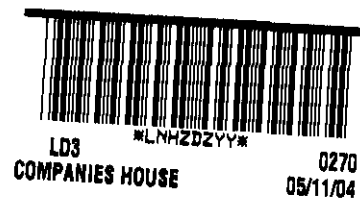


Universal Music Operations Limited
(Registered Number: 950138)

Directors' Report and Financial Statements
for the year ended 31 December 2003



Universal Music Operations Limited

Directors' Report for the year ended 31 December 2003

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activity

The company's principal activity during the year was to distribute and market records, music cassettes together with compact discs and videos. The company expects this activity to continue for the forthcoming year.

Business review

The results of the company for the year ended 31 December 2003 are set out on page 5 of the financial statements. These are in line with the expectations of the directors.

Results and dividends

The company's profit after taxation for the year was £6,805,000 (year ended 31 December 2002: £40,175,000).

On 28 February 2003 the holder of all of the issued fixed rate non redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends (year ended 31 December 2002: £5,782,970). The directors do not recommend the payment of a dividend on the ordinary shares in issue (year ended 31 December 2002: £nil). The retained profit for the year of £6,805,000 (year ended 31 December 2002: £34,392,000) has been transferred to reserves.

Directors and their interests

The directors who held office during the year and subsequently were as follows:

TC Fisher	
Universal Music UK Ltd	
PD Thompson	(resigned 31 July 2004)
LC Grainge	
MJ Swatton	
RM Constant	
MN Henny	
G Castell	(appointed 6 March 2003)
DT Bryant	(appointed 1 August 2003)

At no time during the year did any director have any interest which is required to be notified to the company under Section 324 of the Companies Act 1985.

Universal Music Operations Limited

Directors' Report for the year ended 31 December 2003 (continued)

Disabled employees

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

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

Employee involvement

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

Charitable and political donations

During the year the company made charitable donations of £18,333 (year ended 31 December 2002: £4,073,373). The company made no political donations in either period.

Elective resolutions

An elective resolution under Section 379A of the Companies Act 1985 has been in place since 29 November 1990, dispensing with the following provisions:

- the laying of the annual report and financial statements before the company in general meeting;
- the holding of an annual general meeting; and
- the requirement to reappoint annually the registered auditors of the company in general meeting.

The provisions of this elective resolution will apply for subsequent years until the election is revoked.

Universal Music Operations Limited

Directors' Report for the year ended 31 December 2003 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



DT Bryant
Director

1 Sussex Place
London
W6 9XS

29 October 2004

Universal Music Operations Limited

Independent auditors' report to the members of Universal Music Operations Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 October 2004

Universal Music Operations Limited

Profit and loss account for the year ended 31 December 2003

	Note	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Turnover	2	288,479	294,804
Cost of sales		(199,639)	(195,962)
Gross profit		88,840	98,842
Distribution costs		(19,068)	(19,487)
Administrative expenses		(88,514)	(58,068)
Operating (loss) / profit		(18,742)	21,287
Interest receivable and similar income	6	49,904	18,207
Amounts written off investments	3	-	(2,950)
Interest payable and similar charges	7	(7,656)	(190)
Profit on ordinary activities before taxation	3	23,506	36,354
Taxation (charge) / credit on profit on ordinary activities	8	(16,701)	3,821
Profit for the financial year		6,805	40,175
Dividends	9	-	(5,783)
Profit on ordinary activities after taxation and retained profit for the financial year	18	6,805	34,392

The company's results were entirely from continuing operations.

The company has no material recognised gains and losses other than the profit reported above and therefore no separate statement of total recognised gains and losses has not been presented.

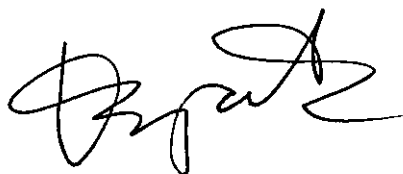
There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

Universal Music Operations Limited

Balance sheet as at 31 December 2003

	Note	31 December 2003 £'000	31 December 2002 £'000 As Restated
Fixed assets			
Tangible assets	10	18,789	21,130
Investments	11	1,724	1,624
		20,513	22,754
Current assets			
Stock	12	698	1,109
Debtors	13	1,313,561	739,701
Cash at bank and in hand		93,258	17,373
		1,407,517	758,183
Creditors: amounts falling due within one year	14	(1,051,765)	(545,454)
Net current assets		355,752	212,729
Total assets less current liabilities		376,265	235,483
Creditors: amounts falling due after one year	15	(136,535)	(719)
Provisions for liabilities and charges	16	(789)	(2,628)
Net assets		238,941	232,136
Capital and reserves			
Called-up share capital	17	17	17
Share premium account	18	135,998	135,998
Profit and loss account	18	102,926	96,121
Total shareholders' funds	18	238,941	232,136
Analysis of shareholders' funds			
Equity shareholders' funds		102,941	96,136
Non-equity shareholders' funds	17	136,000	136,000
Total shareholders' funds	18	238,941	232,136

The financial statements on pages 5 to 23 were approved by the board of directors on 29 October 2004 and were signed on its behalf by:



DT Bryant
Director

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

1 Accounting policies

a) Basis of preparation

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

As the immediate parent undertaking is incorporated within the European Union and the results of the company are included within the publicly available consolidated accounts of Vivendi Universal S.A., the company has taken advantage of the exemption under section 228 of the Companies Act 1985 from preparing consolidated accounts. As such, these financial statements give information about the company as an individual undertaking and not about its group.

Cashflow statement and related party disclosures

The company is a wholly owned subsidiary of Vivendi Universal S.A. who control 90% or more of the voting rights and is included in the consolidated financial statements of the group, which are publicly available. Consequently, the company has taken advantage of the exemption in Financial Reporting Standard ("FRS") 1 from preparing a cash flow statement and the exemption of FRS 8 from disclosing transactions with entities that are part of the Vivendi Universal S.A. group or investees of that group.

Restatement of prior year comparatives

Intercompany debtors and creditors at 31 December 2002 have been restated to gross up balances held in the same entity, where no right of offset existed, that had previously been netted. This restatement has no effect on either net assets or profit for the period.

b) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is charged on a straight line basis to write-off the cost of the assets less residual value over their estimated useful lives.

Rates of depreciation are:

Land and buildings	2% - 7%
Plant & equipment:	2% - 25%
Motor vehicles	25%

c) Investments

Investments in subsidiary and associated undertakings are stated at cost less provision for impairment.

d) Turnover

Turnover represents the invoiced value of services excluding value added tax. Turnover is attributable to one activity, recorded music.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

1 Accounting policies (continued)

e) Royalties and advances

United Kingdom royalty income is credited to the profit and loss account on a receipts basis. Royalties payable are charged against the relevant income of the same period. Overseas royalty income, which is all collected on behalf of the company by other group undertakings, is credited to the profit and loss account in the period overseas sales are reported to the company.

Advances to unproven artists are expensed. Advances to other artists are written down to the estimated amount that will be recoverable from future royalty receipts. Net advances to artists are classified within trade debtors although advances may be recoverable after more than one year.

f) Stock

Stock is stated at the lower of cost and estimated net realisable value. Provision is made for obsolete and slow moving items, where appropriate.

g) Lease commitments

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

h) Deferred taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and loss and its results as stated in the financial statements. No deferred tax is recognised on permanent differences.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and law that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

1 Accounting policies (continued)

i) Foreign currencies

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

j) Pension and other retirement benefits

The company contributes to a group pension scheme operated by Vivendi Universal S.A. Contributions and pension costs are based on pension costs across the group as a whole. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employee's services. The effects of variations from regular costs are spread over the expected remaining working lifetime of members of the Scheme after making suitable allowances for future withdrawals.

2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
United Kingdom	265,663	264,851
Europe	11,191	14,814
United States of America	6,490	8,537
Other	5,135	6,602
	288,479	294,804

Turnover by source is exclusively derived in the United Kingdom.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

3 Profit on ordinary activities before taxation

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation on tangible fixed assets:		
- owned	5,911	3,583
- leased	275	1,154
Profit on disposal of tangible fixed assets	(95)	(182)
Exchange (gains)/losses	(194)	57
Operating lease charges:		
- plant and machinery	774	1,108
Amounts written off investments	-	2,950
Auditors' remuneration:		
Audit services	210	250

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £128,000 (year ended 31 December 2002: £150,000).

Amounts payable to the auditors by the company in respect of non-audit services were £nil (year ended 31 December 2002: £nil).

Amounts due from UK group undertakings

For the year ended 31 December 2003 a provision has been made against an amount owed to a group undertaking of £30,581,000.

Amounts written off investments

For the year ended 31 December 2002 an impairment was booked against the carrying value of investment in Fiction Records Limited.

4 Directors' emoluments

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Aggregate emoluments	4,060	1,629
Company contributions to defined benefit schemes	343	58
Company contributions to money purchase benefit schemes	10	1
	4,413	1,688

The aggregate emoluments of the highest paid director, excluding pensions contributions, were £2,574,490 (year ended 31 December 2002: £797,182).

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

4 Directors' emoluments (continued)

Retirement benefits are accruing to five directors (year ended 31 December 2002: five) under a defined benefit scheme. The accumulated retirement benefits accruing to the highest paid director were £192,921 (year ended 31 December 2002: £165,018).

Retirement benefits are accruing to one director (year period ended 31 December 2002: one) under a money purchase benefit scheme.

The gains on exercise of share options were £nil (year period ended 31 December 2002: £nil) and the amounts receivable to the directors under long term incentive schemes were £nil (year ended 31 December 2002: £nil).

5 Employee information

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

	Year ended 31 December 2003 No.	Year ended 31 December 2002 No.
Commercial and administrative	777	751

Their aggregate remuneration comprised:

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Wages and salaries	29,165	28,224
Social security costs	3,120	2,722
Other pension costs	1,486	948
Staff costs	33,771	31,894

6 Interest receivable and similar income

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Interest receivable from banks and other interest receivable	710	313
Interest receivable from group companies	49,194	17,894
	49,904	18,207

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

7 Interest payable and similar charges

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Interest payable on finance leases	84	97
Interest payable on bank overdraft and other interest payable	7,572	93
	7,656	190

8 Tax on profit on ordinary activities

(a) Analysis of (credit)/charge in period	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Current tax		
UK corporation tax at 30% (31 December 2002: 30%)	15,803	10,790
Group relief payable re losses for the period	1,577	-
Adjustments in respect of previous periods:		
UK corporation taxation	1,062	(285)
Group relief	-	(15,738)
Foreign taxation suffered at source	684	760
Double taxation relief claim	(586)	(651)
Total current taxation (see (b) below)	18,540	(5,124)
Deferred taxation for the period	(823)	(331)
Adjustments in respect of previous periods	(1,016)	1,634
Deferred taxation charge / (credit) (see Note 16)	(1,839)	1,303
Total taxation charge/(credit)	16,701	(3,821)

Adjustments for 2002 in respect of previous periods primarily relate to write off of prior year group relief due to a group management decision to not pay for these losses.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

8 Tax on profit on ordinary activities (continued)

(b) Factors affecting tax (credit)/charge for the period	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Profit on ordinary activities before tax	23,506	36,354
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (year ended 31 December 2002: 30%)	7,052	10,906
Effects of :	331	403
Expenses not deductible for tax purposes		
Appropriations deductible for tax purposes		
- Preference dividends recharacterised as interest costs	-	(1,735)
Adjustments to tax charge in respect of prior periods		
UK corporation taxation	1,062	(285)
Group relief not paid for	-	(15,738)
Accelerated capital allowances	426	331
Short term timing differences	397	-
Higher tax rates on overseas earnings	98	109
Amounts written off investments not deductible for tax purposes	-	885
Provision against intercompany balances	9,174	-
Losses surrendered and utilised for no consideration	-	-
Total current tax charge / (credit)	18,540	(5,124)

(c) Factors that may affect future tax charges : None (2002: none)

9 Dividends

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Non-equity: preference		
Interim dividend paid of £nil per £1 share (2002: £1,195 per £1 share)	-	2,443
Final dividend paid of £nil per £1 share (2002: £1,633 per £1 share)	-	3,340
	-	5,783

On 28 February 2003 the holder of all of the issued fixed rate non redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends (year ended 31 December 2002: £5,782,970).

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

10 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2003	14,569	20,274	1,778	36,621
Additions	280	3,431	249	3,960
Transfers from group undertakings	-	6	24	30
Transfers to group undertakings	(1)	(4)	(24)	(29)
Disposals	-	-	(627)	(627)
At 31 December 2003	14,848	23,707	1,400	39,955
Depreciation				
At 1 January 2003	2,879	11,858	754	15,491
Charge for year	696	5,174	316	6,186
Transfers from group undertakings	-	4	18	22
Transfers to group undertakings	-	(4)	(17)	(21)
Disposals	-	-	(512)	(512)
At 31 December 2003	3,575	17,032	559	21,166
Net book amount				
At 31 December 2003	11,273	6,675	841	18,789
At 31 December 2002	11,690	8,416	1,024	21,130

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
The net book amount of land and buildings comprises:		
Freehold	9,282	9,282
Short leaseholds	1,991	2,408
	11,273	11,690

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Assets held under finance leases and capitalised in plant and machinery		
Cost	1,529	1,688
Accumulated depreciation	(635)	(662)
Net book amount	894	1,026

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

11 Fixed asset investments

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
Cost			
At 1 January 2003	4,574	23	4,597
Additions	100	-	100
At 31 December 2003	4,674	23	4,697
Provision for impairment			
At 1 January 2003 and at 31 December 2003	(2,950)	(23)	(2,973)
Net book value			
At 31 December 2003	1,724	-	1,724
At 31 December 2002	1,624	-	1,624

The company's investment in a Limited Partnership represents a 50% share in Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom. The aggregate investment in associated undertakings and in the limited partnership under equity accounting at 31 December 2003 is £nil (31 December 2002: £nil).

Subsidiary undertakings

The group has the following investments in subsidiary undertakings:

Name	Country of registration	Ordinary share holdings	Nature of business
Attitude Records Limited	England and Wales	100%	Licensing and distributing of recorded music
Fiction Records Limited	England and Wales	100%	Licensing and distributing of recorded music
Serious Records Limited	England and Wales	100%	Licensing and distributing of recorded music

All companies are directly owned. The company acquired the remaining 50% interest in Serious Records Limited on 1 August 2003 at a cost of £100,000.

12 Stock

	31 December 2003 £'000	31 December 2002 £'000
Finished goods and goods for resale	698	1,109

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

13 Debtors

	31 December 2003 £'000	31 December 2002 £'000 As Restated
Debtors: amounts falling due within one year		
Trade debtors	154,788	168,396
Amounts due from group undertakings:		
Overseas group undertakings	610,673	136,765
UK group undertakings	409,226	424,286
UK corporation tax	-	2,412
Other debtors	2,395	4,779
Prepayments and accrued income	479	3,063
	1,177,561	739,701
Debtors: amounts falling due after one year		
Amounts due from group undertakings:		
UK group undertakings	136,000	-
	1,313,561	739,701

Included within trade debtors are advances to artists of £22,451,000 (31 December 2002: £24,975,000).

Included within amounts due from overseas group undertakings are the following interest bearing amounts:

- £136,000,000 (31 December 2002: £136,000,000) in respect of an intercompany balance with a fellow group undertaking, Vivendi S.A. Interest accrues on the balance at the 1 month LIBOR rate + 2.0% (31 December 2002: 1 month LIBOR rate + 2.0%).
- £464,151,000 (31 December 2002: £nil) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S.A. Interest accrues on the balance at the 1 month LIBOR rate + 2.0% (31 December 2002: nil%).

Included within amounts due from United Kingdom group undertakings are the following interest bearing amounts:

- £207,674,000 (31 December 2002: £203,558,000) in respect of an intercompany balance with a fellow group undertaking, Universal Music Leisure Limited. Interest accrues on the balance at the rate of 6% (31 December 2002: 6%).

Included within amounts falling due after one year from United Kingdom group undertakings is the following interest bearing loan:

- £136,000,000 (31 December 2002: £nil) in respect of an intercompany loan with a fellow group undertaking, Centenary UK Limited. Interest accrues on the loan at the 6 month LIBOR rate + 3.25% (31 December 2002: nil%). The loan is unsecured and falls due for repayment on 31 December 2007.

All other amounts due from group undertakings are unsecured, interest free and repayable on demand.

Amounts due from group undertakings as at 31 December 2002 have been restated to correct the classification of intercompany payables to group undertakings, which had been included within amounts receivable from group undertakings.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

14 Creditors: amounts falling due within one year

	31 December 2003 £'000	31 December 2002 £'000 As Restated
Obligations under finance leases	378	426
Trade creditors	112,253	109,444
Amounts owed to group undertakings:		
Overseas group undertakings	7,839	13,890
UK group undertakings	828,769	336,401
Corporation tax	44,103	27,913
Other taxation and social security	15,783	19,400
Other creditors	9,965	9,408
Accruals and deferred income	32,675	28,572
	1,051,765	545,454

Amounts due to group undertakings are unsecured, interest free and repayable on demand. Amounts due to group undertakings as at 31 December 2002 have been restated by to correct the classification of intercompany payables to group undertakings, which had been included within amounts receivable from group undertakings.

15 Creditors: amounts falling due after one year

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Finance leases (see note 19)	535	719
Bank loans	136,000	-
	136,535	719

The bank loan of £136,000,000 was repayable in full on 31 December 2007. Subsequent to the year-end, the directors made a decision to repay the loan in full on 14 May 2004.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

16 Provisions for liabilities and charges

Deferred tax liability:

	Year ended 31 December 2003 £'000
Liability at the start of period	2,628
Credit for the year (see note 8(a))	(1,839)
Liability at the end of the period	789

The following deferred tax liabilities have been provided:

	Year ended 31 December 2003			Year ended 31 December 2002		
	Provided £000	Not Provided £000	Total £000	Provided £000	Not Provided £000	Total £000
Accelerated capital allowances	1,030	-	1,030	(379)	-	(379)
Other short term timing differences	(1,819)	-	(1,819)	(2,249)	-	(2,249)
	(789)	-	(789)	(2,628)	-	(2,628)

17 Called-up share capital

	31 December 2003 £'000	31 December 2002 £'000
Authorised:		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	2
	17	17
Allotted, called-up and fully paid:		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	2
	17	17

The preference shares carry the right to preferential dividends at the rate of 4.82% of the amount paid up (including the premium). The shares carry the following rights and obligations:

- (i) On a return of assets, on a winding-up, or otherwise, the shares carry the right to a sum equal to all arrears or accruals of the fixed dividend to the date of commencement of the winding-up and no right to repayment of capital. Holders of non-redeemable preference shares are not entitled to any right of participation in the assets of the company.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

17 Called-up share capital (continued)

- (ii) The shares carry the right to receive notice of or to attend or vote at General Meetings of the company. Whenever the holders of preference shares are entitled to vote on a resolution at a general meeting of the company, the shares carry the right to one vote per share.
- (iii) The shares carry the right to two preferential dividends on 30 June and 31 December per annum at the rate of 4.82% of the amount paid up (including the premium), or any amount which falls to be treated as paid up, on each preference share. Holders of preference shares are not entitled to any further right of participation in the profits of the company.

18 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2003	17	135,998	96,121	232,136
Retained profit for the year	-	-	6,805	6,805
At 31 December 2003	17	135,998	102,926	238,941

19 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	31 December 2003		31 December 2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	138	19	-	28
In the second to fifth years inclusive	260	-	159	21
Over five years	1,209	-	1,469	-
	1,607	19	1,628	49

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

19 Financial commitments (continued)

Future commitments under non-cancellable finance leases are as follows:

	31 December 2003 Plant & equipment £'000	31 December 2002 Plant & equipment £'000
Gross lease rentals outstanding	1,013	1,342
Less: Finance charges outstanding	(100)	(197)
Net obligations	913	1,145
On demand or within one year	378	426
Due between one and two years	276	303
Due between two and five years	259	416
Net obligations	913	1,145

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

20 Pension scheme arrangements

Vivendi Universal S.A ("the group") operates the Vivendi Universal Pension Scheme ("the Scheme"), formerly known as the Seagram Distillers plc Pension Scheme in the United Kingdom designed to provide retirement benefits for the majority of its employees. The Scheme is independent of the group and is trustee administered. The Scheme has been approved by the Inland Revenue for taxation purposes.

The Scheme is a mixed defined benefit and defined contribution Scheme and operates on a pre-funded basis. The defined benefit membership of the Scheme is split into two separate sections: the Seagram Wines and Spirits Group (SWSG) section and the Universal section.

The Scheme is a multi-employer Scheme, and hence the actuarial valuation relates to the Scheme as a whole, not solely to Universal Music Operations Limited. Formal actuarial valuations are carried out on a triennial basis. The most recent valuation was undertaken by the independent actuaries, Mercer Human Resource Consulting as at 6 April 2001. The results of the valuation as at 6 April 2004 will be known later on in 2004.

The pension cost for the Scheme has been assessed using the projected unit basis, with surpluses or deficits experienced being spread over the average remaining working lives of the members, at a constant percentage of payroll costs. Assets were valued based on their market value.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return of investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6.5% per annum, that salary increases would average 4.0% per annum (including an allowance for age related and merit increases) and that present and future pension increases for the Universal section members would be 2.5% per annum. For SWSG members, allowance is made for pension increases at 2.5% per annum on benefits accrued from 6 April 1997.

At 6 April 2001 the market value of the assets for the Universal defined benefit section was £40,930,000 which was sufficient to cover 136% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following the results of this valuation, the Trustees agreed to remove the pensionable salary offset for active members on 1 January 2002. This had the effect of reducing the asset coverage to 129% of accrued benefits at 6 April 2001.

The long term contribution rates revealed by the valuation for the Universal defined benefit section were 9.3% for the company, and 6% for employees. In view of the surplus in the section, the company contributions were suspended from 1 January 2002 until 31 July 2002 and resumed from 1 August 2002 at a rate of 12.8%.

For the year ended 31 December 2003 the total pension cost for the company was £1,486,000 (year ended 31 December 2002: £948,000). At 31 December 2003 there were no accrued or prepaid pension costs (31 December 2002: £nil).

The company has no significant exposure to any other post-retirement benefits obligations.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

20 Pension scheme arrangements (continued)

FRS 17 Disclosures

The Group has not yet adopted FRS 17, however it has complied with the disclosure requirements of the transitional provisions of the standard. The FRS 17 disclosures are as follows:

Vivendi Universal S.A ("the group") operates the Vivendi Universal Pension Scheme ("the Scheme"), formerly known as the Seagram Distillers plc pension Scheme in the United Kingdom. The Scheme is a mixed defined benefit and defined contribution Scheme. In assessing the company pension liabilities, allowance is also made for unapproved pension benefits provided with the Scheme. The contributions paid by the Company are accounted as if the Scheme were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities in the Scheme.

The pension liability in respect of the Scheme as at 31 December 2003, including allowance for additional liabilities in respect of discretionary pension increases on benefits accrued in the SWSG Section prior to 6 April 1997, amounted to £79.1 million before allowance for deferred tax.

Post balance sheet event

On 23 March 2004, the chairman of the Trustees received notice from the parent company, Vivendi Universal S.A., that no discretionary increase on pensions in payment accrued in the SWSG section prior to 6 April 1997 would be paid in 2004 due to the funding position of the Scheme. Discretionary increases in future years will depend on the funding position impact and other associated factors, at those times.

The constructive obligation in respect of these discretionary increases recognised as at 31 December 2003 is deemed to have been removed by a subsequent event and the removal of this obligation will be taken into account in the valuation underway as at 6 April 2004.

The future pension costs under current accounting standards are largely based on the results of the last formal actuarial valuation. The last valuation was as at 6 April 2001. Valuations are carried out on a triennial basis and the results of the next formal valuation, as at 6 April 2004, will not be available until later on in 2004.

The pension liability in respect of the Scheme as at 31 December 2003 excluding any allowance in respect of the discretionary pension increases set out above amounted to £52.2 million, before allowance for deferred tax.

21 Post balance sheet event

Group centralisation project

On 22 June 2004 the company entered into a new property lease as part group's programme to centralise music operations in the UK. As a result, several properties are to be vacated. Management are currently undertaking an exercise to estimate the costs of exiting the current property arrangements.

Universal Music Operations Limited
Notes to the financial statements for the year ended 31 December 2003
(continued)

22 Ultimate controlling party

The immediate parent undertaking is Universal Music Leisure Limited. The ultimate parent undertaking and controlling party is Vivendi Universal S.A., a company incorporated in France. The smallest and largest group in which the results of the company are consolidated will be that headed by Vivendi Universal S.A. incorporated in France. Copies of its annual report in English may be obtained from:

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