early on, control and reduce them. To this end, we adhere to the basic principle of using the opportunities available to us and only taking risks when we can expect an appropriate contribution to the company value. Their constant involvement with risks and the obligation to write regular reports raises our employees' risk awareness at all levels of management.

Risk management system

Following the restructuring of the Management Board, as of the end of financial 2007 313 Music JWP AG has once again had a risk management system in place that is based on an internal supervisory system, a group-wide controlling system, regular contact with subsidiaries and affiliated companies, and monitoring a number of different early warning indicators. With the help of key figures and indicators, possible risks are identified, documented, evaluated and managed in terms of level of damage and probability of occurrence.

An essential component of the system is a uniform group corporate planning system, updated monthly. The sales and expenditure of all projects are monitored and evaluated in this system. The monthly reports or notices when certain risk thresholds are reached ensure that we identify risks at an early stage, communicate them immediately to the decision-makers responsible and swiftly introduce countermeasures.

At VI Music Holding Inc. in Puerto Rico we have introduced a quarterly board meeting as part of the controlling system for affiliated companies. At the meetings, reports are given on the current course of business. In addition, an authorized representative of 313 Music JWP AG in the USA is in constant contact with the company and acts as an inspector. He immediately informs the Management Board of deviations and clarifies them on site. The 313 Music JWP AG Management Board is always involved in significant decisions at the other affiliated companies too.

In 2007, we focused on observing the following risk categories, which could and unfortunately did impact on our business performance, not to mention on our assets, financial and earnings position:

Macroeconomic risks

As an internationally active company, 313 Music JWP AG is exposed to general global economic conditions, especially an economic slowdown in Germany, Austria, and Switzerland, the USA and Puerto Rico, the regions of most importance to us. We define risks resulting from these conditions by way of detailed market tracking and try to transfer each of the factors identified onto our future forecasts. In the course of minimizing risks, we have thus since shed our stake in HOT JWP Music Inc.

General drop in sales figures in the recorded music segment

The industry environment in which the company trades also entails specific risks. Above all both falling sales and margins in the CD segment have been weakening the music industry for years. To counter this development, 313 Music JWP AG has purchased stakes in companies, realigned operations, and developed new sources of revenue. In expanding our range of business activities, especially to include artist and event management, we seek to participate in all the artists' different income channels and thus to increasingly separate the sales from recorded music sales.

llegal downloads

Illegal music downloads are a general risk the industry faces. We are of the opinion that we can only address this phenomenon in the long term by offering legal downloads at a price level which, compared to the threat of punishment, deter illegal activities. With our online distribution partner Zebralution, 313 Music JWP AG is on the right track in this regard, as this company has adjusted to the market conditions. Infringement of copyright is severely punished by the entire music industry in the form of legal action. Between 2003 and 2007, the number of illegal downloads plummeted from 602 million to 312 million.

A quarter of all music products are purchased via the Internet. 313 Music JWP AG has recognized this trend and in late 2007 it completed digitalization of all its titles. In this area we thus have a good market position.

Seasonal fluctuations

Seasonal fluctuations are innate in the music business. There is a high at year-end, while the beginning of the year is influenced by refunds. In addition, factors such as major soccer events lead to changes in consumer behavior. In order to pre-empt such trends, we produce and release titles related to these events and in plenty of time.

Loss of artists

We counter the risk to sales from loss of artists by expanding our repertoire. In this way, we reduce our dependence on individual artists who have a considerable share of the royalties and can better absorb the loss of individual acts.

Returns

In terms of the returnsquota, the company is bound to the agreements of our distribution partner Sony BMG. With contracts which are made directly with companies from the NTO (non-traditional outlet) segment, we strive for the returns rights customary in the industry or limited to a certain percentage. In the run-up to releases, we consult with the distribution partner in order to forecast more precisely the release date and sales volume to avoid increased refunds. In addition, we are in constant contact with our partners in order to sell returned goods to other consumers as quickly as possible. As such, our good contacts in the NTO segment are a great benefit. We have no influence over other factors such as discontinuation of business relations.

Risks concerning the subsidiary in the United States

The special audits which began in 2006 of the US subsidiary HoT JWP Music Inc. highlighted the fact that the affiliated company in Miami was making a loss that also impacted considerably on the Group’s performance. The audits were completed in 2007. From today’s point of view, we can assume that the risks were taken into account accordingly in the annual financial statements. We are assessing whether to pursue claims for damages. In April 2008, we filed the first claims for damages against former members of the Management Board. The minority stake we still held in HoT JWP was sold retroactively as of January 1, 2008, to considerably reduce risk exposure through the U.S. business.

Staff fluctuation

At our company, we deem the risks from the departure of staff members in key positions to be low. Following a complete staff reorientation in business 2007, we have seen no further fluctuations. Every employee works beyond his core area of expertise in other sections as well, so that any possible loss of staff can be compensated.

Exchange-rate risks

At 313 Music JWP AG, we also consider the risk of exchange-rate changes to be low and are currently not taking measures to hedge against them.

Legal risks

We work with qualified external consultants to reduce legal risks. By taking out suitable insurances, we minimize the financial consequences of any possible cases involving liability or damages claims. For the members of organs of 313 Music JWP AG, a Directors & Officers Liability Insurance (D&O insurance) was taken out.

The company is faced with threats of litigation under investor protection laws from various attorneys amounting to a total of €3,948 thousand. Legal action has been threatened owing to possible breach of management duties by former company Board members. No provisions were made. In terms of the law, the company is liable for the transgressions of its Board members; however, the company is not expecting to have to pay financial damages.

Overall risk

The managing boarde has taken all opprtunities and caused that the probable development and risks of the furute development of the company be described as plausibly as possible, and prepared the annual financial stetement as per 31.12.2007 under the going-concern premis.

According to the existing financial plans for the going-concern premis and the assumed plausible planning methods, the risks the company faces can be master from the present perspective of the managing board, and do not endanger the continued existence of the company. However, this only applies if the reorganization carried out ba the company is not significantly affected by external factors, and if the revenues assumed in the finance plans are actually realized. Insofar, there are considerable uncertainties, which are the sole result of the business model, with respect to the forecast of future revenues.

The company’s liquidity is currently secured; however, we cannot exclude the possibility that, as part of the restructuring, liquidity will have to be injected by means of a further capital increase.

Outlook

Global economy

In 2008, the dynamism of the global economy is expected to cool. There is great uncertainty regarding how the turbulence on the international financial markets will actually affect companies and consumers. According to the IMF, growth rates will fall above all in industrial nations, while the impact in developing and emerging countries should be constrained. For example, the IMF forecasts an increase in GDP of 1.5% for the USA and Eurozone should see a plus of around 1.6%. In Germany, the Federal Government is currently predicting growth of about 1.2%.

Industry trends

In the music industry, experts are expecting sales of recorded music on physical sound storage media to continue to decrease. According to a study by the GfK, sales in the music market will fall on average 5% per year until 2010. And according to projections by BVMI 2008, only legal downloads can post growth once more. However, they will not yet offset the losses in CD sales, the industry segment with by far the most sales. The market research company Jupiter estimates that digital music sales will not offset the decline of the recorded music business in Europe until 2010. In the music event market, we expect the level attained to stabilize in the next three years and its share of the overall market will therefore increase further.

All companies from the music industry will continue to work on developing new sources of revenue in order to reduce dependence on recorded music sales. These include royalties, artist management, concert and ticket sales and income from merchandising and advertising. In 2008, some are forecasting significant growth rates in these areas. Individual market segments such as German-language music are also enjoying great popularity. Above all the “German Schlager” and folk music segments have a seemingly bright future and increases in recorded music sales, the download segment and visitor numbers at events are expected.

Projected development

In 2008, 313 Music JWP AG will consistently proceed down the path taken and attempt to profit from the future-oriented investments which were lined up. By expanding our fields of activity and with optimized cost structures, we anticipate that we will be able to improve our profitability. All in all, we expect improved sales and better profits in the current year.

Our primary strategic goal is to exploit ever larger parts of the marketing chain in the music industry and thus achieve greater independence from simple sales of music recordings. In the long term, we will achieve greater income and budgeting accuracy in this way. Above all, we will consistently grow the new business fields of artist and event management plus the publishing segment. Moreover, we will rely to a greater extent on the fast-growing online distribution, to stay abreast of the changes in the industry. Unlike other companies, we have started with this realignment at an early stage and thus hope to gain a competitive advantage.

We are likewise expanding our base in the area of music production. To this end, we are signing additional artists and young talented musicians, extending our repertoire, e.g., to include audio play productions, and intensifying our collaboration with established labels and producers.

In the first few months of 2008, we were already able to post some successes in the Group's operative business. Firstly, the hit “Du hast den schönsten Arsch der Welt” by Alex C. feat. Y-ass held its position in the German singles chart for several weeks and went gold in January. The follow-up hit “Doktorspiele” from artist Alex Christensen's project also immediately took the sales charts by storm. The theme tune for the cult series “Shaun das Schaf” sung by the multiple prizewinning comedian Ralf Schmitz, was also very successful in terms of sales figures. 313 Music JWP AG marketed the single in cooperation with the WDR radio station.

In early February, superstar Mark Medlock received the ECHO, which is considered one of the world's most important music awards. It honors the most successful national and international stars of the previous year. Mark Medlock won in the category “Most successful national newcomer”.
In May 2008 Mark Medlock also won the coveted VIVA COMET Music Award as “Best Newcomer”. The single “Summer Love” from the current album “Cloud Dancer” instantly hit number one in the German charts and achieved gold status in Germany.

The group Rednex, who became known through their international hit “Cotton Eye Joe” which topped the charts in twelve countries, in June climbed to number one in their native country Sweden with the single “Football is Our Religion”, released on the occasion of Euro 2008.
Altogether, Rednex has had 41 records go gold and six no. 1 hits in Germany alone. The global contract between 313 Music GmbH and Rednex was concluded in cooperation with the successful producer Alex Christensen's King Size Records GmbH and also guarantees us a share in the band's live takings.

We also signed the current winner of “Deutschland sucht den Superstar” Thomas Godoj and the second placed Fady Maloouf. Thomas Godoj's single “Love Is You” has already achieved gold status. The Album “Plan A!” as well as Fady's single “Blessed” were released last week.

Hansi Hinterseer, for years one of the bestsellers in the company’s portfolio of artists, achieved gold status in Austria with his current album “Ein kleines Edelweiß“. The new CD contains 14 folk songs with characteristic dialect melodies from the artist’s Tyrolean homeland. Hansi Hinterseer’s new “German Schlager” album “Für Immer” comes out on August 22, 2008.

In 2008, we are also planning new Group releases by artists Alex C., DAS BO, Mike Krüger as well as the newcomers Jenson and Bruno Ferrara.

At present, we do not planning to recruit any new staff.

Report on remuneration of the Management Board in line with section 314 para. 1 no. 6 of the German Commercial Code (HGB)

The report on remuneration of the Management Board shows the basic features and the structure of the remuneration of Management Board and Supervisory Board members. It forms part of the Group Management Report and is in line with the recommendations of the German Corporate Governance Code, with the exception of the disclosure of individual remuneration.

Remuneration of members of the Management Board

The amount and structure of remuneration of Management Board members are geared to the size of the company, its economic and financial situation and its success in a competitive environment. Furthermore, total income and individual components of remuneration are in line with the tasks of each member of the Management Board, their personal performance and the performance of Management Board as a whole.

Management emoluments contain fixed and variable components. The remuneration system for the Management Board consists of a fixed annual remuneration which is paid in equal monthly installments. There is no share option plan.

In business 2007, the remuneration of members of the Management Board was structured as follows:

Amount in TEUR	**Fix**	**Variabel**	**Langfristig**	**Gesamt**
Thomas M. Stein	304	0	0	**304**
Volker Neumüller (since September 13)	18	0	0	**18**
Horst Nußbaum (until January 31)	24	0	0	**24**
Total	**346**	**0**	**0**	**346**

The contracts of current Management Board members do not contain severance payment clauses.

Remuneration of the Supervisory Board

Alongside reimbursement of expenses, members of the Supervisory Board receive remuneration consisting of a fixed and a variable component. The fixed component is €3,000 p.a. If a dividend is agreed which is more than €0.20 per share, the variable remuneration component amounts to €1,000 per full €0.10 dividend over this amount. The Chairman receives double of each of these amounts.

Remuneration is payable on the day after the Annual General Meeting, at which a decision is made regarding the release of the members of the Supervisory Board.

Any member of the Supervisory Board who steps down during a business year will be remunerated on a pro rata basis.

In business 2007, the remuneration of members of the Supervisory Board was structured as follows:

Amount in EUR	**Fixed**	**Variable**	**Total**
Manfred Atzert	3,000.00	0	**3,000.00**
Stefan Grau	1,000.00	0	**1,000.00**
Holm Tippner	2,338.70	0	**2,338.70**
Hartmut Fromm	3,000.00	0	**3,000.00**
Marlis Weidtmann	500.00	0	**500.00**
Christoph Schmidt	661.30	0	**661.30**
Albert Czapski	1,500.00	0	**1,500.00**
Total	**12,000.00**	**0**	**12,000.00**

Information regarding section 315 para. 4 HGB

Composition of subscribed capital

On December 31, 2007, the company's capital stock of €8,600,000 was divided into 8,600,000 ordinary shares in the name of the holder. Thus the shares have a nominal value of €1 per share. There are no other share categories.

Limitations affecting voting rights and share transfers

The shares are not registered shares subject to transfer restrictions and can thus be transferred freely. Each share carries equal voting rights (one vote per share). The company does not know of any limitations concerning voting rights or share transfers resulting from agreements between shareholders.

Direct or indirect stakes in capital of over 10%

Effecten-Spiegel AG informed the company that on December 31, 2007, it held a total of 19.19% of the capital stock. The company does not know of any other shareholders who own a stake of over 10%.

Shareholders with special rights

There are no special rights linked to equity. The right granted in section 4.1.1 of the Articles of Incorporation to name a member of the Supervisory Board is linked to the fact that Jack White is a company shareholder.

Control of voting rights for staff shareholders

Where company staff simultaneously have a stake in the company's capital, they exercise their control rights like any other shareholder in accordance with the regulations of the law and Articles of Incorporation. There is no control of voting rights.

Guidelines on the appointment and dismissal of members of the Management Board

The members of the Management Board of the company are appointed and dismissed by the Supervisory Board in line with section 84 of the Companies Act (AktG). Section 84 para. 3 (AktG) also stipulates that during an appointed term of office, a member of the Management Board can only be dismissed with good reason. In line with section 4.2.8 of the Articles of Incorporation, the Supervisory Board decides who to appoint to and dismiss from the Management Board by means of a simple majority of votes cast (as with all other matters, unless the law does not stipulate another majority requirement). In accordance with section 5 of the current version of the Articles of

Incorporation, the Management Board consists of several people, where the Supervisory Board determines the precise number. The Supervisory Board appoints a chairman or spokesman for the Management Board. At the time of their appointment, members of the Board of Management should not be over 68 years of age.

Changes to the Articles of Incorporation are made in line with section 179 para. 2 AktG in connection with section 3.3.2 of the Articles of Incorporation by means of simple majority of votes cast and – in so far as it deviates from statutory requirements, which envisage a majority of 75% of capital represented – the simple majority of the capital stock represented when the resolution is taken, if the law does not stipulate otherwise. As the company shares grant proportional voting rights, the additional requirement of capital majority creates no further difficulties; changes to the Articles of Incorporation are made when the number of votes cast in favor surpasses the number of votes against the motion. In addition, the Supervisory Board has the right to change the Articles of Incorporation, as long as the changes only affect the form of the Articles of Incorporation (section 4.3.3 of the Articles of Incorporation).

Authority of the Management Board in relation to the issue and buyback of shares

Authorized capital in line with section 2.3 of the Articles of Incorporation has been set up. The Annual General Meeting authorized the Management Board to increase, with the approval of the Supervisory Board, the company's capital stock by up to €3,200,000 by July 4, 2009 by means of a single or multiple issues of a number of bearer shares as legally permitted in return for contributions in cash or in kind. Shareholders' subscription rights can be excluded for the reasons stated in the Articles of Incorporation. By means of this authorized capital, the company can respond flexibly to existing financing requirements outside the annual AGM cycle. The company made use of this option by making a capital increase in December 2007 and January 2008. Thus the Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by July 4, 2009 by up to €1,116,667, taking into consideration the second tranche of the capital increase made in early 2008.

Agreements in the case of a change of control

The company has made no agreements relating to a change of control following a takeover bid.

Responsibility statement

We confirm that to the best of our knowledge and in accordance with the applicable accounting principles, the annual financial statements present a true and fair picture of the financial status and profitability of the company and that the Status Report offers a true and fair review of the course of business, including the company’s performance and position, together with a description of the principle opportunities and risks associated with the expected development of the Group.

Unterföhring, 10 July 2008

Management Board

Thomas M. Stein   Volker Neumüller

Consolidated balance sheet December 31st, 2007
313 Music JWP AG
Unterföhring

Assets

	Explanatory Notes	31.12.2007 TEUR	31.12.2006 TEUR
Current Assets			
Liquid funds	5.1	1.568	1.158
Securities	5.2	150	794
Trade account receivables	5.3	1.206	3.794
Inventories	5.5	319	278
Other receivables	5.4	4.490	5.652
Total current receivables		**7.733**	**11.676**
Noncurrent assets			
Tangible assets	5.6	470	555
Intangible assets	5.7	17.819	16.190
Financial assets	5.8	960	460
Deferred taxes	5.9	1.013	2.754
Total noncurrent assets		**20.262**	**19.959**
Total assets		**27.995**	**31.635**

Passiva

	Explanatory Notes	31.12.2007 TEUR	31.12.2006 TEUR
Current Liabilities			
Trade accounts payable	5.11	1.047	492
Loans and current portion of noncurrent loans	5.10	4	815
Provisions	5.16	1.358	917
Liabilities due to affiliated persons	5.12	457	0
Other liabilities	5.13	1.895	3.090
Tax accruals	5.14	342	0
Total current liabilities		**5.103**	**5.314**
Noncurrent liabilities			
Loans	5.15	1.758	1.234
Deferred taxes	5.9	684	352
Total noncurrent liabilities		**2.442**	**1.586**
Total liabilities		**7.545**	**6.901**
Shareholders' equity			
Subscribed capital	5.18	8.600	7.000
Paid-in capital	5.18	3.139	16.159
Exchange-rate corrections	5.18	-226	-139
Retained profit / loss	5.18	2.984	-3.202
Equity capital attributable to Group shareholders		**14.497**	**19.818**
Minority interest	5.18	5.953	4.916
Total shareholders' equity		**20.450**	**24.734**
Total liabilities		**27.995**	**31.635**

313 Music JWP AG
Unterföhring

Consolidated Income Statement
from January 1st to December 31st, 2007

	Explanatory Notes	1.1.-31.12.2007 TEUR	1.1.-31.12.2006 TEUR
Consolidated sales	6.1	5.168	11.646
Cost of sales	6.2	-2.805	-4.379
Gross profits on sales		**2.363**	**7.267**
Selling costs	6.3	-4.149	-5.743
General and administrative costs	6.4	-3.482	-3.739
Operating profit / loss		**-5.268**	**-2.215**
Income from participations	6.8	0	-1.002
Interest income	6.9	32	227
Interest expense	6.9	-26	-98
Income from investments		24	20
Amortization of financial assets	6.6	-1.468	-3.552
Earnings / profit before interest and taxes		**-1.438**	**-4.405**
Exchange rate profit / loss		119	-457
Other income	6.10	2.411	815
Other operating expenses	6.11	-1.321	-4.045
Result after interest		**-5.497**	**-10.307**
Taxes on income	6.12	-1.765	2.226
Profit / loss before minority interests		**-7.262**	**-8.081**
(out of not to be continued activities)	7	(1.259)	0
Minority interests		52	0
Net profit / loss for the year		**-7.210**	**-8.081**

313 Music JWP AG
Unterföhring

Consolidated Cash Flow Statement

	01.01.- 31.12.2007 T€	01.01.- 31.12.2006 T€
Net loss / profit for the year	-7.210	-8.081
Profit attributable to minority interets	-52	0
Additions / disposals of fixed assets	740	597
Cash-Flow according to the DVFA/SG method	**-6.522**	**-7.484**
Results of the outflow of intangible assets	-1.599	0
Results of the disposal of fixed assets	-4	0
Changes in deferred taxes	2.074	-2.478
Foreign-currency losses	-199	11
Other expenses/earnings that are ineffective	216	-83
Payments from the sale of current assets securities	294	3.030
Increase / decrease in trade accounts receivable	2.588	6.979
Increase / decrease in inventories	-42	323
Increase / decrease in other assets	1.482	1.408
Increase / decrease in trade accounts payable	477	-1.377
Change in other liabilities	-406	-870
Cash for / from operating activities	**-1.641**	**-541**
Payments for investments in tangible assets	-42	-237
Payments for investments in intangible assets	-562	-856
Deposits from the sale of assets	34	0
Deposits from the sale of immaterial assets	2.325	0
Sale of shares	0	500
Payments for the purchase of shares in consolidated companies	-622	0
Payments for the purchase of shares in associated companies	-500	0
Payments from sale of financial assets	0	358
Cash for / from investing activities	**633**	**-235**
Deposits from capital increase	1.600	0
Deposits from loans	524	0
Payments from payback of loans	-811	815
Inflow / outflow of funds from financing	**1.313**	**815**
Effective change of the financial fund	**305**	**39**
Financial fund at the beginning of the period	1.158	1.123
Changes in the scope of consolidation	94	9
Change in the financial fund due to exchange rates	11	-13
Cash and cash equivalents at the end of the period	1.568	1.158

Consolidated Schedule of Changes in Fixed Assets
313 Music JWP AG
Unterföhring

Assets analysis 2007

	Purchase costs						Depreciation / amortization								Net book value	
	01.01.2007	Change in scope of consolidation	Additions	Disposals	Exchange-rate differences	31.12.2007	01.01.2007	Change in scope of consolidation	Additions	Disposals	Exchange-rate differences	Reclassifications	Exchange-rate differences	31.12.2007	Book value 31.12.2007	Book value 31.12.2006
I. Tangible Assets	985	7	42	238	-10	786	430	1	98	208	0	0	-5	316	470	555
1. Land and building	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2. Other plant, operating and														0		
office equipment	453	7	38	225	-5	268	268	1	47	198	0	0	-3	115	153	185
3. Improvements to third-party property	532	0	4	13	-5	518	162	0	51	10	0	0	-2	201	317	370
II. Intangible assets	19.329	2.514	562	1.056	-96	21.253	3.139	0	642	330	0		-16	3.434	17.819	16.190
1. Catalogs and music master rights	11.212	2.466	562	1.056	-96	13.088	3.131	0	624	330	0	0	-17	3.408	9.680	8.081
2. Goodwill	8.101	48	0	0	0	8.149	0	0	14	0	0	0	0	14	8.135	8.101
3. Software	16	0	0	0	0	16	8	0	4	0	0	0	0	12	4	8
4. Other intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	20.314	2.521	604	1.294	-106	22.039	3.569	1	740	538	0		-22	3.749	18.289	16.745

Assets analysis 2006

	Purchase costs						Depreciation / amortization								Net book value	
	01.01.2006	Change in scope of consolidation	Additions	Disposals	Exchange-rate differences	31.12.2006	01.01.2006	Change in scope of consolidation	Additions	Disposals	Exchange-rate differences	Reclassifications	Exchange-rate differences	31.12.2006	Book value 31.12.2006	Book value 31.12.2005
I. Sachanlagen	995	-220	237	0	-27	985	531	-217	148	8	0	0	-24	430	555	464
1. Land and building	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0
2. Other plant, operating and																
office equipment	544	-174	102	0	-19	453	270	-170	97	8	0	96	-17	268	185	274
3. Improvements to third-party property	451	-46	135	0	-8	532	261	-47	51	0	0	-96	-7	162	370	190
II. Immaterielle Vermögenswerte	18.703	-1.377	3.183	1.120	-60	19.329	3.018	-391	500	0	0	0	12	3.139	16.190	15.685
1. Catalogs and music master rights	9.452	-1.353	3.173	0	-60	11.212	2.989	-368	498	0	0		12	3.131	8.081	6.463
2. Goodwill	9.221	0	0	1.120	0	8.101	0		0	0	0		0	0	8.101	9.221
3. Software	30	-24	10	0	0	16	29	-23	2	0	0		0	8	8	1
4. Other intangible assets	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0
	19.698	-1.597	3.420	1.120	-87	20.314	3.549	-608	648	8	0	0	-12	3.569	16.745	16.149

Change in the group equity
313 Music JWP AG
Unterföhring

	Parent company					Minority shares			Group equity
	Paid-up equity		Generated group equity	Other group-result	Equity of the parent company			Equity of minorities	
	Subscribed Capital	Capital reserve	Balance sheet profit/loss	Equity difference from currency conversion		Minority capital	Equity difference from currency conversion		
As per 31 December 2005	**7.000**	**16.159**	**5.912**	**202**	**29.273**	**4.398**	**-17**	**4.381**	**33.654**
Change in the consolidated group					0	-407		-407	-407
Group results for the year			-8.081		-8.081	918		918	-7.163
Other group results				-341	-341		24	24	-317
Total group results	---	---	---	---	-8.422	---	---	942	-7.480
Currency adjustments			-651		-651			0	-651
Other changes			-382		-382			0	-382
As per 31 December 2006	**7.000**	**16.159**	**-3.202**	**-139**	**19.818**	**4.909**	**7**	**4.916**	**24.734**
Capital increase	1.600	241			1.841			0	1.841
Change in the consolidated group					0	876		876	876
Group results for the year			-7.210		-7.210	-52		-52	-7.262
Other group results				-87	-87	48	-6	42	-45
Total group results	---	---	---	---	-7.297	---	---	-10	-7.307
Withdrawals from capital reserves		-13.261	13.261						
Other changes			135			171		171	306
As per 31 December 2007	**8.600**	**3.139**	**2.984**	**-226**	**14.497**	**5.952**	**1**	**5.953**	**20.450**

EXPLANATORY NOTES
TO THE ANNUAL FINANCIAL STATEMENTS
OF
313 MUSIC JWP AKTIENGESELLSCHAFT, UNTERFÖHRING
FOR THE BUSINESS YEAR
2007

1 The Group

The holding company 313 Music JWP AG, which traded under the name Jack White Productions AG until the beginning of September 2007, produces and releases music recordings with a number of artists, purchases recordings by other producers and exploits the rights. Alongside music productions, we are also involved in the area of artist management via our subsidiary 313 Music GmbH, in which we own a 51% stake. In this way, we not only participate in recorded music sales, but in an artist's total revenue. In addition, through our 45% share in Manfred Hertlein Veranstaltungs-GmbH, we are committed to the events management segment. We also intend to continue advancing the publishing segment, which we started in 2001 and bundles the intellectual property of composers and songwriters. To this end, we are constantly establishing new copyrights, which our subsidiary Transcontinent Musikverlag OHG exploits. 313 Music JWP AG is headquartered in Unterföhring, near Munich.

One of the company's foreign subsidiaries is VI Music Holding Inc., Puerto Rico, in which 313 Music JWP AG holds 50% plus one share. It acts as a holding company controlling our 50% stake in VI Music LLC, also headquartered in Puerto Rico. The object of the latter's business is to produce and release music, especially in America. The remaining shares in VI Music LLC are owned by the Universal Music Group, which also handles global distribution of the company's VI Music label. The remaining shares in HoT JWP Music Inc., Miami, in which 313 Music JWP AG still held 48.3% in the report year, were sold retroactively as of January 1, 2008.

In addition, 313 Music JWP AG owns 100% of the shares in both ALDACO entertainment GmbH and White Records GmbH, both in Unterföhring. The companies merged on January 1, 2008 to form Seven Days Music GmbH, Unterföhring.

313 Music JWP AG is a stock corporation which is resident at Unterföhring/Germany. In the third quarter of 2007, the headquarters of the company was relocated from Berlin to Unterföhring. The address of the registered company headquarters is Münchner Straße 135, 85774 Unterföhring. The company is listed in the Prime Standard of the Frankfurt stock exchange under the security identification number 508750. The managing board and supervisory board of the company have issued compliance statements with the corporate governance codex in accordance with § 161 AktG and made the statement permanently accessible to the shareholders on the homepage of 313 Music JWP AG.

The valuation of all assets and debts is carried out based on the going concern principle. Assets and debts are shown in the balance sheet according to their maturity as short- or long-term items. Assets and debts are classified as short-term if they are realized or become payable within twelve months afrter the trend of the reporting period. The structure of the group profit and loss account follows the cost-of-sales accounting format. This group financial statement as per 31.12.2007 was released for publication on 10.07.2008 by the managing board of the company.

2 Basis for the consolidated annual financial statements

2.1 Business year

The business year is identical to the calendar year

2.2 Accounting pursuant to IFRS

The present consolidated annual financial statements as at Dec. 31, 2007 is prepared on the basis of § 315a HGB and in compliance with the International Financial Reporting Standards (IFRS), application of which is mandatory in the EU, applicable as per the balance sheet date. The accounting standards were applied consistently over the entire reporting period, unchanged from the previous year.

2.2.1 New standard and interpretations which are obligatory

In the year of the report, the group financial statement took into account new and revised standards and interpretations which first became binding from 01.01.2007, and in addition are relevant for the 313 Music JWP group. The first application of these new regulations did not result in material effects on the group financial statement. These are in detail:

- IFRS 7 "Financial Instruments: Disclosures" provides for new disclosure requirements with respect to the financial instruments both of industrial enterprises as well as banks and similar financial institutions. The disclosure requirements included in IAS 30 (disclosure in financial statements of banks and similar financial institutions) and IAS 32 (financial instruments: disclosure and representation) to date are replaced and supplemented by IFRS 7; in the future, they apply regardless of the industry. The new provisions result in a significant extension of the appendix data for the financial instruments in the group financial statement.

- IAS 1 "Presentation of Financial Statements — Amendment to add disclosures about an entity's capital" provides for additional disclosure requirements with respect to the goals, instruments and processes of capital management.

Standards, supplements and interpretations which are currently not relevant for the 313 Music JWP group, and whose application is mandatory as per 01.01.2007 for the first time are described below:

- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment" is binding for business years beginning after 01.11.2006. According to this interpretation, it is not permissible to reverse at a later balance sheet date value impairments, which were performed on goodwill during an intermediate period, on investments in equity capital and financial assets valued at acquisition cost. This interpretation is currently not applicable for the 313 Music JWP group, because no value impairments were performed during the year.

Standards, supplements and interpretations which become applicable for future business years include:

- IAS 1 "Presentation of Financial Statements" (revised in September 2007; applicable for reporting period beginning on 1 January 2009)

- IAS 23 "Borrowing Costs" (revised in March 2007; applicable for reporting period beginning on 1 January 2009)
- IAS 32 "Financial Instruments: Presentation" (revised in February 2008; applicable for reporting period beginning on 1 January 2009)
- IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008; applicable for reporting period beginning on 1 July 2009)
- IAS 28 "Investments in Associates" (revised in January 2008; applicable for reporting period beginning on 1 July 2009)
- IAS 31 "Interests in Joint Ventures" (revised in January 2008; applicable for reporting period beginning on 1 July 2009)
- IFRS 2 "Share-based Payments" (revised in January 2008; applicable for reporting period beginning on 1 January 2009)
- IFRS 3 "Business Combinations" (revised in January 2008; applicable for company mergers with acquisition dates after 1 July 2009)
- IFRS 8 "Operating Segments" (applicable for reporting period beginning on 1 January 2009)
- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" (applicable for reporting periods beginning on 1 March 2007)
- IFRIC 12 "Service Concession Arrangements“ (applicable for reporting periods beginning on 1 January 2008)
- IFRIC 13 "Customer Loyalty Programmes" (applicable for reporting periods beginning on 1 July 2008)
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (applicable for reporting periods beginning on 1 July 2008)

No use was made of the option of applying standards and interpretations ahead of time. 313 Music JWP AG assumes that the application of these standards and interpretations would have had no material effect on its assets, financial and earnings position.

2.3 Currency

All sums in the consolidated annual financial statements are – with the exception of the statement on EpS) – stated in thousand euros (TEuro).

2.4 Scope of consolidation

The scope of fully consolidated companies includes alongside 313 Music JWP AG all the subsidiaries in which 313 Music JWP AG directly or indirectly holds the majority of the voting rights. Inclusion in the group financial statement begins as per the time when 313 Music JWP AG gains the opportunity of control. Compare to 31.12.2006, there were changes in the consolidation group. In the third quarter of 2007, 313 Music GmbH, ALDACO entertainment GmbH and White Records GmbH were first consolidated. Hence, the following companies are included in the consolidation group as per 31.12.2007:

313 Music GmbH, Berlin ("313 Music")

The company specializes in managing artists and has its own label. In the third quarter of 2007, 313 Music JWP AG acquired an interest in the amount of 51 % in 313 Music GmbH; since 1 August 2007, the company is included in the consolidation group of the group. The remaining shares in the company are held by the general manager Volker Neumüller, who has also been a member of the management board of the parent company as per September 2007. On 20 November 2007, the headquarters of 313 Music GmbH were relocated from Hamburg to Berlin.

ALDACO entertainment GmbH, Unterföhring ("ALDACO")

The company has been a fully owned subsidiary of 313 Music JWP AG since the middle of 2007 and was consolidated for the first time in the third quarter of 2007. The object of the company is the operation of music, media, artist and marketing management, media business, music publishing and event organization as well as marketing consulting.

White Records GmbH, Unterföhring

The company is a fully owned subsidiary of 313 Music JWP AG and was consolidated for the first time in the third quarter of 2007. The object of the company is the production, sale and distribution of musical works, in particular through audio, image and similar media, as well as in any other for of distribution by the transmission of data; in addition the exploitation of and trade with protected rights of music and video media.

Transcontinent Musikverlag OHG, Unterföhring

The company established in 1961 operates as a music publisher. As such, the company is mainly active in exploitation of copyrights. 99 % of the shares are held by 313 Music JWP AG and 1 % of the shares are held by White Records GmbH. Retroactively as per 01.01.2007 the modifying conversion of Transcontinent Musikverlag GmbH into Transcontinent Musikverlag OHG was carried out. The headquarters of the company was moved from Berlin to Unterföhring.

VI Music Holding, Inc., San Juan/Puerto Rico

313 Music JWP AG holds 50 percent plus one share in the company. The remaining 50 percent are held by Juan Vidal, San Juan, Puerto Rico. The company acts as the holding company for the stake held in VI Music LLC and to distribute the profits from said participation.

For further explanations see note 8.

2.5 Joint ventures

VI Music LLC, San Juan/Puerto Rico

The company's business purpose is to produce and release music. VI Music Holding Inc. and Universal Music Group each hold 50 percent in the company.

The jointly held company is classified as not held for sale.

There are no contingent debts, no joint liabilities with the partner company were entered into for the benefit of the joint venture. Neither are there any other contingencies.

2.6 Associated companies

HoT JWP Music. Inc., Miami/USA

The object of the company is the purchase of protected rights and copyrights and their exploitation. The exploitation of protected rights includes the production, copying and distribution of audio media of all types. Effective on 01.08.2006, the parent company sold the majority in the US subsidiary HoT JWP Music Inc., which had been included in the consolidation group until that time. The interest in the amount of 48.3 percent since that date is included according to the at-equity method.
The balance sheet total of HoT JWP Music Inc is T€ 113 (previous year T€ 205). There are liabilities in the amount of T€ 421 (previous year T€ 316). Accounts receivable are shown in the amount of T€ 72 (previous year T€ 154) and liquid funds in the amount of T€ 37 (previous year T€ 1). With sales revenues of T€ 259 (previous year T€ 586), the company achieve an annual result of T€ -210 (previous year T€ -4,085).

Manfred Hertlein Veranstaltungs GmbH, Würzburg ("Manfred Hertlein")

The object of the company is the planning, preparation, performance and handling of events of all types, advance ticket sales for events of all types, management of artists, etc., and marketing of all kinds of rights of exploitation, in particular in the music and entertainment segments, as well as activities of an advertising agency. The interest in this company was increased in December 2007 from 20 % to 45 %; since then, the associated company is included in the group financial statement according to the at-equity method.
The balance sheet total of Manfred Hertlein Veranstaltungs GmbH, Würzburg, is T€ 4,513 (previous year T€ 4,407). There are liabilities in the amount of T€ 4,317 (previous year T€ 3,785). Accounts receivable are shown in the amount of T€ 566 (previous year T€ 413) and liquid funds in the amount of T€ 2,729 (previous year T€ 2,800). With sales revenues of T€ 10.119 (previous year T€ 15,780) the company achieve an annual result of T€ -327 (previous year T€ 306).

The financial statement dates of the two associated companies are identical to that of the parent company.

There are no contingent debts, no joint liabilities with the partner company were entered into for the benefit of the joint venture. Neither are there any other contingencies.

3 Key accounting principles

3.1 Principles of consolidation

Capital consolidation

The inclusion of the financial the individual subsidiaries in the group financial statements is according to IFRS 3 "Business Combinations" in accordance with the purchase method. The purchased assets and debts are valued as per the time of their purchase independent from any minority shares with their associated current market values. Then the purchase cost of the interests are offset against the pro-rated re-valued equity capital of the subsidiary. Differences between the purchase cost and the pro-rated re-valued equity capital, if they are active differences in amount, are entered under the intangible assets as business or company values. If the purchase price of the interest is below the current market value of the purchased asset, an immediate accounting is carried out affecting the operating result in the year the interest was purchased. The shares of third parties are the result of the assigned current market value of valued assets, debts and contingencies.

Consolidation of debts and earnings, elimination of intra-Group profits and shares held by minority interests

All receivables and liabilities, sales, expenses and earnings as well as intra-Group profits within the Group are eliminated in the course of consolidation. Tax deferrals are entered for any consolidation processes that impact on the income statement to the extent that the difference in tax expense will presumably balance out in later business years.
A corresponding balancing item is established for minority interests for the share of voting rights in fully consolidated subsidiaries not attributed to the Group.

Joint ventures

The assets and debts, equity capital as well as earnings contributions of joint companies are included pro-rated, i.e. according to the amount of the interest owned, in the group financial statement of 313 Music JWP AG. The consolidation principles describe above apply accordingly.

Participations in associated companies

Companies in which the AG held between 20% and 50% of the voting rights and where it exercised a material influence on the business and financial policy (associated companies) are entered using the equity method. At the point in time of first-time inclusion of the associated companies, the stake is entered at purchase cost. A positive difference between the purchase cost of the shares purchased and the pro-rated asset, valued at the assigned current market value at the time of purchase, represents a company value that is included in the carried-forward equity entry and insofar is also subject to the impairment method. In the event that the equity capital share of the group, which is revalued within the framework of a purchase price allocation, exceeds the purchase cost of the shares purchased, the difference is entered by an immediate booking in the year of purchase which affects the operating result. In the subsequent periods, the book value is carried forwards by the changes in equity capital that are allocated to the group. Pro-rated losses allocated to the group which exceed the total investment in the associated company, consisting of the carried-forward equity method and other long-term receivables, are not taken into account. A value impairment test is carried out to the extent that there are indications that the value of the participation has fallen.

3.2 Segment reporting

The segment reporting was prepared in accordance with IAS 14 "Segment Reporting". It is the goal of segment reporting to provide information about the major areas of activity of the group. A business segment is a group of assets and operating activities that make available a product or service and differ in terms of risks/opportunities from the other segment. IFRS 8, which must be applied to business years beginning after 01.01.2009, will likely not result in significant changes compared to the present segment reporting.

3.3 Foreign-currency translation

The annual financial statements of non-German group member companies are translated in line with IAS 21 "The Effects of Changes in Foreign Exchange Rates" direct form the local currency into euros, as the foreign companies independently conduct their business in financial, economic and organizational terms (concept of functional currency). Accordingly, the fixed assets, the other assets and the debts are converted at the mean foreign exchange rate as per the balance sheet date (market price on reporting date). Equity is converted at historical rates. Expenses and income are converted at the average rate for the year.

The equity capital requiring initial consolidation within the framework of the acquisition of foreign subsidiaries is converted at the historic exchange rate at the time of purchase as per the relevant balance sheet date.

The differences from currency conversion are shown separately under equity capital.

As long as the subsidiary is included in the consolidated group, the conversion differences are carried forward in the group equity capital. If companies withdraw from the consolidation group, the conversion differences that can be allocated to this company are dissolved with effect on the operating result.

The exchange rate of the US dollar used as the basis for the group developed as follows:

Country		Stichtagskurs		Average rate for the year	
		31.12.2007	31.12.2006	2007	2006
		EUR			
USA, Puerto Rico	1 USD =	0.6793	0.7593	0.7297	0.7964

In the annual financial statements of the individual companies as prepared in local currencies, exchange-rate receivables and liabilities are booked to the income statement at the Dec. 31 rate.

3.4 Use of estimates

In preparation of the group interim financial statement in compliance with the International Financial Reporting Standards, the management must make estimates and assumption which influence both the amount of balance sheet assets and equity and liabilities, as well as the revenues and expenses given for the business year. The actual results may deviate from these estimates and assumptions. The estimates are made taking into account the principle of giving as true an impression as possible.

In particular, estimates are necessary in generating and evaluating active deferred taxes for tax-loss credits as well as the assessment of the value of goodwill.

The music environment of 313 Music JWP AG, who is active in the music business, is largely characterized by short-lived trends and a changing taste in music. Furthermore, there are uncertainties and difficult to asses risks due to the production of new events, variable income from licenses as well as music and internet piracy.

The estimates on which the impairment test for the assessment of the value of goodwill, as well as the valuation of active deferred taxes is based, are based on financial planning. Earnings and expenses assumed for the future as plan figures are highly dependent on the development of trends in music and the success of the artists bound to the company. Catalog exploitations can be estimated with adequate reliability, since both the expenses and earnings are very constant. The estimates also include the expected new publications. In this case also, the previous sales figures were used as a basis for a future forecast. Here it is decisive whether or not the new publications of music and the artists are accepted by the music market. Insofar, the estimates include significant uncertainties solely on the basis of the business model.

4 Accounting and valuation principles

The financial statements of all companies included in the group financial statements have been prepared as per the group financial statement date. The accounting and valuation methods were not changed from the previous year. Insofar, the financial statement was continued to be prepared according to the going concern assumption. The review of the going concern assumption was based on a financial plan where the earnings and expenses are determined by means of estimates.
These estimates are also subject to significant uncertainties which result from the business model (refer to Note 3.4).

4.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand, sight deposits, current account balances and other current highly-liquid financial assets with an original term of up to three months. In the balance sheet, current-account loans are carried under current liabilities as liabilities due to banks. The valuation of liquid funds is at the nominal value.
Business transactions which are entered in a currency which deviates from the functional currency are converted at the exchange rate at the time of the business transaction.

4.2 Financial assets

A **financial instrument** is a contract which simultaneously results for one company in the creation of a financial asset and for another company in the creation of a financial liability of an equity capital instrument. Financial assets in particular include cash and cash equivalents, accounts receivable from deliveries and services, as well as loans granted and receivables, natural and derivative financial investments held to maturity and for trading purposes.

Financial assets when first reported are valued with the current market value allocated, which corresponds to the cost of purchase. For all financial assets, which subsequently are not valued affecting the operating result at the allocated current market value, the directly assignable transaction costs must be taken into account. The current market values reported in the balance sheet generally correspond to the market prices of the financial assets. If they are not directly available, they are calculated using current market parameters.
For the follow up valuation at the balance sheet date, financial assets are differentiated into loans and receivables granted by the company, assets held for trading purposes, financial assets to be

held until maturity and available for sale. The classification depends on the purpose for which the relevant instrument was acquired. Dependent on this classification, the follow-up valuation is ass follows:

Cash and cash equivalents are reported at nominal value. Foreign currency on hand is valued at the mean exchange rate as per the balance sheet date.

Receivables from deliveries and services as well as other short-term receivables are valued – applying the effective rate method if required – initially at the allocated current market value and on the following dates at carried-forward cost of purchase. The impairment values, which are carried out in the form of individual value adjustments, adequately take into account the non-payment risks to be expected; if the recoverability is in doubt, it is reported at the lower realizable amount. Concrete non-payments result in write-off of the relevant receivables. Receivables values in foreign currencies are valued at the mean exchange rate as per the balance sheet date.

The other natural financial assets are classified "available for sale" and are generally valued at the allocated current market value. The profits and losses resulting from the allocated current market value are entered under equity capital not affecting the operating result. This does not apply if these are permanent or significant impairments of value as well as changes in value due to foreign currency of outside capital instruments which are reported affecting the operating result. Only upon disposal of the financial assets, the accumulated profits and losses reported in equity capital will be reported affecting the operating result in the profit and loss account at the allocated current market value. **Investments** assigned to this category are valued at cost of purchase in the 313 Music JWP group, however, because the market value of these shares cannot be valued reliably.

In the follow-up valuation of financial assets assigned to the category "Financial Assets at Fair Value Through Profit or Loss", the profits and losses are reported affecting the operating result.
Purchases and sales of **securities** are reported in the balance sheet on the due date.

Additional information on financial instruments

Book values, value entries and allocated current market values according to valuation categories

With respect to the classification of financial instruments, 313 Music JWP AG follows the valuation categories in accordance with IAS 39 since the risk distribution within this valuation category is similar.

The following tables show the book values and allocated current market value (fair value) for each category of financial assets and liabilities as per 31.12.2007 and 31.12.2006.

Data in T€	**Valuation category**	**Book value 31.12.2007**	**Balance sheet valuation according to IAS 39**				**Fair value 31.12.2007**
			Depreciated AK	**AK**	**Fair value not affecting operating result**	**Fair value affecting operating result**	
Financial assets							
Financial assets	**AfS**	960		960			960
Accounts receivables from deliveries and services	**LaR**	1,206	1,206				1,206
Accounts receivable from associated companies	**LaR**	0	0				0
Other financial assets	**LaR**	3,898	3,898				3,898
Securities	**HfT**	150				150	150
Bank deposits and cash on hand	**AfS**	1,568			1,568		1,568
Sum of financial assets		**7.782**	**5.104**	**960**	**1.568**	**150**	**7.782**
Financial liabilities							
Debts	**OL**	4	4				4
Accounts payable from deliveries and services	**OL**	1,047	1,047				1,047
Loans	**OL**	1,758	1,758				1,758
Other financial liabilities	**OL**	2,334	2,334				2,334
Sum of financial liabilities		**5,143**	**5,143**	**0**	**0**	**0**	**5,143**
Aggregate according to valuation categories according to IAS 39:							
Loans and receivables **(LaR)**		5,104	5,104	0	0	0	5,104
Available for sale **(AfS)**		2,528	0	960	1,568	0	2,528
Other liabilities **(OL)**		5,143	5,143	0	0	0	5,143
Held for trading **(HfT)**		150	0	0	0	150	150

Data in T€	Valuation category	Book value 31.12.2006	Balance sheet valuation according to IAS 39				Fair value 31.12.2006
			Depreciated AK	AK	Fair value not affecting operating result	Fair value affecting operating result	
Financial assets							
Shares in non-consolidated associated companies	**AfS**	460		460			460
Accounts receivables from deliveries and services	**LaR**	3,794	3,794				3,794
Accounts receivable from associated companies	**LaR**	355	355				355
Other financial assets	**LaR**	4,952	4,952				4,952
Securities	**HfT**	794				794	794
Bank deposits and cash on hand	**AfS**	1,158			1,158		1,158
Sum of financial assets		**11,513**	**9,101**	**460**	**1,158**	**794**	**11,513**
Financial liabilities							
Debts	**OL**	815	815				815
Accounts payable from deliveries and services	**OL**	492	492				492
Loans	**OL**	1,234	1,234				1,234
Other financial liabilities	**OL**	2,740	2,740				2,740
Sum of financial liabilities		**5,281**	**5,281**	**0**	**0**	**0**	**5,281**
Aggregate according to valuation categories according to IAS 39:							
Loans and receivables **(LaR)**		9,101	9,101	0	0	0	9,101
Available for sale **(AfS)**		1,618	0	460	1,158	0	1,618
Other liabilities **(OL)**		5,281	5,281	0	0	0	5,281
Held for trading **(HfT)**		794	0	0	0	794	794

The shares in non-consolidated associated companies of the valuation category "Available for Sale (AfS)" were valued at cost of purchase as the allocated current market values could not be determined reliably.

Determination of the allocated current market value (fair value)

The book value of financial instruments line receivables and liabilities in the main corresponds to the market value due to the short-term maturity of these financial instruments.

The book value of liabilities to banks in the main corresponds to the market value in case of variable interest. For debts at fixed interest rates, the market value is determined on the basis of the valid interest rates at the balance sheet dare for appropriate remaining maturities / pay-back structures.

The company does not use derivative financial instruments.

Information on the profit and loss account

The following table shows the net profits or losses of financial instruments included in the profit and loss account.

T€	**2007**	**2006**
Loans and receivables (LaR)	-1,666	-1,601
Available for sale (AfS)	257	771
Held for trading (HfT)	-350	-55
Other liabilities (OL)	-26	-98
	-1,785	**-983**

In the group financial statement, the value adjustments for receivables from deliveries and services, which are assigned to the category "Loans and receivables", are reported under the other operating expenses. The losses from foreign currency conversion of financial asses assigned to the valuation category "Loans and receivables" result from loans granted for the most part.
The net losses primarily include value adjustments and loss of receivables outstanding

The net profits assignable to the category "Available for sale" primarily include interest received.

The net losses assignable to the category "Other liabilities“ result from the interest paid on financial debt during the year.

The net losses assignable to the category "Held for trading“ result from value impairments.

4.3 Inventories

The inventories are valued in accordance with IAS 2 "Inventories" at cost of purchase and/or production, or at the lower net sales value. The production cost includes directly assignable cost of material and labor, as well as pro-rated overhead (based on normal operating capacity). The cost of purchase or production does not include outside capital cost. The cost of purchase or production is determined on the basis of weighted average cost. The net sales value is the estimated sales revenue that can be achieved in normal business minus the necessary variable cost of sale.

4.4 Intangible assets

Under the intangible assets, along with the music rights contributed in 1998 by Mr. Jack White at continued estimated production cost, acquired music rights, capitalized own cost of production and recording, software as well as business or company values are reported. With the exception of the purchased company values ("goodwill"), the intangible assets are valued in accordance with IAS 38 "Intangible assets" at their cost of acquisition and/or production minus accumulated depreciation. Cost of outside capital is not reported. Depreciation of music rights is linear over the estimated useful life of 20 years. Company values are not depreciated regularly but are subject to the annual impairment test.

4.5 Fixed assets

Fixed assets in the main include operating and business equipment as well as tenant equipment. At the time of entry, the objects are valued at purchase or production cost. Outside capital interest is not capitalized. In subsequent periods, the fixed assets are reported at their historical purchase and production cost minus regular depreciation. The depreciation is carried out linear for the expected service life.

The following service lives are used as a basis:

Operating and business equipment:	3 -13 years
Tenant equipment:	5 - 9 years

If there are indications for value impairments, an impairment test is performed according to IAS 36 (Note 4.6).

Book profits and losses from disposals are realized at the time of disposal affecting the operating result.

4.6 Value impairments

The goodwill on the balance sheet is subject to a value impairment test at least once a year in line with IAS 36 "Impairment of assets". If the achievable amount falls short of the book value of the business or company value, a value impairment affecting the operating result must be performed. Any value impairment demand is reported in the other operating expenses. Reinstatement of original values of goodwill is not permissible according to IAS 36g.

Intangible assets, with the exception of business values, as well as fixed assets with limited service life, are subject to a value test in accordance with IAS 36 if there are indications that the achievable amount for the assets is below the book value (triggering events). The achievable amount is the higher of the allocated current market value minus cost of sale and the utility value. The allocated current market value minus cost of sale corresponds to the amount achievable from the sale of an asset at market conditions minus the cost of sale. The utility value is determined based on the expected future cash flows which the asset is likely to generated with constant use.
If the reason for a value impairment reported during the previous periods is no longer applicable, with the exception of the business or company value, reinstatement up to the amount of the continued book value is carried out.
In 2007, there were no indications for a value impairment of intangible and fixed assets. In accordance with IAS 36, value test were performed on the goodwills of VI Music LLC/VI Music Holding Inc. and Transcontinent Musikverlag OHG. With respect to the use of estimates, refer to Note 3.4.

4.7 Taxes on income

Taxes on income are carried in line with IAS 12 "Income taxes". According to this method, active and/or passive deferred taxes are accrued balance-sheet oriented. Taken into account is the fiscal impact that arises from timing differences between the balance-sheet entries compiled for assets and liabilities under commercial law and those prepared under fiscal law and which will be offset in future business years. These are identified on the basis of the tax rates and fiscal regulations that will apply given the law at the probable time the differences are written back. Moreover, deferred tax assets are carried for fiscal loss carryforwards. A value impairment is charged to the extent that it is improbable that deferred tax assets will be realized.

4.8 Financial debt

The liabilities, if they are financial instruments in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and not connected to a security instrument, are reported in the balance sheet at continued purchase cost, applying the effective rate method. Short-term liabilities are reported with the payback or performance amount which approximately corresponds to the allocated current market value.

4.9 Provisions

Provisions are set up in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" for current and future legal or factual liabilities toward third parties, which more likely than not will lead to an outflow of resources that can itself be reliably calculated. The valuation of the provisions is carried out on the basis of the fulfillment sum most probable to eventuate or, given an equal spread of probabilities, at the expected value of the fulfillment sums. Noncurrent provisions with a remaining term of more than one year are carried at the fulfillment sum discounted at the balance-sheet date.

4.10 Leasing relationships

Leasing relationships in which a material portion of the opportunities/risk associated with the property remain held by the lessor are classified as operating leases. Payments made in connection with an operating lease are entered in the income statement on a straight-line basis for the duration of the lease.

4.11 Sales realization

Sales realization is carried out in line with IAS 18 "Revenue". Thus, the company realizes sales from deliveries when the economic ownership has been assigned to the buyer or is under his control and from sales of services including the products used after the service has been rendered.
Alongside sales revenues from the sale of audio recordings, whereby sales realization is geared to the respective general commercial principles, Group member companies also book revenue from the exploitation of music master rights. These are based on master rights that the Group member companies hold for certain countries and certain periods of time, which can, to the extent that the rights are limited in time, be as much as 50 years.

Expense realization

Business expenses affect the operating result upon utilization of the benefit and/or at the time they are caused.
Interest paid is reported in the financial expenses for the relevant period.

4.12 Public subsidies

The company does not receive public subsidies.

4.13 Earnings per Share

EpS is defined in line with the principles of IAS 33 "Earnings per Share". In this context, the undiluted earnings per share shall be stated.

5 Explanatory notes to individual items on the balance sheet

5.1 Liquid funds

The liquid funds of T€ 1,568 (previous year: T€ 1,158) are primarily deposits with banks.

The liquid funds are not subject to restrictions of disposal.

5.2 Current-asset securities

The securities reported under current assets are classified as "financial assets affecting the operating result at the allocated current market value". They are valued at the time of receipt and at the assigned current market value at the balance sheet date. The resulting profits or losses are reported in the profit and loss account affecting the operating result.

The book value of the securities is T€ 150 (prior year: T€ 794). In the business year 2007, along with profit for the sale of securities in the amount of T€ 73, price losses in the amount of T€ 350 (previous year: price increases of T€ 10) have been reported affecting the operating result.

5.3 Receivables from deliveries and services

The receivables from deliveries and services amount to T€ 1,206 (previous year T€ 3,794).

The receivables from deliveries and services are made up as follows:

In € thousands	31.12.2007	31.12.2006
Gross receivables		
Receivables from goods deliveries	2,327	3,797
Individual value adjustments	-1,121	-3
Total	**1,206**	**3,794**

Distribution of the receivables from deliveries and services according to the companies included in the group financial statement:

In € thousands	31.12.2007	31.12.2006
VI Music LLC	200	184
VI Music Holding Inc.	3	1,253
Transcontinent Musikverlag OHG	16	388
313 Music JWP AG	845	1,969
313 Music GmbH	142	0
ALDACO entertainment GmbH	0	0
White Records GmbH	0	0
Total	**1,206**	**3,794**

Value adjustments:

Data in T€	2007	2006
Value adjustments on 1.1.	3	57
Consumption	3	57
Retransfers (reinstatement of value of originally written-off receivables)	0	0
Allocations in reporting period (expense for value adjustments))	1,121	3
Value adjustments on 31.12.	**1,121**	**3**

The value adjustments for receivables are generally entered in value adjustment accounts. In individual cases, it is decided how high the probability of non-payment is estimated. If receivables are classified as irrecoverable, the appropriate value-adjusted asset is taken out of the books.

VI Music Holding Inc. have a claim against Vidal Investment Inc. in the amount of T€ 1,118 (previous year: T€ 1,130). It had to be value-adjusted affecting the operating result, as the recoverability of the receivable could no longer be ensured.

The recoverability of T€ 18 (previous year: T€ 0) is additionally classified doubtful.

The receivables from deliveries and services have a term of less than a year.

The following table lists the credit risk included in the receivables from deliveries and services:

T€	Gross receivables	Of these: Neither value-impaired nor overdue on the target date	Of these: On the balance sheet date not value-impaired and overdue for the following periods				Of these: value-impaired
			Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Over 90 days	
Receivables from deliveries and services as per 31.12.2007	2,327	1,055	122	0	4	25	1,121
Receivables from deliveries and services as per 31.12.2006	3,797	3,791	0	0	0	3	3

Profits and losses are reported in the group result when the loans and receivables are taken out of the books or value-impaired.

Foreign currency receivables are entered at the current rate. The exchange risk from receivables in foreign currencies is not secured.

Both during the current business year and in the previous year, there were no disposal restrictions nor pledges as security.

5.4 Other receivables

The other receivables in the amount of T€ 4,490 (previous year: T€ 5,652) are comprised as follows:

Data in T€	31.12.2007	31.12.2006
Receivables against related persons	0	355
Receivables from loans	1,006	617
Other receivables	1,005	2,431
Advance payments to artists	1,887	1,549
Accrued expense	274	341
Taxes due	318	359
Other receivables	**4,490**	**5,652**

The other receivables have a term of up to one year. The other receivables include security deposits paid for the offices in Unterföhring (T€ 8) and the music studio in Berlin in the amount of T€ 4. In May 2008, a successor tenant was found for the music studio who took over the lease and paid the security deposit to 313 Music JWP AG.

The accrued expense in the amount of T€ 274 (previous year T€ 341) relates to an advance payment for consulting services and represents a non-financial other receivable.
Hence, T€ 4,216 (previous year 5,311) financial claims are included in the other receivables.

The following table lists the credit risk included in the other financial claims:

T€	Gross receivables	Of these: Neither value-impaired nor overdue on the target date	Of these: On the balance sheet date not value-impaired and overdue for the following periods				Of these: value-impaired
			Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Over 90 days	
Other financial claims as per 31.12.2007	5,154	153	0	0	0	290	664
Other financial claims as per 31.12.2006	6,942	152	0	0	0	432	1,290

Value adjustments:

Data in T€	2007	2006
Value adjustments on 1.1.	1,290	28
Consumption	1,290	28
Retransfers (reinstatement of value of originally written-off receivables)	0	0
Allocations in reporting period (expense for value adjustments))	664	1,290
Value adjustments on 31.12.	**664**	**1,290**

Profits and losses are reported in the group result when the loans and receivables are taken out of the books or value-impaired.

During the reporting period, one other receivable in the amount of T€ 400 (previous year: T€ 685) had to be taken from the books affecting the operating result since the debtor became insolvent. In July 2005, the company sold its shares in Filmhaus GmbH & Co. KG. The buyer was unable to pay the agreed purchase price of 1,085 TEuro. In 2006 already, 685 TEuro of this amount was depreciated. Since payment of the remainder of the purchase price can no longer be expected, the rest of 400 TEuro now had to be value-impaired.

Foreign currency receivables are entered at the current rate. The exchange risk from receivables in foreign currencies is not secured.

Both during the current business year and in the previous year, there were no disposal restrictions nor pledges as security, as the balance sheet is mainly prepared in Euro.

5.5 Inventory

The inventory in the amount of T€ 319 (previous year: T€ 278) mainly comprise unsold audio and video media. In the business year 2007, value impairments of stock in the mount of T€ 107 (previous year: T€ 0) were carried out by VI Music LLC.

At the balance sheet date, no inventory was used as security for debts. There were no major orders which would require a balance sheet entry according to IAS 11 (long-term make-to-order production) as per the balance sheet date.

5.6 Fixed assets

The development of the fixed assets is shown in the group fixed-asset movement schedule (see Appendix 7).

Fixed-asset composition:

Data in T€	31.12.2007	31.12.2006
Company and business equipment	268	421
Tenant installations	518	532
Vehicle fleet	0	32
Accumulated depreciation and value impairments	-315	-430
Fixed assets	**470**	**555**

During the business year, regular depreciation of fixed assets in the amount of T€ 98 (previous year: T€ 88) were reported.

No fixed assets were pledged as securities. There are no obligations to acquire fixed assets.

5.7 Intangible assets

The development of the intangible assets is shown in the group fixed-asset movement schedule (see Appendix 7).

As per 31 December 2007 respectively 2006, the intangible assets are made up as follows:

Data in T€	31.12.2007	31.12.2006
Company values	8,149	8,101
Catalogs and music rights	13,088	11,212
Software	16	16
Accumulated depreciation	-3,420	-3,139
Value impairment on the goodwill ALDACO	-14	0
Sum	**17,819**	**16,190**

The regular depreciation on intangible assets during the reporting period amounts to T€ 642 (previous year T€ 500).

All intangible assets with the exception of goodwill have a limited service life.

No intangible assets were assigned to secure claims. There are no obligations to purchase intangible assets.

The book values of company values in the amount of T€ 8,135 (previous year T€ 8,101) resulting from the capital consolidation are comprised as follows:

Data in T€	**31.12.2007**	**31.12.2006**
VI Music LLC	6,295	6,295
VI Music Holding Inc.	1,590	1,590
Transcontinent Musikverlag GmbH	216	216
ALDACO entertainment GmbH	45	0
White Records GmbH	3	0
Sub-total	**8,149**	**8,101**
Value impairment on the goodwill ALDACO	-14	0
Total	**8,135**	**8,101**

The changes from the previous reporting period in the amount of T€ 34 almost exclusively results from the acquisition of the shares in ALDACO entertainment GmbH; please refer to section 8 "Business acquisitions".

Review of the value of goodwill

The goodwill on the balance sheet is subject to a value impairment test at least once a year in line with IAS 36 "Impairment of Assets“. Along with the annual value review, potential triggering events are monitored which indicate a value impairment of assets or cash generating units (CGU).

The demarcation of the level for the goodwill value test is oriented on the internal and external reporting structure (management approach). Following IAS 36, the value test is to be carried out either on the level of the segments defined in segment reporting or on the level of the individual smaller CGU and/or a smaller group of CGUs. The level for the value test was defined as the subsidiaries as individual independent CGUs.

The goodwill of CGU VI Music LLC to be tested originally results from the acquisition of the shares of Vidal Investments Inc. Due to internal group reorganization, the goodwill of Vidal Investments Inc. was transferred to the new companies VI Music LLC and VI Music Holding Inc. established in 2005. For the purposes of the value test, the goodwill resulting with VI Music Holding Inc. from the above reorganization was added to the book value of VI Music LLC for simplification. Due to its holding function, VI Holding Inc. does not perform operative business activities.

A value impairment expense must be reported if the recoverable amount of a CGU is lower than its book value plus the book value of the assigned goodwill. The recoverable amount is determined as the relevant higher value of the allocated current market value minus cost of sale and the value of the expected fund inflow from the use of the asset (value in use). Within the framework of the impairment test, one starts with the value concept current market value minus cost of sale on the basis of the DCF method. The future free cash flows are capitalized with a suitable interest rate as per the valuation date.

The values assumed for the value test of VI Music LLC are based on past developments and reflect the expectations in the future. With respect to the growth chances as well as potential development of the market, a long-term growth of the free cash flows of 2 percent annually is expected. The discount rate derived from the capital cost is 9.3 (previous year: 7.8) percent.

The assumed value for the initial value test performed for Transcontinent OHG is also based on past developments and reflect the expectations in the future. With respect to the growth chances as well as potential development of the market, a long-term growth of the free cash flows of 2 percent annually is expected. The discount rate derived from the capital cost is 7.6 percent.

Both value tests are based on planning for the future. It must be considered that movements are possible due to the difficult general market situation. This is taken into account by the value test being performed annually.

The comparison of the book values of CGUs plus the goodwills at the recoverable amounts die not result in a value impairment demand.
With respect to the use of estimates, refer to note 3.4.

Development of group fixed assets in the business year 2007

Acquisition/production costs

	Status 01.01.2007	Change in consolidation group	Inflow	Disposal	Currency difference	Status 31.12.2007
	T€	T€	T€	T€	T€	T€
Fixed assets						
1. Land and buildings	0	0	0	0	0	0
2. Other facilities, operating and business equipment	453	7	38	225	-5	268
3. Tenant installations	532	0	4	12	-5	518
	985	7	42	238	-10	786
Intangible assets						
1. Catalogs and music rights	11,212	2,466	562	1,056	-96	13,088
2. Goodwill	8,101	48	0	0	0	8,149
3. Software	16	0	0	0	0	16
4. Other intangible assets	0	0	0	0	0	
	19,329	2,514	562	1,056	-96	21,253
	20,314	2,521	604	1,294	-106	22,039

	Depreciation							**Remaining book values**	
	Status 01.01.2007	Change in consolidation group	Inflow	Disposal	Restructuring	Currency difference	Status 31.12.2007	Book value 31.12.2007	Book value 31.12.2006
	T€	T€	T€	T€	T€	T€	T€	T€	T€
Fixed assets									
1. Land and buildings	0	0	0	0	0	0	0	0	0
2. Other facilities, operating and business equipment	268	1	47	198	0	-3	115	153	185
3. Tenant installations	162	0	51	10	0	-2	201	317	370
	430	1	98	208	0	-5	316	470	555
Intangible assets									
1. Catalogs and music rights	3,131	0	624	330	0	-17	3,408	9,680	8,081
2. Goodwill	0	0	14	0	0	0	14	8,135	8,101
3. Software	8	0	4	0	0	0	12	4	8
4. Other intangible assets	0	0	0	0	0	0	0	0	0
	3,139	0	642	330	0	-17	25	25	25
	3,529	1	740	538	0	-22	3,749	18,289	16,745

Development of group fixed assets in the business year 2006

Acquisition/production costs

	Status 01.01.2006	Change in consolidation group	Inflow	Disposal	Currency difference	Status 31.12.2006
	T€	T€	T€	T€	T€	T€
Fixed assets						
1. Land and buildings	0	0	0	0	0	0
2. Other facilities, operating and business equipment	544	-174	102	0	-12	453
3. Tenant installations	451	-46	135	0	-8	532
	995	-220	237	0	-27	985
Intangible assets						
1. Catalogs and music rights	9,452	-1,353	3,173	0	-60	11,212
2. Goodwill	9,221	0	0	1,120	0	8,101
3. Software	30	-24	10	0	0	16
4. Other intangible assets	0	0	0	0	0	
	18,703	-1,377	3,183	1,120	-60	19,329
	19,698	-1,597	3,420	1,120	-87	20,314

Depreciation **Remaining book values**

	Status 01.01.2006	Change in consolidation group	Inflow	Disposal	Restructuring	Currency difference	Status 31.12.2006	Book value 31.12.2006	Book value 31.12.2005
	T€	T€	T€	T€	T€	T€	T€	T€	T€
Fixed assets									
1. Land and buildings	0	0	0	0	0	0	0	0	0
2. Other facilities, operating and business equipment	270	-170	97	8	96	-17	268	185	274
3. Tenant installations	261	-47	51	0	-96	-7	162	370	190
	531	-217	148	8	0	-24	430	555	464
Intangible assets									
1. Catalogs and music rights	2.989	-368	498	0	0	12	3,131	8,081	6,463
2. Goodwill	0	0	0	0	0	0	0	8,101	9,221
3. Software	29	-23	2	0	0	0	8	8	1
4. Other intangible assets	0	0	0	0	0	0	0	0	0
	3,018	-391	500	0	0	12	3,139	16,190	15,685
	3,549	-608	648	8	0	-12	3,569	16,745	16,149

5.8 Financial assets

Data in T€	31.12.2007	31.12.2006
Investments	0	460
Shares in associated companies	1,962	1,002
Value impairments of associated companies	-1,002	-1,002
Financial assets	**960**	**460**

The value impairments performed in the previous year of investments (T€ 1,002) relate to the depreciation of the investment entered at equity in HoT JWP Music, Inc. As per 31 December 2007 only the book value of the investment in Manfred Hertlein Veranstaltungs GmbH (T€ 960; previous year T€ 460 investment) is reported under the shares in associated companies.

5.9 Deferred taxes

The deferred taxes are shown in the balance sheet as follows:

Data in T€	31.12.2007	31.12.2006
Active deferred taxes	**1,013**	**2,754**
of these, losses carried forward	1,013	2,754
of these, short-term	0	6
Passive deferred taxes	**-684**	**-352**
of these, intangible assets	-684	-352
of these, short-term	0	0
Deferred taxes	**329**	**2,402**

Deferred taxes for differences in time are entered at the tax rate expected for the time of the reversal of such differences. As per 31.12.2007, a combined tax rate of 28.08 percent (previous year: 38.9 percent) is applied to the companies residing in Germany and of 7 percent (previous year 7 percent) to companies residing in Puerto Rico. Due to the reduction of the income tax rates within the framework of the business tax reform from 2008 and the associated reduction of the domestic tax rate for the determination of deferred taxes, a one-time deferred tax expense in the amount of approx. T€ 911 (previous year T€ 0) arose in the 2007 business year.

A deferred tax claim is reported if, after the deduction of relevant passive deferred taxes, it is likely that a sufficient taxable income is available. The current three-year plan is used as the basis for this assessment, and it is assumed that it can be implemented. As the realization of active deferred taxes on losses carried forward is not assumed to be likely for the subsequent period, a value impairment was carried out in the reporting period. Deferred taxes from losses carried forward in the amount of T€ 2,526 (previous year T€ 0) were not generated.

Deferred tax claims and liabilities are entered in the balance sheet if there is an enforceable legal claim for offset, and if the deferred taxes exist against the same tax authority. The following amounts were entered in the balance sheet:

Active deferred taxes

Data in T€	**31.12.2007**	**31.12.2006**
Deferred tax claims		
Deferred tax claims, realized after more than 12 months	1,506	3,281
Deferred tax liabilities		
Deferred tax liabilities, realized after more than 12 months	493	527
	1,013	**2,754**

Passive deferred taxes

Data in T€	**31.12.2007**	**31.12.2006**
Deferred tax claims		
Deferred tax claims realized after more than 12 months	39	0
Deferred tax liabilities		
Deferred tax liabilities realized after more than 12 months	723	352
	684	**352**

The deferred tax claims mainly result from tax-loss carryforward. The main portion of the losses carried forward used as a basis do not expire under current legal regulations (deferred tax claims T€ 1,464; previous year T€ 3,274). The losses carried forward by the companies in Puerto Rico expire as follows:

Angaben in T€	31.12.2007	31.12.2006
Latente Steuerforderungen auf Verlustvorträge verfallbar in		
2012	1	1
2013	6	6
2014	35	0
	42	**7**

T€ 31 (previous year T€ 0) of the deferred tax claims accrue to the direct cost of equity acquisition deducted from the equity capital.

Deferred tax liabilities almost exclusively relate to the valuation differenced in capitalized intangible assets, such as music catalogs and license rights.

5.10 Loans and short-term portion of long-term loans

Data in T€	31.12.2007	of these, remaining term up to 1 year	of these, remaining term over 1 year	31.12.2006	of these, remaining term up to 1 year	of these, remaining term over 1 year
Liabilities towards banks	4	4	0	815	815	0

The liabilities towards banks refer to liabilities on current accounts of 313 Music JWP AG (T€ 1, previous year T€ 815) and VI Music LLC (T€ 3, previous year 0 €).

As in the previous year, the liabilities on current accounts have a remaining term of up to one year.

5.11 Liabilities from deliveries and services

Data in T€	31.12.2007	of these, remaining term up to 1 year	of these, remaining term over 1 year	31.12.2006	of these, remaining term up to 1 year	of these, remaining term over 1 year
Liabilities from deliveries and services	1,047	1,047	0	492	492	0

The liabilities from deliveries and services are due daily.

5.12 Liabilities towards related persons

Data in T€	31.12.2007	of these, remaining term up to 1 year	of these, remaining term over 1 year	31.12.2006	of these, remaining term up to 1 year	of these, remaining term over 1 year
Liabilities towards related persons	457	457	0	0	0	0

The liabilities towards related persons mainly relate toe the open purchase price installment in the amount of T€ 450 from the acquisition of shares in 313 Music GmbH from Mr. Volker Neumüller.

5.13 Other liabilities

The other liabilities include:

Data in T€	**31.12.2007**	**31.12.2006**
Liabilities from taxes		
Payroll tax	17	0
Sales tax	0	0
Other taxes	1	350
Liabilities from social security	0	0
Non-financial other liabilities	**18**	**350**
Liabilities towards personnel	108	0
Other liabilities	1,769	2,740
Other financial liabilities	**1,877**	**2,740**

Data in T€	31.12.2007	of these, remaining term up to 1 year	of these, remaining term over 1 year	31.12.2006	of these, remaining term up to 1 year	of these, remaining term over 1 year
Other liabilities	1,895	1,895	0	3,090	3,090	0

5.14 Taxes payable

Data in T€	31.12.2007	of these, remaining term up to 1 year	of these, remaining term over 1 year	31.12.2006	of these, remaining term up to 1 year	of these, remaining term over 1 year
Other liabilities	342	342	0	0	0	0

The sale of the utilization rights in the music catalog of Transcontinent Musikverlag OHG which occurred in the third quarter of 2007 resulted in profits which entailed appropriate trade tax liabilities in the amount of T€ 342 (previous year T€ 0).

5.15 Loans

In thousand €	31.12.2007	of these, remaining term up to 1 year	of these, remaining term over 1 year	31.12.2006	of these, remaining term up to 1 year	of these, remaining term over 1 year
Loans	1,758		1,758	0	0	0

Long-term loans taken out by Vidal Investments, Inc., San Juan/Puerto Rico (T€ 1,158; previous year T€ 1,234) and Universal Music Group, Santa Monica, California, USA (T€ 600; previous year T€ 0) are reported. Both loans are interest-free and have a term until 01.01.2010.

The loan terms are contractually fixed. At present, the company assumes that there will be no significant changes in the area of interest rates, so that there are no interest rate risks.

It is assumed that the allocated current market values correspond to the book value of these financing instruments due to the short term.

Financial risks/risk management system

As a group, 313 Music JWP AG is mainly subject to credit risks in the course of its normal business activities which may influence the assets, financial and earnings positions. There are no significant interest rate change risks. Furthermore, there is a foreign currency risk.

A credit risk exists insofar as the value of the assets might be impaired if transaction partners do not fulfill their obligations. The credit risk for receivables from deliveries and services and other assets includes the non-payment risk of customers. 313 Music JWP AG has been working with the same customers for many years and hence knows their credit worthiness. If non-payments occur, individual value impairments are performed.

The liquidity risk describes the danger that a company cannot adequately perform its financial obligations. The company does not finance the operative business by external financing.

The following (undiscounted) payments are likely to result in future years from the following financial obligations:

T€	**Book value**	**Undiscounted contractual cash flows for financial liabilities**						
		2007	**2008**	**2009**	**2010**	**2011**	**2012 / after 2011**	**after 2012**
as per 31.12.2007								
Loans	1,762	n/a			1,762			
Liabilities from deliveries and services	1,047	n/a	1,047					
Liabilities towards related persons	457		457					
Other financial liabilities	1,877	n/a	1,877					
as per 31.12.2006								
Loans	2,049				2,049			n/a
Liabilities from deliveries and services	492		492					n/a
Liabilities towards related persons	0		0					
Other financial liabilities	2,740		2,740					n/a

5.16 Reserves

Data in T €	Artist licenses and GEMA fees	Returns	Uncertain liabilities	Total
31.12.06	**214**	**215**	**488**	**917**
Inflows	110	836	380	1,326
Consumption	-214	-215	-482	-912
Retransfers	0	0	0	0
Change Consolidation group	0	0	26	26
31.12.07	**110**	**836**	**412**	**1,358**

The reserves listed above are short-term ones; an outflow of cash within the next 12 months is considered likely.

As the foreign companies included did not show reserves as per the previous balance sheet date, the schedule of reserves does not need to take into account any effects from fluctuations of exchange rates.

5.17 Contingent debts and claims:

Contingent debts

With respect to the possible contingent debts in connection with the intended litigation against 313 Music JWP AG as stated, we refer to sections "Events after the balance sheet date" and "Risks".

Contingent claims

At the end of October 2007, the special audits ordered by 313 Music JWP AG with respect to the former US subsidiary HoT JWP Music Inc., Miami/USA, were completed and the results published. In this context, there may be damage claims of 313 Music JWP AG against Jack White as well as other members of executive bodies and the management of the former US subsidiary. For additional details, reference is made to the group situation report.

In accordance with contractual agreements regarding the sale of use rights in the music catalog of Transcontinent Musikverlag OHG, the buyer paid an installment in the mount of T€ 285 to a trust account. The installment is used to secure any future claims of the buyer for reduction in price; it has not yet been entered affecting the operating result. Unless purchase price reduction claims arise and are claimed by 31.07.2008 at the latest, any balance remaining in the trust account on 05.08.2008 will be paid to Transcontinent Musikverlag OHG increasing the purchase price. In addition, the purchase price for the use rights in the music catalog may increase by up to a total of

T€ 450 if the seller can show evidence for the existence of use rights in additional music titles and the future sales with the music catalog are higher than the earnings assumed when the purchase prices was fixed.

In the previous year, no contingent debts and claims were reported.

5.18 Equity

Subscribed capital

The total number of authorized ordinary shares was 8,600,000 as at Dec. 31, 2007 (2006: 7,000,000). The shares have a par value of EUR 1 per share (ordinary shares without a nominal value.

In December 2007, the first tranche of the capital increase resolved in November 2007 was placed. 1,600,000 new shares were subscribed. Until the balance sheet dated, 313 Music JWP AG experienced an inflow of T€ 1.600 from this source.

Capital reserve

That portion of subscribed shares in the equity capital which exceeds equity was provided to capital reserves as a premium.

The capital reserve was increased as per 31.12.2007 by the inflowing amount of T€ 241 (T€ 320 premium minus T€ 79 cost of capital procurement) for the company and shows an amount of T€ 16,400. The funds were transferred to the parent company after the balance sheet date.

In order to compensate for losses suffered in previous years and the reporting period, an amount of T€ 13,261 was withdrawn from the capital reserve of 313 Music JWP AG as per 31.12.2007 by the parent company and offset against the balance-sheet loss reported in this amount, so that the parent company shows a balance-sheet profit of T€ 0.

The group financial statement shows a remaining capital reserve in the amount of T€ 3,139.

Authorized capital

The management board of 313 Music JWP AG is authorized, subject to the approval of the Supervisory Board, to raise the Company's capital stock by up to EUR 3,200,00 until July 4th, 2009 by one or several issues of bearer shares on a scale permissible by law against cash or against contributions in kind. Under certain circumstances, shareholders' subscription rights can be excluded. After the capital increase of the 2007 business year, the authorized capital as per 31.12.2007 is € 1,600,000.

Balance-sheet profit/loss

The balance-sheet profit/loss includes the reinvested results of the group. The development of the balance-sheet loss during the reporting period is shown in the equity capital change account.

As per 31.12.2007, the accumulated balance-sheet loss under commercial law of 313 Music JWP AG in the amount of T€ 13,261 was fully offset by amounts withdrawn from capital reserves. For the group financial statement, this yields a balance-sheet profit in the amount of T€ 2,984.

Equity capital difference from currency conversion

The currency differences result from the conversion of the assets and debts held by overseas subsidiaries as well as the profit and loss account.

In the reporting period, T€ -226 (previous year T€ -139) are shown here; of this, T€ 2 (previous year T€ 7)are attributed to minority shares.

Dividends

Dividends may only be disbursed from and paid using the Company's unappropriated earnings revenue reserves, such as are posted in the German annual financial statements prepared according to German commercial law. These figures differ from the profits carried forward as are presented in these consolidated annual financial statements prepared pursuant to IRFS. As per 31.12.2007, 313 Music JWP AG shows a balance-sheet profit in the amount of T€ 0 in its German financial statement under commercial law. The annual deficit in the amount of 4.8 million € as well as loss carried forward of 8.4 million € is fully (13.2 million €) offset against the capital reserves.

Minority interests

The minority shares report on the minorities within the framework of initial consolidation of allocated portions of assets and debts as well as their profit shares and currency differences.

5.19 Leasing

Leased assets are valued as financed leasing if they are considered economically to be plant purchases with long-term financing. All other leased assets are treated as operative leasing. Rent payments for operative leasing are reported as expenses in the group profit and loss account.

The group only uses operative leasing, primarily for company vehicles and office equipment (for details, refer to 12).

The group does not act as a lessor.

6 Explanatory notes to the income statement

6.1 Consolidated sales

Sales revenues are generated by the following companies:

In € thousands	31.12.2007	31.12.2006
VI Music LLC	1,957	3,964
313 Music JWP AG	2,641	6,055
313 Music GmbH (since August 1, 2007)	358	0
Transcontinent Musikverlag OHG	212	352
ALDACO entertainment GmbH (since July 1, 2007)	0	0
White Records GmbH (since July 1, 2007)	0	0
HoT JWP Music Inc. (until July 31, 2006)	0	1,275
Consolidated sales	**5,168**	**11,646**

T€ 4.956 (previous year 11.254) are from the Labels segment, i.e. the sale of CDs, and T€ 212 (previous year T€ 392) are from the Publishing segment.

Earnings accrue to the publishing company due to license fee distributions from the exploitation company (GEMA). GEMA collects license fees from the exploitation of musical performance and mechanical reproduction rights. In addition, licensing to third parties (e.g. printing permits) and the award of synchronization rights is included here.

6.2 Cost of sales

The cost of sales in the year under review were spread across the Group member companies as follows:

In € thousand	31.12.2007	31.12.2006
VI Music LLC	1,151	1,760
313 Music JWP AG	1,318	2,369
313 Music GmbH (since August 1,2007)	159	0
Transcontinent Musikverlag OHG	159	152
ALDACO entertainment GmbH (since July 1, 2007)	18	0
White Records GmbH (since July 1, 2007)	0	0
HoT JWP Music Inc. (until July 31, 2006)	0	98
Cost of sales	**2,805**	**4,379**

The production costs of VI Music LLC primarily are expenses for music production (T€ 496, previous year T€ 259), license fees (T€ 248, previous year 0), personnel costs directly attributable to production (T€ 240, previous year T€ 568) and depreciation of music exploitation rights (T€ 42, previous year T€ 46). In the previous year, expenses for future inventory risks in the amount of T€ 230 and for future irrecoverable debts in the amount of T€ 259 were reported.

The production costs of 313 Music JWP AG primarily relate to production costs of sales (T€ 436), license expenses for artists (T€ 274, previous year T€ 1.066), depreciation of music exploitation rights (T€ 491, previous year T€ 409), depreciation of inventory (T€ 107, previous year T€ 0) as well as depreciation of fixed assets (T€ 76, previous year T€ 66).

6.3 Selling costs

The costs stated are spread across the Group member companies as follows:

In € thousands	**31.12.2007**	**31.12.2006**
VI Music LLC	1,089	1,735
313 Music JWP AG	2,924	3,979
313 Music GmbH (seit 01.08.2007)	119	0
Transcontinent Musikverlag OHG	17	29
ALDACO entertainment GmbH (seit 01.07.2007)	0	0
White Records GmbH (seit 01.07.2007)	0	0
Selling costs	**4,149**	**5,743**

The selling costs for VI Music LLC stem from expenses for sales promotion measures as well as for marketing and advertising audio recordings and artists.

Selling costs of 313 Music JWP AG relate mainly to BMG fees for distribution of audio and video recordings of EUR 850 thousand (prior year: € 1,177 thousand), promotion expenses (EUR 805 thousand, prior year: EUR 919 thousand), GEMA fees (EUR 485 thousand, 2006: EUR 613 thousand), press – and media costs (EUR 409 thousand), outlays for artists (EUR 64 thousand, 2006 46 thousand) and video costs (EUR 99 thousand, prior year 106 thousand).

6.4 General and administrative costs

The costs carried are spread across the Group members as follows:

In € thousand	**31.12.2007**	**31.12.2006**
VI Music LLC	236	370
313 Music JWP AG	2,862	2,837
313 Music GmbH (since August 1, 2007)	107	0
Transcontinent Musikverlag OHG	202	76
VI Music Holding Inc.	51	0
ALDACO entertainment GmbH (since July 1, 2007)	22	0
White Records GmbH (since July 1, 2007)	2	0
HoT JWP Music Inc. (until July 31, 2006)	0	456
General and administrative costs	**3,482**	**3,739**

The general administrative costs primarily include consulting and acquisition cost, wages and salaries in the amount of T€ 1,394 (previous year T€ 2,086) including social security contributions as well as travel and entertainment expenses. For auditing the annual financial statement and group financial statement for 2006, 43 T€ accrued. 78 T€ (previous year T€ 68) were provided to reserves for the audit costs of the annual financial statement and group financial statement for 2007 of 313 Music JWP AG. Furthermore, the general and administrative costs include expenses from operating leasing contracts to lease studio space and company vehicles.

6.5 Regular depreciation

The depreciation reported in business year 2007 are comprised as follows:

Data in T€	**31.12.2007**	**31.12.2006**
Goodwill	14	0
Other intangible assets	628	500
Fixed assets	98	148
Depreciation	**740**	**648**

For the business or company value, a goodwill depreciation in the amount of T€ 14 was performed for Aldaco entertainment GmbH.

In the area of the other intangible assets, T€ 624 (previous year T€ 498) were depreciated for the catalogs and music rights. Of this sum, the parent company regularly depreciated music licenses in Germany and USA. For software, there was a depreciation of T€ 4 (previous year T€ 2).

Of the fixed assets, T€ 98 (previous year T€ 148) was depreciated. This primarily includes operating and business equipment located at the former office in Berlin.

The depreciation was booked with the production costs.

6.6 Value impairment of financial assets

The total amount of decreases and increases of financial assets of the 313 Music JWP group for the business year 2007 is T€ 1,468 (previous year: T€ 3.552). The value impairments relate to the write-off of long-term receivables against Vidal Investments Inc. (T€ 1,118) as well as the value impairment of securities held as current assets (T€ 350) which occurred in the business year.
In the previous year, the depreciation primarily related to the investments in HoT JWP Music Inc. as well as credit claims against the company. Due to the economic situation of HoT JWP Music Inc., the investment book value had to be reduced by T€ 430. The value impairments on lending by 313 Music JWP AG to HoT JWP Music Inc. amounted to a total of T€ 2,600.

6.7 Payments to employees

The personnel expenses in the 313 Music JWP group was reduced compared to the previous business year by T€ 692 to T€ 1,394 (previous year: T€ 2.086). The employer contribution to the legal pension insurance fund amounted to T€ 29 (previous year T€ 23). Contribution for the board members were not paid in accordance with § 1 sentence 4 SGB VI. The reduction in personnel expenses primarily results from the fact that bonuses paid in the previous year (T€ 264) and severance pay (T€ 278) to board members of 313 Music JWP AG are no longer reported in the reporting period.
There are no performance-oriented pension schemes in terms of IAS 19.
Neither are there contribution-oriented schemes. No benefits are agreed on the occasion of termination of employment relationships, or share-based compensation components.

6.8 Result from associated companies

In the reporting period, the result from associated companies was T€ 0 (previous year: T€ -1002). The T€ -1,002 are the de-consolidation result of HoT JWP Music Inc. for 2006.
In the previous year, the de-consolidation results was shown under the other operating expenses.

6.9 Interest income / expense

Interest income / expense in business 2007 was spread across the following Group member companies:

In € thousand	**31.12.2007**	**31.12.2006**
313 Music JWP AG	27	220
Transcontinent Musikverlag OHG	5	2
313 Music GmbH (since August 1, .2007)	0	0
White Records GmbH (since July 1, 2007)	0	0
HoT JWP Music Inc. (until July 31, 2006)	0	4
VI Music Holding Inc.	0	1
Interest income	**32**	**227**
313 Music JWP AG	22	16
Transcontinent Musikverlag OHG	4	0
White Records GmbH (since July 1, 2007)	0	0
HoT JWP Music Inc. (until July 31, 2006)	0	82
Interest expense	**26**	**98**
Total	**6**	**129**

6.10 Other revenues

Data in T€	**31.12.2007**	**31.12.2006**
Income from the write-off of fixed assets	1,690	0
Income unrelated to accounting period	342	0
Income from the retransfer of reserves	190	0
Income from exchange rate differences	121	332
Nonmonetary compensation	51	27
Versicherungsentschädigungen	12	0
Other income	5	203
Income increase financial assets	0	3
Income from sales of financial assets	0	250
Total	**2,411**	**815**

The increase of other income is largely due to the sale of the exploitation rights in the music catalog of Transcontinent Musikverlag OHG (T€ 1,599 (previous year: T€ 0).

6.11 Other expenses

The extrao0rdinarily high other expenses of previous year in the amount of T€ 4,045 primarily related to value impairments carried out for receivables of 313 Music JWP AG against HoT JWP Music Inc. In the reporting period, the other expenses amount to T€ 1,321.
This includes primarily nonpayments in the amount of T€ 698 (previous year: T€ 1,290), donations T€ 31 (previous year: T€ 30), supervisory board compensation T€ 30 (previous year: T€ 12) and fixed asset write-off at book value in the amount of T€ 28.

6.12 Income taxes

The reported expenses and/or income from income taxes are comprised as follows:

Data in T€	**31.12.2007**	**31.12.2006**
Actual tax expenditure	345	342
Deferred tax expenditure/income(-)	1,420	-2,568
Total	**1,765**	**-2,226**

The actual tax expenditure occurred in Germany. At T€ 338 (previous year: T€ 58), it relates to discontinued divisions.
The deferred tax expenditures include T€ 298 income from the retransfer of deferred tax liabilities for discontinued divisions (previous year: T€ 29 expenditure increase).

While in the previous year there still was income for the capitalization of deferred tax liabilities for losses carried forward in the amount of T€ 3,078, for the reporting period there are deferred tax expenditures of T€ 901 from the value impairment of the capitalized deferred taxes for losses carried forward, the realization of which in the period beyond the planning period is not assumed likely. Due to the reduction of income tax rates under the business tax reform after 2008 and the associated reduction of the domestic tax rate for the determination of deferred taxes from 38.9 % to 28.08 %, there is a deferred tax expenditure in the amount of T€ 911 (previous year T€ 0).

Beginning with the result before taxes of the 313 Music JWP group and the calculated income tax on it for a domestic tax rate of 38.9 %, the following tax transition account to the actual income tax is provided:

Data in T€	**31.12.2007**	**31.12.2006**
Result before income taxes	-5,497	-10,307
Domestic tax rate	38.9%	38.9%
Expected income tax expensditure/profit(-)	**-2,138**	**-4,009**
Value adjustment active deferred taxes on loss carried forward for previous years	901	0
Non-valuation active deferred taxes on annual loss	1,883	0
Write-off of difference amounts affecting operating result, for which no deferred taxes were generated	0	920
Utilization (in previous year additional valuation) of deferred taxes for existing difference amounts	-319	567
Effect of changes in tax law	911	0
Tax rate difference of foreign companies	498	5
Tax payment for prior years	0	283
Other effects	29	8
Income tax reported	**1,765**	**-2,226**
Effective tax rate	-32.1%	21.6%

The other effects in particular include effects of differences between the domestic income tax burden and the expected income tax burden due to different bases of assessment between the individual types of income tax.

Within the 313 Music JWP group, there were no fiscal organs.

7 Effect of extraordinary facts on the financial, asset and income situation

The sale of the exploitation rights of the music catalog of Transcontinent Musikverlag OHG, which was carried out in the third quarter of, resulted in the inflow of funds in the amount of T€ 2,325 and a positive result contribution of T€ 1,553. The sale of the exploitation rights results in a de-facto discontinuation of the business segment "Publishing" in the interim because, since the sale, no activities worth mentioning in terms of the exploitation of copyrights have been performed. The profit achieved by the sale of the exploitation rights of the music catalog of Transcontinent Musikverlag OHG minus the exploitation losses accrued up to the sale, plus the operative result of Transcontinent Musikverlag OHG accrued up to the time of the sale is shown in the profit and loss account separately as "result form discontinued activities" in the amount of T€ 1,259. Below, additional data are shown for the discontinued division "Publishing" in accordance with IFRS 5:

Data in T€	**31.12.2007**	**31.12.2006**
Operative income	317	400
Operative expenditures	-611	-304
The tax result for the operative result	-	-29
Operative result	-294	67
Result before taxes of the catalog sale	1,599	0
The tax result of the catalog sale	-46	0
Result of discontinued activities	**1,259**	**-**
Cash flow from operative business activities	-37	
Cash flow from financing activities	-2,175	
Cash flow from investment activities	2,325	
Change in cash on hand	113	

Due to the likely irrecoverability of originally long-term receivables against Vidal Investments Inc., they were completely written off in the reporting period, which resulted in expenditures in the amount of T€ 1,118.

8 Business acquisitions

In the third quarter 2007, the following shares were acquired in companies that are active in the area of music right exploitation and event management:

	ALDACO	313 Music	Manfred Hertlein
Acquired share in the amount of %	100,0	51,0	25,0
Time of initial consolidation[1]	01.07.2007	01.08.2007	31.12.2007

[1] For Manfred Hertlein the time of first inclusion at equity.

From the time of their first consolidation, the acquired companies contributed T€ 357 to the group turnover and T€ -145 to the group result.

If the companies had already been acquired as per 01.01.2007, the group turnover would have been T€ 6,150 and the group result T€ -3.652; these amounts were calculated based on the group accounting and valuation methods, the results of the subsidiaries being adjusted by additional depreciation on intangible assets as well as resulting tax effects which would have been necessary if the initial consolidation had already occurred as per 01.01.2007.

The acquired net assets and the goodwill are as follows:

	ALDACO	313 Music	Manfred Hertlein
	T€	T€	T€
Purchase price:			
Payment made	160	450	500
Open purchase price payment	0	450	0
Costs directly attributable to the purchase	1	11	0
Purchase price total	161	911	500
Assigned value of the acquired net assets[1]	116	911	0
Goodwill	45	0	500

1 Set to zero for Manfred Hertlein because of negative equity capital.

The purchase prices were determined on the basis of business valuations.

The costs directly attributable to the purchase are attorney and notary public fees.

The goodwill reflects the future positive result expectations of ALDACO and Manfred Hertlein.

The following assets and debts were acquired by the acquisitions:

	entertainment					
	Fair Value	Book value	Fair Value	Book value	Fair Value	Book value
	T€	T€	T€	T€	T€	T€
Fixed assets	3	3	6	6	*63*	*63*
Intangible assets	100	0	2,366	0	*175*	*175*
Financial assets	0	0	0	0	*25*	*25*
Inventory	0	0	0	0	*900*	*900*
Receivables and aRAP	3	3	130	130	*572*	*572*
Cash	48	48	46	46	*2,729*	*2,729*
Reserves	-10	-10	0	0	*-196*	*-196*
Liabilities	0	0	-99	-99	*-4,317*	*-4,317*
Deferred taxes	-28	0	-663	0	*0*	*0*
Net assets	116	44	1,786	83	*-49*	*-49*
Minority interests	0		-875		*27*	
Acquired net assets	116		911		*-22*	

Purchase price paid in cash	161	461	500
Cash available in acquired company	-48	-46	*2,729*
Cash outflow during transaction	113	415	500

[1] Manfred Hertlein is consolidated at equity - assets and debts are not included in the group financial statement.

The acquired intangible assets involve business relationships/artist contracts in the case of ALDACO and the music catalog of 313 Music. The intangible assets are assigned a service life of 20 years.

9 Segment information

The segment reporting has been prepared in line with IAS 14. Based on our organization and reporting structure, selected group financial statement data are shown differentiated according to business segments ("Labels" and "Publishing") and regions ("Europe" and "USA/Puerto Rico"). The activities of the business segments are the object of the primary report format. The presentation of the geographical activity foci of the 313 Music JWP group is given in the segment information by regions as an "of this" note in the data of the primary report format.

The segment revenues include the external sales revenues and the external other segment revenues to the extent they are attributable to the operative activities of the segment. The segment expenditures among others include the material and personnel costs, the regular depreciation, the reported value impairments as well as the other business expenses to the extent they are attributable to the operative activities of the segment.

The segment result is the difference between the segment revenues and expenses and represents the operative result before the financial result and income taxes.

The segment assets include the fixed assets, the intangible assets, the receivables and other assets (without receivables from financing and income tax, the inventory, the liquid funds as well as carried forward business and company values resulting from the acquisition of the companies involved. Transfer to the group financial statement is done by inclusion of the securities, the investments and the investments in associated companies, the receivables from financing and the income tax receivables on line "unsegmented group assets".

The segment debts refer to the reserves and the operative liabilities (without liabilities from financing and without income tax debts). The transfer to the group financial statement is done by inclusion of the liabilities from financing and the income tax debts on line "unsegmented group assets".

The segment investments refer to the immaterial assets (including the acquired company values) as well as the fixed assets and include all inflows during the relevant reporting period.

The regular depreciation refer to the fixed assets as well as intangible assets assigned to the relevant segments.

Reported value impairments represent the amount of extraordinary value impairment of assets included in the segment assets, on interest in associated companies and on financial claims.

The segment information is reported in line with the accounting and valuation methods used for the preparation and presentation of the group financial statement.

The sale of the exploitation rights results in a de-facto discontinuation of the business segment "Publishing" in the interim because, since the sale, no activities worth mentioning in terms of the exploitation of copyrights have been performed. Therefore, the data in the column "Publishing" shall also be understood as data for the discontinued divisions.

The value impairment expenditures contained in the segment result for segment "Labels" mainly involve depreciation of and write-off of receivables in the amount of T€ 664 (previous year: T€ 3,818, in particular against HoT JWP Music Inc.), value adjustments o9n inventory in the amount of T€ 107 (previous year: T€ 0) as well as value impairments in the amount of T€ 14 (previous year: T€ 0) for the goodwill share of ALDACO entertainment GmbH.

The value impairment expenditures of the segment "Publishing" in the amount of T€ 154 (previous year: T€ 0) are the result of the write-off of receivables.

With respect to the value impairment expenditures contained in the other financial result of segment "Labels", we make reference to the explanations in chapter 6.6.

In addition to the regular depreciation and the reported value impairments, no significant expenditures not affecting payments, which were included in the calculation of the segment result as part of the segment expenditures, are to be reported..

The following financial data apply to the business year:

	Labels		Publishing		Group	
Data in T€	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Segment revenue	5,668	12,103	1,911	398	7,579	12,501
of this intra-group	0	0	0	40	0	40
of this Europe	3,336	6,685	1,911	398	5,247	7,083
of this USA/Puerto Rico	2,332	5,418	0	0	2,332	5,418
Segment result	-5,482	-5,546	1,304	101	-4,178	-5,446
Result from associated companies	0	-1,002	0	0	0	-1,002
Interest result					6	129
Other financial result					-1,444	-3,532
Other unsegmented group expenditures and/or revenue					119	-456
Result before taxes					-5,497	-10,307
Income tax					-1,765	2,226
					-7,262	-8,081
Regular depreciation	685	592	41	56	726	648
Value impairment expenses	-2,253	-8,372	-154	0	-2,408	-8,372
of this included in the segment result	-785	-3,818	-154	0	-940	-3,818
of this included in result from associated companies	0	-1,002	0	0	0	-1,002
of this included in other financial result	-1,468	-3,552	0	0	-1,468	-3,552
Segment investments	604	3,420	0	0	604	3,420
of this Europe	604	3,399	0	0	604	3,399
of this USA/Puerto Rico	0	21	0	0	0	21
Segment assets	24,380	25,339	487	1,467	24,867	26,806
of this Europe	14,257	13,112	487	1,467	14,744	14,579
of this USA/Puerto Rico	10,123	12,227	0	0	10,123	12,227
Shares in associated companies	960	0	0	0	960	0
Unsegmented group assets					2,168	4,829
Group assets					27,995	31,635
Segment debts	3,816	3,672	62	19	3,878	3,691
Unsegmented group debts					3,667	3,210
Group debts					7,545	6,901
Number of employees	19	20	0	2	19	22
of this Europe	12	13	0	2	12	15
of this USA/Puerto Rico	7	7	0	0	7	7

10 Earnings per share

The earnings per share are derived from net income for the year divided by the weighted average of the number of shares outstanding during the year

The loss per share fort he year was thus as follows:

	2007	2006
Annual deficit before minorities in T€	-7,210	-8,081
of this from continued activities	-8,469	-8,081
of this from discontinued activities	1,259	0
divided by: weighted number of unpaid shares (undiluted)	7,088,889	7,000,000
Loss per sharein € (undiluted)	**-1.02**	**-1.15**
of this from continued activities	-1.20	-1.15
of this from discontinued activities	0.18	0.00

313 Music AG, as in the previous year, did not emit financial instruments which would have to be considered diluting, so that the diluted result per share corresponds to the undiluted result per share.

With respect to the capital increase of December 2007, reference is made to chapter 5.18 "Equity capital", regarding the capital increase after the balance sheet date, refer to chapter 15 "Events after the balance sheet date".

11 Additional information on the cash flow statement

The cash flow statement was prepared in line with the regulations of IAS 7 "Cash Flow Statements". It shows the change in the cash on hand of the 313 Music JWP group in the course of the report year. For this purpose, the cash flows in the flow of funds statement are subdivided into current business activities, investment activities and financing activities. In the current year, adjustments and extensions of presentation were made; the figures for the previous year were adapted accordingly.

The cash flow according to DVFA/SG for the 2007 business year is T€ -6,522 (previous year: T€ -7,484). The outflow from current business activities is T€ 1,641 (previous year: T€ 541). The payments before income taxes and interest are included in the cash outflow from current business activities. In the reporting period, there were income tax refunds of T€ 192 (previous year: income tax payments T€ 8). The interest payments for the period amount to T€ 26 (previous year: T€ 98). The receipts from interest is reduced from T€ 227 in the previous year auf T€ 32 in 2007.

Investment activities resulted in a total funds inflow in the amount of T€ 633 (previous year: funds outflow T€ 235). This is due to the receipts from the sale of the music catalog of Transcontinent Musikverlag OHG (T€ 2,325).

The funds inflow from financing activities is T€ 1,313 (previous year: T€ 815) and primarily results from the capital increase of December 2007.

The cash on hand consists of cash and deposits with banks and corresponds to the Liquid funds item shown in the balance sheet.

12 Other financial obligations

The total amount of the other financial obligations in the group is T€ 181 (previous year 529). There are obligations for future rents and leasing payments. The group rented offices and studios in Berlin and Munich as well as offices in Miami, USA. The leases of 313 Music JWP AG in Berlin could be discharged on short notice and were given up in August 2007. The studio in Berlin was rented for the entire year 2007 and a subsequent tenant, who took over the lease, was found at the beginning of 2008. The rooms leased in Munich cannot be terminated on short notice due to tenant installations and for economic reasons. For the business year 2008, there are lease obligations in the amount of T€ 22 (previous year T€ 140).

Furthermore, there were financial obligations on the basis of vehicle leasing agreements. The share of vehicle leasing in the overall obligation is T€ 86. For 2008, there are obligations due to vehicle leasing in the amount of T€ 42 (previous year: T€ 54).

For 2008, there are leasing obligations for VI Music LLC for office equipment in the amount of T€ 41 (previous year T€ 64).

The other financial obligations could be reduced significantly since the lease and leasing expenditures for the former CEO and former CFO do and/or will no longer exist since 2007 and/or May 2008.

13 Risks

As an internationally active company, in the course of its business 313 Music JWP AG is exposed to risks arising from changes in exchange-rates, prices and interests rates.

Financial assets that possibly constitute a concentration of credit risk for the company consist primarily of cash in hand and current investments and receivables. Bank balances are kept in EUR and US dollars. Short-term investments are in high-quality securities.

In the reporting period, a suitable risk management system was developed and implemented. For more details, reference is made to the risk report included in the group situation report.

Sensitivities/Market risks

For the presentation of market risks, IFRS 7 requires sensitivity analyses, which show effects of hypothetical changes in relevant risk variables on the result and equity capital. The term market risks includes the following types of risks:

Interest risk

The company finances its operative business solely by means of its equity capital. Insofar, the company is not subject to an interest risk.

The major original financial instruments (liquid funds, receivables, other assets as well as liabilities from deliveries and services and other liabilities) are valued at their net book values and therefore do not result in an interest risk according to IFRS 7.

Currency risks

Foreign currency risks in terms of IRFS 7 do exist with the company insofar as the Puerto Rican companies account in US Dollars. The risk is not secured.

Exchange rate fluctuations would have the following effects of the receivables and liabilities:

Exchange rate drops by-10%		**Exchange rate in EUR/US$**		
		Current price	Rate -10%	
		1.4721	1.32489	Result change
	in US-$	**in €**	**in €**	**in €**
Liabilities	2,313,648	1,571,665	1,746,294	-174,629
Receivables	3,820,806	2,595,480	2,883,867	288,387
Sum	**1,507,158**	**1,023,815**	**1,137,572**	**113,757**

Exchange rate increases by -10%		**Exchange rate in EUR/US$**		
		Current price	Rate +10%	
		1,4721	1,61931	Result change
	in US-$	**in €**	**in €**	**in €**
Liabilities	2,313,648	1,571,665	1,428,786	142,879
Receivables	3,820,806	2,595,480	2,359,527	-235,953
Sum	**1,507,158**	**1,023,815**	**930,741**	**-93,074**

Other price risks

IFRS 7 required, within the framework of the presentation of market risks, data about how hypothetical changes in risk variables act on prices of financial instruments. Other significant market price risks do not exist with the company.

Other risks

The company is the subject of threatened investor protection litigation in the amount of T€ 3,948 total from various attorneys. Litigation was threatened because of possible breaches of managing board obligations by former bodies of the company – no reserves were created. By law, the company is liable for the breaches of its bodies, however, the company does not assume that a financial damage will arise.

The supervisory board assignment right is seen as a significant risk. As the supervisor board only has three members, no resolution can be adopted if one member does not take part in the voting. In 2008, this already had the consequence that important decisions were delayed and/or could not be made in a timely manner. If this blockage policy is continued, in consequence this will result in aggravated controllability of the company.

The assignment right also result sin the danger that the confidentiality duty, to which the supervisory board members are subject, is not fulfilled without exception.

14 Information about capital control

Capital control within the 313 Music JWP group has the goal that the continuation capability of the management is ensured at all times and this the greatest possible benefit is generated for the equity and outside investors. Achieving and/or maintaining the optimal capital structure with the goal of reducing the capital cost is another goal of capital control.

The potential instruments of capital control within the 313 Music JWP group include the control of dividend payments to the shareholders, capital payback to the shareholders, issue of new shares or disinvestment measures for the purpose of liability reduction.

Like most other companies, the 313 Music JWP group controls the capital based on the outside capital ratio. The outside capital ratio is calculated by division of net outside capital by the balance sheet sum. The net outside capital is calculated by subtracting the liquid funds from the outside capital total (short- and long-term). The balance sheet total is the result of equity and outside capital of the group.

As the outside capital ratio must always be evaluated on the background of the current business environment, a quantitative statement regarding a general nominal value cannot be made.

15 Occurences after the balance sheet date

In January 2008, the second tranche of the capital increased resolved in November 2007, in the amount of 483,333 shares, was placed. This completes the planned increase of the equity capital from 7,000,000 € to 9,083,333 €. The group was provided with additional funds in the amount of T€ 580.

Retroactively as per 01 January 2008, the reminder of the shares in the amount of 48.3 % of the American subsidiary HoT JWP Music Inc., Miami, were sold at the beginning of the year. The shares of the ALDACO entertainment GmbH and White Records GmbH, in which we hold 100 % each, were merged effective on 10 April 2008 in Seven Days Music GmbH, Unterföhring.

At the beginning of April 2008, the supervisory board of 313 Music JWP AG raised damage claims against Jack White and Frank Nußbaum. After completion of the special audits of the subsidiary HoT JWP Music Inc., Miami, the former managing board members were asked in writing to remunerate the company for the damage caused, which was provisionally determined as 1.9 million €. This amount comprises only the cost of the audits and consulting plus loans granted illegally. If the damage is not repaired, it is intended to initiate legal proceedings. This does not include the damage that is likely to have occurred in the USA, which is determined separately in proceedings there.

16 Relations to affiliated companies and persons

According to IAS 24 "Related Parties", persons and companies must be disclosed who can exert a material influence on the Company, i.e., on the Company's financial and business policy, without however controlling it, including close family members. In business 2007 this relates to the Supervisory Board and the Management Board as well as the members' close relatives, and affiliated companies of the Group.

16.1 Relations to affiliated companies

The company maintains usual business relations to affiliated companies which, due to the consolidation measures are not represented in the group financial statement and therefore are not mandatory to be indicated. The transactions in terms of IAS 24 performed in the reporting period with associated companies were of subordinate importance overall.

16.2 Relations to affiliated persons

Major business with related persons

313 Music JWP AG acquired 100 % of the shares in ALDACO from their previous member, Mr. Thomas M. Stein (chairman of the managing board of 313 Music JWP AG). In addition, 313 Music JWP AG acquired 51 % of the shares in 313 Music from the previous sole member, Mr. Volker Neumüller (managing board member of 313 Music JWP AG and general manager of 313 Music). For further details, reference is made to chapter 8 "Business acquisitions".

313 Music JWP AG paid to Mr. Jack White fees in the total amount of T€ 99 under a consulting agreement in the reporting period after the end of his activities as a member of the managing board.

The former member of the supervisory board, Mr. Hartmut Fromm and Mr. Albert Czapski, and/or companies controlled by them, provided consulting services in the business year 2007 for companies of the group. Fees in the amount of T€ 47 total accrued in the period up to the end of their supervisory board membership.

Mr. Jack White controls licenses via copyrights bound to his person. The claims in the amount of T€ 155 (previous year: T€ 150) relate to the pro-rated transfer charging of production and promotion services which arose with 313 Music JWP AG and from which Jack White will in the future benefit via GEMA fees.

17 Information according to § 315 para. 4 HGB

17.1 Organ remuneration

Data in T€	2007	2006
Total remuneration of the managing board	**346**	**1,139**
of this, fixed portion	346	95
of this, variable portion	0	39
of this, short-term remuneration	346	1,139
of this, remuneratiuon for pensions due in the long run	0	0
of this, severance pay	0	250
Remuneration of former managing board members	**99**	**0**
Pension reserves for former managing board members	**0**	**0**
Total remuneration of the supervisory board	**30**	**12**
of this, short-term remuneration	30	12

The short-term remuneration of members of the managing board were distributed as follows in the 2007 business year:

The remuneration of members of the managing board were distributed as follows in the 2007 business year:

Angaben in TEUR	Fix	Variabel	Langfristig	Gesamt
Thomas M. Stein	304	0	0	**304**
Volker Neumüller (seit 13.	18	0	0	**18**
Horst Nußbaum (bis 31. Januar)	24	0	0	**24**
Summe	**346**	**0**	**0**	**346**

All remuneration of the managing board is fixed and short-term. In the business year, neither severance pay nor bonus payments were made to members of the managing board. Pension promises and/or pension or severance pay promised in the event of termination of activities, do not exist. There are no share-based remuneration components.

Claims against and/or liabilities to related persons exist as follows as per 31.12.2007:

Data in T€	Claims	Liabilities
Supervisory board members	290	17
Thomas M. Stein	0	0
Volker Neumüller	18	450
Total	**308**	**467**

17.2 Auditors’ fee

In business 2007, the auditors were paid fees of a total of EUR 50 thousand for the audit examination and EUR 18 thousand for other services, these being entered as expense items.

17.3 Number of employees

The 313 Music JWP group employed an average of 19 employees, including shipping, in the business year 2007. There are no trainees and part-time employees. This includes 7 employees with foreign companies included on pro-rata basis.

18 Board members

The Supervisory Board has the following composition:

Jürgen Uhlemann, businessman, Siek
Chairman since April 4, 2008
- no other offices -

Dr. Thomas Griebe, attorney at law, Hamburg
Deputy Chairman since June 5, 2008
- no other offices -

Karl-Heinz Klempnow, businessman, Berlin
since Jan. 1, 2008
Deputy Supervisory Board Chairman of GEMA, Berlin; member of the Advisory Council of GEMA Stiftung, Berlin

Stefan Grau, tax consultant/auditor, Paphos-Tala, Cyprus,
Deputy Chairman since Sept. 7, 2007
Supervisory Board Chairman of Ymos AG, Obertshausen

Manfred Gustav Karl Atzert, banking specialist, Hamburg
Chairman from July 3, 2007 to March 28, 2008
- no other offices -

Holm Tippner, attorney at law, Munich –
From March 20 – Dec. 31, 2007
Supervisory Board Chairman of Allgemeine Leasing München AG

Marlis Weidtmann, businesswoman, Heiligenhaus
Deputy Chairman from July 3 – August 27, 2007
Member of the Supervisory Board of Verlag Blazek & Bergmann seit 1891 Aktiengesellschaft, Düsseldorf

Hartmut Fromm, attorney-at-law, Berlin
Chairman until July 3, 2007

Supervisory Board Chairman of IMW Immobilien AG, Berlin; Supervisory Board Chairman of M. Tech Technologie und Beteiligungs AG, Unterensingen; Member of the Supervisory Board and Deputy Supervisory Board Chairman of CeWe Color Holding AG, Oldenburg; member of the Supervisory Board of All Welding Technologies AG, Hanau; President of the Administrative Board of Vermar Verwaltungs- und Marktstudien AG, Zurich (Switzerland); member of the Administrative Board of DUX Trust Partners AG, Triesen (Duchy of Liechtenstein); member of the Advisory Board of Homburg N.V. and Homburg Invest Inc., Soest (Netherlands); member of the Board of Management and Treasurer of Kaiser-Friedrich-Museums-Verein, Berlin.

Albert Czapski, independent media consultant, Munich
Until July 3, 2007
- no other offices -

Christoph Schmidt, consultant, Neubiberg
Deputy Chairman until March 20, 2007
- no other offices -

Composition of the Management Board:

Thomas M. Stein, businessman, Baldham
- CEO since March 1, 2006

Volker Neumüller, businessman, Berlin
- member of the Management Board since Sept. 13, 2007 -

Horst Nussbaum, also known as Jack White, businessman, Kitzbühel
- CEO until Feb. 28, 2006 -
- member of the Management Board until Jan. 31, 2007 -

As at the balance-sheet date, the ownership structure was as follows:

Structure of Shareholders	Amount of Shares (Piece)	Anteil am Grundkapital (%)
Free float	6,350,000	73.84
Effecten-Spiegel AG	1,650,000	19.19
Heinz Heiler	600,000	6.98
Total	**8,600,000**	**100**

On July 17, 2007 we were informed by Effecten-Spiegel AG pursuant to section 21 I German Securities Trading Act (WpHG) that the share in voting rights held by Effecten-Spiegel AG in 313 Music JWP AG fell below the 20% threshold on July 11, 2007 and as at that date came to 19.49%. This announcement was published pursuant to section 26 I WpHG on July 17, 2007.
Mr. Heiler has given the Company confirmation that as at Dec. 31, 2007, he held 600,000 shares; no disclosure was made, as the figure did not imply his stake moving through or falling beneath a particular threshold.

19 Declaration under section 161 German Stock Corporation Act (AktG)

The Company has issued the declaration of compliance with the German Corporate Governance Code as required by section 161 AktG and made it permanently available to shareholders on the Company’s Website.

20 Responsibility statement

We confirm that to the best of our knowledge and in accordance with the applicable accounting principles, the annual financial statements present a true and fair picture of the financial status and profitability of the Group and that the Status Report offers a true and fair review of the course of business, including the Group’s performance and position, together with a description of the principle opportunities and risks associated with the expected development of the Group.

Unterföhring, 10 July 2008
The managing board

Thomas M. Stein Volker Neumüller

CONFIRMATION NOTE

We audited the group financial statement prepared by 313 Music JWP AG – consisting of balance sheet, profit and loss account, equity capital change account, flow of funds statement and appendix – as well as the group annual report for the business year from 1.1.2007 to 31.12.2007. Preparation of the group financial statement and group annual report in accordance with the IFRS, as applicable in the EU, and the supplemental applicable commercial requirements according to § 315a para. 1 HGB is the responsibility of the legal representatives of the company. It is our task to provide an assessment of the group financial statement and group annual report on the basis of the audit performed by us.

We have performed our audit of the group financial statement according to § 317 HGB, taking into account the principles of proper audits set forth by the Institut der Wirtschaftsprüfer (IDW). Accordingly, the audit is to be planned and performed in such a manner that misrepresentations and violations, which have a significant impact on the presentation of the picture presented by the group financial statement, taking into account the applicable accounting requirements, and by the group annual report of the assets, financial and earnings situation are detected with sufficient certainty. In definition of the audit activities, knowledge of the business activities and the economic and legal environment of the group, as well as the expectations concerning potential errors are taken into account. During the audit, the effectiveness of the accounting-related internal control system as well as evidence for the data in the group financial statement and group annual report is primarily assessed on the basis of spot checks. The audit includes the assessment of the financial statements of companies included in the group financial statement, the demarcation of the consolidation group, the applied accounting and consolidation principles and the main assessments of the legal representatives, as well as the appreciation of the overall presentation of the group financial statement and group annual report. It is our opinion that our audit forms a sufficiently certain basis for our assessment.

Our audit did not result in any objections.

According to knowledge gained in the course of our audit, the group financial statement is in accordance with the IFRS, as applicable in the EU, and the supplemental applicable commercial requirements according to § 315a para. 1 HGB, and in consideration of these requirements presents a picture of the group's assets, financial and revenue situation in line with the actual conditions. The group annual report is in harmony with the group financial statement, presents and overall true picture of the situation of the group and presents the chances and risks of the future development faithfully.

Without limiting this assessment, we refer to the statements made in the annual report and the appendix to the group financial statement. In section "Overall risk" of the annual report, the managing board stated that the group financial statement as per 31.12.2007 was prepared under the going-concern premise, but that the continuation of the company is dependent presupposes that the reorganization performed by the company is not significantly affected by external factors, and that the future earnings assumed in the financial plans are actually realized, where the prognosis entails considerable uncertainty based on the business model itself. Furthermore, the managing board did not exclude that, within the framework of the reorganization, the company must be provided with liquidity by another capital increase.
In the group appendix, the managing board stated in section "Use of estimates" that the estimates for the assessment of the value of the goodwill as well as the valuation of active deferred taxes also entail considerable uncertainty based on the business model itself.

Neuss, 11 July 2008

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- Wirtschaftsprüfungsgesellschaft -

Jörg Wisbert

Certified public accountant