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Universal Music Operations Limited
(Registered Number: 950138)

Directors' Report and Financial Statements
for the year ended 31 December 2005



Universal Music Operations Limited

Directors' report for the year ended 31 December 2005

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activity

The company's principal activity during the year was to market and distribute recorded music and videos. The directors expect these activities to continue into the foreseeable future.

Business review

The results of the company for the year ended 31 December 2005 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 £28,136,000 (2004: £56,796,000).

On 7 March 2006 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. The directors do not recommend the payment of a dividend on the ordinary shares in issue (2004: £nil). The retained profit for the year of £28,136,000 (2004: £56,796,000) has been transferred to reserves.

Directors and their interests

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

DT Bryant
G Castell (resigned 12 May 2005)
R M Constant
TC Fisher
L C Grainge
M N Henny
MJ Swatton
Universal Music UK Ltd

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.

Qualifying third-party indemnity provisions for the benefit of directors

Under the Companies (Audit, Investigations and Community Enterprise) Act 2004 (which amends the Companies Act 1985), companies are under an obligation to disclose any indemnities which are in force in favour of their directors. Vivendi Universal SA, the ultimate parent undertaking, maintains a Directors & Officers Liability Programme which indemnifies directors' personal liabilities resulting from alleged wrongful acts committed in the line of their employment.

Universal Music Operations Limited

Directors' report for the year ended 31 December 2005 (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 £27,626 (2004: £20,235). The company made no political donations in either year.

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

Elective resolutions

On 29 November 1990, an elective resolution under Section 379A of the Companies Act 1985 was passed in respect of 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 2005 (continued)

Statement of directors' responsibilities

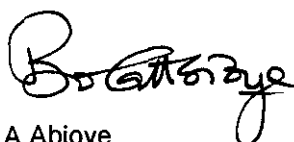
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern 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 2005 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.

At the date of approving this report, so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors confirm that they have taken all necessary steps, as directors, to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information.

By order of the Board



A Abioye
Company Secretary

364-366 Kensington High Street
London
W14 8NS

31 March 2006

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

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.


Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered auditor
London

31 March 2006

Universal Music Operations Limited

Profit and loss account for the year ended 31 December 2005

	<i>Note</i>	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Turnover	2	272,276	304,867
Cost of sales		(177,721)	(211,167)
Gross profit		94,555	93,700
Distribution costs		(17,997)	(20,152)
Administrative expenses		(63,988)	(57,763)
Operating profit		12,570	15,785
Amounts written off investments		(624)	-
Interest receivable and similar income	6	32,465	51,136
Interest payable and similar charges	7	(1,253)	(4,394)
Profit on ordinary activities before taxation	3	43,158	62,527
Taxation charge on profit on ordinary activities	8	(15,022)	(5,731)
Profit on ordinary activities after taxation and retained profit for the financial year	18	28,136	56,796

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 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 2005

	Note	31 December 2005 £'000	31 December 2004 Restated £'000
Fixed assets			
Tangible assets	10	21,001	17,017
Investments	11	1,100	1,724
		22,101	18,741
Current assets			
Stock	12	874	1,229
Debtors	13	1,387,572	1,257,344
Cash at bank and in hand		1,918	115,460
		1,390,364	1,374,033
Creditors: amounts falling due within one year	14	(1,087,856)	(1,094,758)
Net current assets		302,508	279,275
Total assets less current liabilities		324,609	298,016
Creditors: amounts falling due after one year	15	(231)	(473)
Provisions for liabilities and charges	16	(505)	(1,806)
Non redeemable preference shares	17	(136,000)	(136,000)
Net assets		187,873	159,737
Capital and reserves			
Called-up share capital	17	15	15
Profit and loss account	18	187,858	159,722
Total shareholders' funds	18	187,873	159,737
Analysis of shareholders' funds			
Equity shareholders' funds		187,873	159,737
Total shareholders' funds	18	187,873	159,737

The financial statements on pages 5 to 24 were approved by the board of directors on 31 March 2006 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 2005

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 financial statements of Vivendi Universal S.A., the company has taken advantage of the exemption under section 228 of the Companies Act 1985 from preparing consolidated financial statements. As such, these financial statements give information about the company as an individual undertaking and not about its group.

Cash flow 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.

Change in accounting policy

The company has adopted FRS 25 (IAS 32) Financial Instruments: Disclosure and Presentation during the year. Consequently, the company has reclassified the 4.82% non-redeemable preference shares from share capital to financial liabilities.

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, and royalty income. Turnover is attributable to one activity: the marketing and distribution of recorded music.

e) Royalties and advances

United Kingdom royalty income is credited to the profit and loss account on a receipts basis. 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. Royalties payable are charged against the relevant income of the same period.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

1 Accounting policies (continued)

e) Royalties and advances (continued)

Advances to unproven artists are expensed. Advances to other artists are written down to the estimated amount that will be recoverable from future royalty payments to the artist. 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.

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.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

1 Accounting policies (continued)

j) Pension and other post-retirement benefits

The company participates in a scheme, in the UK, ultimately operated by Vivendi Universal S.A. – the Vivendi Universal Pension Scheme ("The Scheme").

The company has adopted the reporting requirements of Financial Reporting Standard 17 'Retirement Benefits' in its financial statements from 1 January 2005.

2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
United Kingdom	245,351	284,322
Europe	11,383	7,649
United States of America	8,195	7,715
Other	7,347	5,181
	272,276	304,867

Turnover by source is exclusively derived in the United Kingdom.

3 Profit on ordinary activities before taxation

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation on tangible fixed assets:		
- owned	2,173	3,413
- leased	220	244
Loss / (profit) on disposal of tangible fixed assets	15	(52)
Exchange loss / (gain)	586	(557)
Operating lease charges:		
- plant and machinery	-	-
- land and buildings	2,726	2,071
Auditors' remuneration:		
Audit services	170	157

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £140,000 (2004: £99,000).

Amounts payable to the auditors by the company in respect of non-audit services were £nil (2004: £nil).

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

3 Profit on ordinary activities before taxation (continued)

Amounts due from UK group undertakings

For the year ended 31 December 2005 a provision has been made against an amount due from a group undertaking of £1,315,000 (2004: £779,000).

4 Directors' emoluments

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Aggregate emoluments	3,473	2,726
Company contributions to money purchase benefit schemes	2,120	13
	5,593	2,739

Retirement benefits are accruing to one director (2004: four) under a Vivendi Universal defined benefit scheme. Accrued benefit ceased in respect of one director on 30 September 2005.

Retirement benefits are accruing to two directors (2004: one) under a Vivendi Universal money purchase benefit scheme.

The aggregate emoluments of the highest paid director, excluding pensions contributions, were £2,536,717 (2004: £1,514,359).

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2005 was £273,001 (2004: £256,335) and the accrued lump sum was £731,250 (2004: £693,750). Accrued benefit to the highest paid director ceased on 31 December 2005.

In addition, the highest paid director is a participant in the Universal Music Group Equity Incentive Plan. Awards of equity units initially vest over the period of his employment contract through the applicable vesting date, with the initial award granted vesting in 2008. Any subsequent awards granted vest over a period as determined by the HR Committee. The vesting and payment rules are based on a pre-determined formula and, on vesting, the Plan is to be paid out in cash. As at 31 December 2005, there is no amount due to the highest paid director under the Plan.

The emoluments of three directors were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company (2004: two).

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

5 Employee information

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

	Year ended 31 December 2005 No.	Year ended 31 December 2004 No.
Commercial and administrative	740	723

Their aggregate remuneration comprised:

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Wages and salaries	31,760	33,950
Social security costs	3,487	3,385
Other pension costs	3,214	1,438
Staff costs	38,461	38,773

6 Interest receivable and similar income

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Interest receivable from banks and other interest receivable	125	205
Interest receivable from group companies	32,340	50,931
	32,465	51,136

7 Interest payable and similar charges

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Interest payable on finance leases	62	77
Interest payable on bank overdraft and other interest payable	7	3,116
Interest payable to group companies	1,184	1,201
	1,253	4,394

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

8 Tax on profit on ordinary activities

(a) Analysis of charge in year	Year ended	Year ended
	31 December	31 December
	2005	2004
	£'000	£'000
Current tax		
UK corporation tax at 30% (2004: 30%)	8,125	17,165
Group relief payable re losses for the year	7,327	1,151
Adjustments in respect of previous years:		
UK corporation taxation	34	(13,614)
Foreign taxation	837	87
Double taxation relief claim	-	(75)
Total current taxation (see (b) below)	16,323	4,714
Deferred taxation for the year	(1,488)	1,022
Adjustments in respect of previous years	187	(5)
Deferred taxation (credit) / charge (see note 16)	(1,301)	1,017
Total taxation charge	15,022	5,731

(b) Factors affecting tax charge for the year	Year ended	Year ended
	31 December	31 December
	2005	2004
	£'000	£'000
Profit on ordinary activities before tax	43,158	62,527
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	12,948	18,758
Effects of :		
Expenses not deductible for tax purposes	620	346
Adjustments to tax (credit) / charge in respect of prior years:		
UK corporation taxation	34	(13,614)
Accelerated capital allowances	(603)	(159)
Short-term timing differences	2,091	(863)
Foreign taxes not creditable against UK tax	838	12
Provision against intercompany balances	395	234
Total current tax charge	16,323	4,714

(c) Factors that may affect future tax charges : None (2004: none)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

9 Dividends

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Non-equity: preference		
Interim dividend paid of £nil per £1 share (2004: £nil)	-	-
Final dividend paid of £nil per £1 share (2004: £nil)	-	-
	-	-

On 7 March 2006 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.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

10 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2005	18,864	11,620	1,400	31,884
Additions	4,975	1,363	145	6,483
Disposals	-	(7)	(337)	(344)
At 31 December 2005	23,839	12,976	1,208	38,023
Depreciation				
At 1 January 2005	5,930	8,379	558	14,867
Charge for year	456	1,695	242	2,393
Disposals	-	(5)	(233)	(238)
At 31 December 2005	6,386	10,069	567	17,022
Net book amount				
At 31 December 2005	17,453	2,907	641	21,001
At 31 December 2004	12,934	3,241	842	17,017

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
The net book amount of land and buildings comprises:		
Freehold	10,401	11,373
Short leaseholds	7,052	1,561
	17,453	12,934

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Assets held under finance leases and capitalised in plant and machinery		
Cost	1,066	1,260
Accumulated depreciation	(495)	(480)
Net book amount	571	780

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

11 Fixed asset investments

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
Cost			
At 1 January 2005	4,674	23	4,697
At 31 December 2005	4,674	23	4,697
Provision for impairment			
At 1 January 2005	(2,950)	(23)	(2,973)
Charge for the year	(624)	-	(624)
At 31 December 2005	(3,574)	(23)	(3,597)
Net book value			
At 31 December 2005	1,100	-	1,100
At 31 December 2004	1,724	-	1,724

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 2005 is £nil (31 December 2004: £nil).

Subsidiary undertakings

The group has the following investments in directly held subsidiary undertakings:

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

All companies are directly owned.

12 Stock

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Finished goods and goods for resale	874	1,229

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

13 Debtors

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Debtors: amounts falling due within one year		
Trade debtors	83,538	107,384
Amounts due from group undertakings:		
Overseas group undertakings	97,809	542,757
UK group undertakings	1,034,282	454,033
Other debtors	28,069	10,318
Prepayments and accrued income	7,874	6,852
	1,251,572	1,121,344
Debtors: amounts falling due after one year		
Amounts due from group undertakings:		
UK group undertakings	136,000	136,000
	1,387,572	1,257,344

Included within trade debtors are advances to artists of £16,672,000 (2004: £24,162,000).
Included within amounts due from overseas group undertakings are the following interest-bearing amounts:

- £70,597,000 (2004: £531,787,000) 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 + 0.2% (31 December 2004: 1-month LIBOR rate + 2.0%).

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

- £221,942,000 (2004: £225,984,000) in respect of an intercompany balance with fellow group undertakings. Interest accrues on the balances at the 1-month LIBOR rate + 0.6% (2004: 1-month LIBOR rate + 0.6%).

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

- £136,000,000 (2004: £136,000,000) 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% (2004: 6-month LIBOR rate + 3.25%). 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.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

14 Creditors: amounts falling due within one year

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Obligations under finance leases	369	321
Trade creditors	146,267	215,552
Amounts owed to group undertakings:		
Overseas group undertakings	4,125	6,197
UK group undertakings	832,068	780,321
Corporation tax	47,263	47,035
Other taxation and social security	11,866	3,675
Other creditors	16,724	14,350
Accruals and deferred income	29,174	27,307
	1,087,856	1,094,758

Included within amounts due to United Kingdom group undertakings is £32,489,000 (2004: £33,289,000) in respect of an intercompany balance with fellow group undertaking, Universal Music Group International Ltd. Interest accrues on the balance at the 1-month LIBOR rate + 0.6% (2004: 1-month LIBOR rate + 0.6%).

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

15 Creditors: amounts falling due after one year

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Finance leases (see note 19)	231	473
	231	473

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

16 Provisions for liabilities and charges

Deferred tax liability:

	2005 £'000
Liability at the start of year	1,806
Charge for the year (see note 8(a))	(1,301)
Liability at the end of the year	505

The following deferred tax liabilities have been provided:

	Year ended 31 December 2005			Year ended 31 December 2004		
	Provided £'000	Not Provided £'000	Total £'000	Provided £'000	Not Provided £'000	Total £'000
Accelerated capital allowances	256	-	256	878	-	878
Other short-term timing differences	(761)	-	(761)	(2,684)	-	(2,684)
	(505)	-	(505)	(1,806)	-	(1,806)

17 Called-up share capital

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 Restated £'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
	15	15

As noted in Note 1(a) the company has reclassified the 4.82% redeemable preference shares from share capital to financial liabilities.

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Notes to the financial statements for the year ended 31 December 2005

17 Called-up share capital (continued)

The preference shares carry the right to preferential dividends at the rate of 4.82% per annum 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.
- (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% per annum 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.
- (iv) On 7 March 2006 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.

The non-redeemable preference shares valued at £2,045 and the related share premium of £135,998,000 are therefore considered non-equity.

18 Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2005	15	159,722	159,737
Retained profit for the year	-	28,136	28,136
At 31 December 2005	15	187,858	187,873

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

19 Leases

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

	Year ended 31 December 2005		Year ended 31 December 2004	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	72	-	245	-
In the second to fifth years inclusive	-	-	-	-
Over five years	3,020	-	2,779	-
	3,092	-	3,024	-

Obligations under non-cancellable finance leases are as follows:

	Year ended 31 December 2005 Plant & equipment £'000	Year ended 31 December 2004 Plant & equipment £'000
Gross lease rentals outstanding	678	895
Less: Finance charges outstanding	(78)	(101)
Net obligations	600	794
On demand or within one year	369	321
Due between one and two years	156	334
Due between two and five years	75	139
Net obligations	600	794

20 Related party transactions

During the year, Universal Music Operations Limited, distributed product on behalf of NBC Universal, a company which is 20% owned by the ultimate parent undertaking, Vivendi Universal S.A.

	Year ended 31 December 2005 £'000	Year ended 31 December 2004 £'000
Distribution Fee Income received	14,103	10,781

At 31 December 2005, Universal Music Operations Limited owed the related party £33,300,000 (2004: £63,844,000).

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Notes to the financial statements for the year ended 31 December 2005

21 Pension scheme arrangements (continued)

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. This is the most significant scheme in the UK and the sponsoring company of this scheme is Centenary Holdings Limited. The Scheme is independent of the group and is trustee administered. The Scheme has been approved by HM Revenue & Customs 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 three different benefit sections (the Seagram Wines and Spirits Group ("SWSG") section, the Vivendi Universal Entertainment section and the Universal Music 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. As a result, the company is unable to separately identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis and therefore accounts for the Scheme as a defined contribution scheme in accordance with FRS 17. This means that pension costs during 2005 for Universal Music Operations Limited reflect actual cash contributions made in 2005.

For the year ended 31 December 2005 the total pension cost for the company was £3,214,000 (2004: £1,438,000).

The pension cost for the Scheme as a whole under FRS 17 has been assessed using the projected unit basis. The defined benefit section of the Scheme is closed to new entrants and therefore, under the projected unit method, the current service cost will increase as the members of the Scheme approach retirement. The Scheme assets were valued based on their market value.

Formal actuarial valuations are carried out on a triennial basis. A full actuarial valuation was carried out on 5 April 2004 by Mercer Human Resource Consulting as independent, professionally qualified actuaries to the Scheme. The results of this valuation have been updated to 31 December 2005 for FRS 17 purposes.

At 5 April 2004 the market value of the assets for the Universal Music Defined Benefit Section was £44,968,000 which was sufficient to cover 103% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The long-term contribution rates revealed by the 5 April 2004 valuation for the Universal Music defined benefit section were 11.4% for the company, and 6% for employees. It was agreed that company contributions should continue at the rate of 12.8% in respect of future service benefits. On 1 October 2005 most of the remaining active members ceased to accrue defined benefits and joined the Money Purchase Section of the Scheme in respect of future service.

The participating employers to the Scheme agreed to contribute £1 million per month up to 31 December 2005 in respect of the overall Scheme post-service deficit (£724,000 per month from Centenary Holdings Limited and £276,000 per month from Universal Music Group) reducing to £580,000 per month from 1 January 2006 (£421,000 per month from Centenary Holdings Limited and £159,000 per month from Universal Music Group), plus the cost of administrative expenses and death-in-service insurance premiums.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

21 Pension scheme arrangements (continued)

The deficit as at 31 December 2005 and related FRS 17 disclosures relating to the Scheme have been identified below. As noted above, the pension costs for Universal Music Operations Limited reflect actual cash contributions made in 2005. Therefore, the following figures do not impact on the company's balance sheet and the following information is provided as a disclosure only.

The FRS 17 disclosures have been based on the results of the most recent actuarial valuation as at 5 April 2004 and updated by an independent qualified actuary in order to assess the liabilities of the Scheme at 31 December 2005 and 31 December 2004. Scheme assets are stated at their market value at the respective balance sheet dates.

The key assumptions were:

	At year end 31/12/2005	At year end 31/12/2004	At year end 31/12/2003
Rate of increase in salaries	4.30%	4.30%	4.30%
Rate of increase of pensions in payment	2.80%	2.80%	2.80%
Discount rate	4.90%	5.30%	5.36%
Inflation assumption	2.80%	2.80%	2.80%

The assets in the Defined Benefit Section of the Scheme and the expected rates of return were:

	At year end 31/12/2005 £ million	At year end 31/12/2004 £ million	At year end 31/12/2003 £ million
Equities	47.0	55.4	51.9
Bonds	168.7	136.3	124.0
Cash	1.4	0.6	0
Total market value of assets	217.1*	192.3	175.9
Actuarial value of liability	(269.1)*	(240.0)	(255.0)
Recoverable deficit in the arrangements	(52.0)	(47.7)	(79.1)
Related deferred tax asset/(liability)	-	-	-
Net pension liability	(52.0)	(47.7)	(79.1)

	At year end 31/12/2005	At year end 31/12/2004	At year end 31/12/2003
Equities	4.85%	5.20%	6.40%
Bonds	4.25%	4.60%	5.00%
Cash	3.75%	4.05%	3.35%

*This asset split reflects the investment strategy of the Scheme implemented with effect from October 2005. Various derivative products are being used to gain exposure to £47 million worth of equity, with the remainder of assets held in actively managed corporate bond portfolios.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2005

21 Pension scheme arrangements (continued)

Movement in deficit during the year

	Year to 31/12/2005 £ million	Year to 31/12/2004 £ million
Deficit in scheme at beginning of year	(47.7)	(79.1)
Movement in year:		
(Current service cost)	(1.6)	(2.0)
Contributions	12.6	13.9
Curtailment/settlement gain	0.6	0.3
Past service gains	-	29.3 ⁺
Net interest cost	(3.3)	(3.8)
Actuarial loss	(12.6)	(6.3)
Deficit in scheme at end of year	(52.0)	(47.7) ⁺

The actuarial valuation at 31 December 2005 showed an increase in the deficit from £47.7 million to £52.0 million.

+ The constructive obligation in respect of pension increases on benefits accrued in the SSWG Section prior to 6 April 1997 was deemed to have been removed during 2004. The obligation was therefore removed from the scheme liabilities as at 31 December 2004 (and as at 31 December 2005).

History of experience gains and losses

	Financial year ending in			
	2005	2004	2003	2002
Difference between actual and expected return on scheme assets:				
Amount (£ million)	12.1	5.6	5.6	(26.6)
Percentage of scheme assets	6%	3%	3%	(15)%
Experience gains and losses on scheme liabilities:				
Amount (£ million)	(1.6)	(1.7)	1.9	16.2
Percentage of scheme liabilities	(1)%	(1)%	1%	(7)%
Total amount recognised in statement of total recognised gains and losses:				
Amount (£ million)	(12.6)	(6.3)	(16.9)	(13.7)
Percentage of scheme liabilities	(5)%	(3)%	(7)%	(6)%

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Notes to the financial statements for the year ended 31 December 2005

22 Ultimate parent undertaking & 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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