

Universal Music Operations Limited
(Registered Number: 950138)

Directors' Report and Financial Statements
for the year ended 31 December 2006

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Universal Music Operations Limited

Directors' report for the year ended 31 December 2006

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

Principal activity

The company's principal activity during the year was to market and distribute recorded music and videos.

Business review

The result and position of the company as at and for the year ended 31 December 2006 are set out in the profit and loss account and balance sheet on pages 6 and 7 respectively. The result and position of the company were in line with directors' expectations.

Turnover increased by 26% during the year primarily due to strong sales performances from the company's agent companies.

Operating profit increased by £24,963,000 during the year primarily due to same reason as above.

Results and dividends

The company's profit on ordinary activities after taxation for the year was £40,280,000 (2005 restated: £29,325,000). The retained profit for the year of £40,280,000 (2005 restated: £29,325,000) has been transferred to reserves.

On 27 March 2007 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 (2005: nil).

Principal risks and uncertainties

The company is faced with similar risks and uncertainties as other companies operating in the recorded music business, broadly;

- competition from other major and independent record companies that market and distribute recorded music and video;
- competition from alternative entertainment products;
- price pressure from the increased presence of supermarkets in the music market and their threat to survival of independent music retailers;
- the threat of a devalued product due to piracy and the illegal use of music; and
- uncertainty as to whether the growth of the digital market can replace the decline in the physical market

All risks and uncertainties are regularly monitored by the Board of Directors of the company.

Future Developments

Notwithstanding the risks and uncertainties outlined above, the directors do not anticipate any significant change in the activities and results of the company in the foreseeable future.

Universal Music Operations Limited

Directors' report for the year ended 31 December 2006 (continued)

Directors and their interests

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

DT Bryant
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.

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 £6,980 (2005: £27,626). 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.

Universal Music Operations Limited

Directors' report for the year ended 31 December 2006 (continued)

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.

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 2006 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


DT Bryant
Director
30 March 2007

364-366 Kensington High Street
London
W14 8NS

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 2006 which comprise the Profit and Loss Account, the Statement of Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. 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' responsibilities for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). In addition 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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

We also report to you if, in our opinion, 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.

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

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 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ex & Y LLP

Ernst & Young LLP
Registered auditor
London
30 March 2007

Universal Music Operations Limited

Profit and loss account for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000 Restated
Turnover	2	342,952	272,276
Cost of sales		(218,306)	(177,721)
Gross profit		124,646	94,555
Distribution costs		(21,024)	(17,997)
Administrative expenses		(63,600)	(61,499)
Operating profit		40,022	15,059
Amounts written off investments		(395)	(624)
Interest receivable and similar income	6	27,791	34,865
Interest payable and similar charges	7	(6,413)	(4,953)
Profit on ordinary activities before taxation	3	61,005	44,347
Tax on profit on ordinary activities	8	(20,725)	(15,022)
Profit on ordinary activities after taxation and retained profit for the financial year	17	40,280	29,325

The company's results were entirely from continuing operations.

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.

Statement of total recognised gains and losses

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000 Restated
Profit on ordinary activities after taxation		40,280	29,325
Actuarial loss recognised on defined benefit pension schemes	20	(5,600)	(5,200)
Movement on deferred tax relating to the actuarial loss on defined benefit pension schemes		1,680	1,560
Total gains and losses recognised for the year		36,360	25,685
Prior year adjustment FRS 17 (as explained in note 1(b))	20	(15,061)	
Total gains and losses recognised since the last financial statements		21,299	25,685

Universal Music Operations Limited

Balance sheet as at 31 December 2006

	Note	31 December 2006 £'000	31 December 2005 £'000 Restated
Fixed assets			
Tangible assets	9	21,983	21,001
Investments	10	2,682	1,100
		24,665	22,101
Current assets			
Stock	11	1,243	874
Debtors	12	1,559,927	1,364,707
Cash at bank and in hand		2,230	1,918
		1,563,400	1,367,499
Creditors: amounts falling due within one year	13	(1,204,456)	(1,043,788)
Net current assets		358,944	323,711
Total assets less current liabilities		383,609	345,812
Creditors: amounts falling due after one year	14	(310)	(231)
Provisions for liabilities and charges	15	(18,667)	(20,109)
Non redeemable preference shares	16	(136,000)	(136,000)
Net assets excluding pension liability		228,632	189,472
Defined benefit pension liability	20	(19,460)	(16,660)
Net assets		209,172	172,812
Capital and reserves			
Called-up share capital	16	15	15
Profit and loss account	17	209,157	172,797
Total shareholders' funds	17	209,172	172,812
Analysis of shareholders' funds			
Equity shareholders' funds		209,172	172,812
Total shareholders' funds	17	209,172	172,812

The financial statements on pages 6 to 28 were approved by the board of directors on 30 March 2007 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 2006

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 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 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 S.A. group or investees of that group.

b) Change in accounting policies

As at 1 January 2006, the company has changed its policy for accounting for pensions. For the year ended 31 December 2005, the company adopted the reporting requirements of FRS17 'Retirement Benefits' and accounted for the Vivendi Universal Pension Scheme ("VUPS" or "the Scheme"), in which it participates, entirely as a defined contribution scheme on the basis that it was a multi-employer scheme and the company's underlying assets and liabilities of the scheme could not be identified on a consistent and reasonable basis. During the year, the company has completed an exercise to allocate the underlying assets and liabilities of the defined benefits section of the Scheme to the main sponsoring employers. Consequently, the company has changed its accounting policy for this scheme and from 1 January 2006 has accounted for the scheme as a mixed defined benefit and defined contribution scheme and restated in all comparative accordingly (see note (c) below).

The change in accounting policy has decreased operating profit due to an increase in administrative costs of £0.8million (2005: £2.5million decrease). There is a net decrease in the profit for the year of £2.2million (2005: £1.2 million increase) due to an increase in finance costs. In addition, the change in accounting policy has created a net pension liability (net of deferred tax) of £19.5 million (2005: £16.7m). In aggregate, the change in accounting policy has reduced shareholders' funds as at 31 December 2005 by £15.1 million).

The company has adopted FRS 20 'Share Based Payment' which requires all share options and employee share awards to be expensed in the profit and loss account, with the expense measured at fair value at the date of grant and charged over the vesting period of the scheme, and with appropriate disclosures of the nature of the scheme. Adoption of this standard has not resulted in any changes to the Profit and Loss and Balance Sheet. Additional disclosures have been made in note 21.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

1 Accounting policies (continued)

An amount due from a third party has been netted off an amount due to the same third party in conjunction with the relevant contractual agreement. In addition Artists Royalty Audit Provisions have been reclassified from creditors to provisions in accordance with best practice disclosure in the music industry. An intercompany balance has been reclassified from debtors due in more than one year to debtors due within one year. The equity plan accrual has also been reclassified to provisions.

All comparatives have been restated accordingly.

c) Pension and other post retirement benefits

The company participates in a scheme in the UK, ultimately operated by Vivendi S.A; the Vivendi Universal Pension Scheme ("VUPS" or "the Scheme"). The Scheme is a mixed defined benefit and defined contribution scheme and operates on a pre-funded basis. Each defined benefit member of the Scheme is subject to one of two different benefit structures. Members with a Universal benefit structure consist of current and former Universal Music employees and former Vivendi Universal Entertainment ("VUE") employees. Members with a Seagram Wines and Spirits Group ("SWSG") benefit structure consist of former SWSG employees. The underlying assets and liabilities of the scheme allocated to the Universal Music members are accounted for within Universal Music Operations Limited and the underlying assets and liabilities of the scheme allocated to the SWSG and VUE members are accounted for within Centenary Holdings Limited. Both companies are fellow group undertakings.

Contributions in respect of employees of the Company to the defined contribution section are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme.

As described above, from 1 January 2006, the Company has changed its accounting policy for the defined benefit section of the Scheme. The Company has been able to separately identify the Universal Music share of the underlying assets and liabilities on a consistent and reasonable basis and has therefore accounted for the benefits of current and former Universal Music employees on a defined benefit scheme basis in accordance with FRS 17 'Retirement Benefits'. In accordance with the standard, the operating and financing costs are recognised separately in the profit and loss account in the period in which they arise. Operating costs consist of service costs, past service benefit enhancements, settlements and curtailments. Financing costs consist of expected return on pension scheme assets and interest on pension liabilities. The difference between the actual and expected return on assets during the year, changes in actuarial assumptions and experience gains/losses are recognised in the Statement of Total Recognised Gains and Losses.

The difference between the market value of assets that are attributable to Universal Music and the present value of the corresponding liabilities is recognised as an asset or liability on the company's balance sheet net of deferred taxation (to the extent that it is recoverable).

The Company charges a monthly service charge to other fellow subsidiaries in respect of the Universal Music defined benefit operating and finance costs.

d) 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.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

1. Accounting policies (continued)

Rates of depreciation are:

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

e) Investments

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

f) Turnover

Turnover represents the invoiced value of services and royalty income, excluding VAT. Turnover is attributable to one activity; the marketing and distribution of recorded music.

The company recognises UK turnover and costs on behalf of other UK fellow subsidiaries derived from distribution of recorded music by Mobile companies as it is not possible to allocate the revenue between the relevant subsidiaries on a reasonable and consistent basis.

g) Royalties and advances

United Kingdom royalty income is credited to the profit and loss account in the period to which it relates, or if it cannot be reliably estimated, 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.

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 as falling due within one year, although elements may not be recovered until more than one year.

h) 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.

i) 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.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

1 Accounting policies (continued)

j) 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.

k) 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.

l) Classification of shares as debt or equity

Preference shares that provide for the contractual right to deliver cash to another entity are classified as a financial instrument. The corresponding dividends are charged to the profit and loss account.

The company's 4.82% non redeemable preference shares have been accounted for as such a financial instrument.

m) Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition, debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
United Kingdom	310,064	245,351
Europe	14,871	11,383
United States of America	10,119	8,195
Other	7,898	7,347
	342,952	272,276

Turnover by source is exclusively derived in the United Kingdom.

3 Profit on ordinary activities before taxation

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
<i>Depreciation on tangible fixed assets:</i>		
- owned	2,991	2,173
- leased	160	220
Exchange (gain)/loss	(412)	586
Operating lease charges:		
- plant and machinery	263	34
- land and buildings	2,097	2,726
Auditors' remuneration:		
Audit services	118	170
Sarbanes-Oxley initial compliance	190	-
Due diligence services	32	-

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £209,000 (2005: £140,000).

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

4 Directors' emoluments

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Aggregate emoluments	2,222	3,473
Company contributions to money purchase scheme	37	2,120
	<hr/> 2,259	<hr/> 5,593

Retirement benefits ceased accruing to the directors under the Universal defined benefit section of the Vivendi Universal Pension Scheme. One director left the scheme with effect from 28 February 2006.

Retirement benefits are accruing to two directors (2005: two) under the Universal defined contribution section of the Vivendi Universal Pension Scheme. Two directors were not members of any retirement benefit schemes.

The aggregate emoluments of the highest paid director during the year ended 31 December 2006 were £1,011,000 (year ended 31 December 2005: £2,537,000). The highest paid director is not a member of any retirement benefit scheme.

The emoluments of two directors (2005: three) were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company.

The gains on exercise of share options were £nil (2005: £nil) and the amounts receivable to the directors under long term incentive schemes were £nil (2005: £nil)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

5 Employee information

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

	Year ended 31 December 2006 No.	Year ended 31 December 2005 No.
Commercial and administrative	740	740

Their aggregate remuneration comprised:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000 Restated
Wages and salaries	36,260	31,760
Social security costs	3,095	3,487
Other pension costs	2,368	3,835
Staff costs	41,723	39,082

6 Interest receivable and similar income

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000 Restated
Expected return on pension scheme assets	2,400	2,400
Interest receivable from banks and other interest receivable	48	125
Interest receivable from group companies	25,343	32,340
	27,791	34,865

7 Interest payable and similar charges

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000 Restated
Interest on pension liabilities	3,800	3,700
Interest payable on finance leases	54	62
Interest payable on bank overdraft and other interest payable	1,327	7
Interest payable to group companies	1,232	1,184
	6,413	4,953

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

8 Tax on profit on ordinary activities

(a) Analysis of charge in year	Year ended	Year ended
	31 December	31 December
	2006	2005
	£'000	£'000
Current tax		
UK corporation tax at 30% (2005: 30%)	4,185	8,125
Group relief payable re losses for the year	17,005	7,327
Adjustments in respect of previous years:		
UK corporation taxation	1,698	34
Foreign taxation	-	837
Total current taxation (see (b) below)	22,888	16,323
Deferred taxation for the year	(465)	(1,488)
Adjustments in respect of previous years	(1,698)	187
Deferred taxation (credit) / charge (see note 8d)	(2,163)	(1,301)
Total taxation charge	20,725	15,022

(b) Factors affecting tax charge for the year	Year ended	Year ended
	31 December	31 December
	2006	2005
	£'000	£'000
		Restated
Profit on ordinary activities before tax	61,005	44,347
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	18,302	13,304
Effects of :		
Expenses not deductible for tax purposes	1,322	1,015
Adjustments to tax (credit) / charge in respect of prior years:		
Movement in timing differences (see (d) below)	465	1,488
Adjustments to tax charge in respect of prior periods	1,698	35
Foreign taxes not creditable against UK tax	-	837
Tax effect of prior year restatement	1,101	(356)
Total current tax charge	22,888	16,323

(c) Factors that may affect future tax charges : None (2005: none)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

8 Tax on profit on ordinary activities (continued)

(d) The following deferred tax assets / (liability) have been provided:

	Year ended 31 December 2006			Year ended 31 December 2005 Restated		
	Provided £'000	Not Provided £'000	Total £'000	Provided £'000	Not Provided £'000	Total £'000
Accelerated capital allowances	(287)	-	(287)	256	-	256
Other short-term timing differences	2,425	-	2,425	(761)	-	(761)
	2,138	-	2,138	(505)	-	(505)

Deferred taxation asset / (liability) movements:

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Liability as at start of year	(505)	(1,806)
Deferred taxation credit/(charge) in profit & loss account (see (a) above)	465	1,488
Prior year adjustment	1,698	(187)
Pension adjustment	480	-
Asset / (Liability) as at end of year	2,138	(505)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

9 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2006	23,839	12,976	1,208	38,023
Additions	3,215	940	353	4,508
Disposals	-	(62)	(582)	(644)
Transfer from group companies	-	195	104	299
Transfer to group companies	-	-	(16)	(16)
At 31 December 2006	27,054	14,049	1,067	42,170
Depreciation				
At 1 January 2006	6,386	10,069	567	17,022
Charge for year	1,591	1,577	226	3,394
Disposals	-	(29)	(387)	(416)
Transfer from group companies	-	138	65	203
Transfer to group companies	-	-	(16)	(16)
At 31 December 2006	7,977	11,755	455	20,187
Net book amount				
At 31 December 2006	19,077	2,294	612	21,983
At 31 December 2005	17,453	2,907	641	21,001

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
The net book amount of land and buildings comprises:		
Freehold	10,094	10,401
Short leaseholds	8,983	7,052
	19,077	17,453

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Assets held under finance leases and capitalised in plant and machinery		
Cost	930	1,066
Accumulated depreciation	(384)	(495)
Net book amount	546	571

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

10 Fixed asset investments

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
Cost			
At 1 January 2006	4,674	23	4,697
Additions	1,977	-	1,977
At 31 December 2006	6,651	23	6,674
Provision for impairment			
At 1 January 2006	(3,574)	(23)	(3,597)
Charge for the year	(395)	-	(395)
At 31 December 2006	(3,969)	(23)	(3,992)
Net book value			
At 31 December 2006	2,682	-	2,682
At 31 December 2005	1,100	-	1,100

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 2006 is nil (31 December 2005: 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
Musical Rendezvous	England and Wales	0.99%	Marketing and distribution of recorded music
The Wild Card Label	England and Wales	100%	Marketing and distribution of recorded music
Vice Versa Limited	England and Wales	100%	Marketing and distribution of computer software

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

11 Stock

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Finished goods and goods for resale	1,243	874

12 Debtors

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000 Restated
Debtors: amounts falling due within one year		
Trade debtors	81,301	83,538
Amounts due from group undertakings:		
Overseas group undertakings	154,451	97,809
UK group undertakings	1,314,390	1,170,886
Other debtors	188	4,600
Prepayments and accrued income	9,597	7,874
	1,559,927	1,364,707

Included within trade debtors are advances to artists of £23,690,000 (2005: £16,672,000).

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

- £124,330,000 (2005: £70,597,000) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S.A.

All other amounts due from United Kingdom group undertakings are through the normal course of business and are unsecured, repayable on demand with interest appropriately charged:

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

- £207,674,000 (2005: £207,674,000) in respect of an intercompany balance with fellow group undertakings. Interest accrues on the balances at the 1-month LIBOR + 1.3% (2005: 1-month LIBOR + 0.6%).
- £136,000,000 (2005: £136,000,000) in respect of an intercompany loan with a fellow group undertaking, Centenary UK Limited. Interest accrues on the loan at the 1-month LIBOR + 2.3% (2005: 6-month LIBOR + 3.25%).

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

13 Creditors: amounts falling due within one year

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Obligations under finance leases (note 18)	258	369
Trade creditors	147,134	122,798
Amounts owed to group undertakings:		
Overseas group undertakings	6,019	4,125
UK group undertakings	954,141	830,474
Corporation tax	53,107	47,263
Other taxation and social security	12,012	11,866
Other creditors	7,195	2,716
Accruals and deferred income	24,590	24,177
	1,204,456	1,043,788

Included within amounts due to United Kingdom group undertakings is £37,763,000 (2005: £32,489,000) 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 + 1.3% (2005: 1-month LIBOR + 0.6%).

All other amounts due to UK group undertakings through the normal course of business are unsecured, repayable on demand with interest appropriately charged.

14 Creditors: amounts falling due after one year

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Obligations under finance leases (note 18)	310	231
	310	231

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

15 Provisions for liabilities and charges

	Artist royalties	Deferred taxation	Equity incentive plan	Other	Total
	£'000	(note 8) £'000	(note 21) £'000	£'000	£'000
Liability at the start of year	14,008	505	5,596	-	20,109
Arising during the year	-	-	3,579	1,500	5,079
Utilised	(3,878)	(2,643)	-	-	(6,521)
Liability/ (Asset) at the end of the year	10,130	(2,138)	9,175	1,500	18,667

Provision is made against the outcome of artist royalty audits ongoing at the balance sheet date, and against additional artist royalty obligations anticipated by management at the balance sheet date, resulting from a past event likely to give rise to the transfer of economic benefit.

The directors anticipate that these liabilities will crystallise in the foreseeable future.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

16 Called-up share capital

	Year ended 31 December 2006	Year ended 31 December 2005
	£'000	£'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

The company reclassified the 4.82% non redeemable preference shares from share capital to financial liabilities in the prior year.

The preference shares, classified as financial liabilities on the balance sheet, 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.

On 27 March 2007 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 in total as £136,000,000 of non-equity.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

17 Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
As at 31 December 2005 as previously reported	15	187,858	187,873
Prior year adjustment- FRS 17 (note 20)		(15,061)	(15,061)
As at 31 December 2005 as restated	15	172,797	172,812
Profit for the year		40,280	40,280
Net actuarial losses on pensions		(3,920)	(3,920)
At 31 December 2006	15	209,157	209,172

18 Leases

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

	Year ended 31 December 2006		Year ended 31 December 2005	
	Land and buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	263	72	34
In the second to fifth years inclusive	-	-	-	-
Over five years	3,092	-	3,020	-
	3,092	263	3,092	34

Obligations under non-cancellable finance leases are as follows:

	Year ended 31 December 2006 Plant & equipment £'000	Year ended 31 December 2005 Plant & equipment £'000
Gross lease rentals outstanding	820	678
Less: Finance charges outstanding	(252)	(78)
Net obligations	568	600
On demand or within one year	258	369
Due between one and two years	189	156
Due between two and five years	121	75
Net obligations	568	600

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

19 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 2006 £'000	Year ended 31 December 2005 £'000
Distribution fee income received	12,007	14,103

At 31 December 2006, Universal Music Operations Limited owed the related party £58,069,000 (2005: £33,300,000).

On 8 September 2006 Universal Music Operations Limited acquired 90% of the share capital of Vice Versa Limited and on 23 November 2006 acquired the remaining 10% of the company's share capital from a related party who is senior management of Universal Music Operations Limited for £75,000.

20 Pension scheme arrangements

Vivendi S.A. 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. Each defined benefit member of the Scheme is subject to one of two different benefit structures. Members with a Universal benefit structure consist of current and former Universal Music employees and former Vivendi Universal Entertainment ("VUE") employees. Members with a Seagram Wines and Spirits Group ("SWSG") benefit structure consist of former SWSG employees. Universal Music Operations Limited accounts for the underlying assets and liabilities of the scheme allocated to the Universal Music members and Centenary Holdings Limited accounts for the underlying assets and liabilities of the scheme allocated to the SWSG and VUE members.

The pension cost for the Scheme as a whole under FRS 17 has been assessed using the projected unit basis. The Scheme assets were valued based on their market value.

Formal actuarial valuations are carried out on at least a triennial basis and updated at each reporting year end. The FRS17 disclosures for the year ending 31 December 2005 were based on the results of the full formal actuarial valuation as at 5 April 2004 and updated to the 2005 year end by Mercer Human Resource Consulting as an independent qualified actuary. The FRS 17 disclosures for the year ending 31 December 2006 have been based on the preliminary results of a full formal actuarial valuation as at 5 April 2006 and updated to the 2006 year end. The preliminary results of the full formal valuation are currently being discussed by the Trustees. The final outcome, when available, will indicate the level of contributions to be paid by the company from 2007 onwards. The agreed level of contributions made by the company following the previous valuation as at 4 April 2004 was £2,900,000 million per annum, commencing 1 January 2006.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

Scheme assets are stated at their market value at the balance sheet dates.

The deficit as at 31 December 2006 and related FRS 17 disclosures relating to the Universal Music Section have been identified below.

The key assumptions were:

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Rate of increase in salaries	4.55%	4.30%	4.30%
Rate of increase of pensions in payment	3.05%	2.80%	2.80%
Discount rate	4.90%	4.90%	5.30%
Inflation assumption	3.05%	2.80%	2.80%

The assets attributable to the defined benefits of current and former Universal Music employees and the expected rates of return were:

	Year ended 31 December 2006 £ million	Year ended 31 December 2005 £ million	Year ended 31 December 2004 £ million
Equities*	13.2	12.5	14.4
Bonds	44.0	45.1	35.4
Cash	<u>0.5</u>	<u>0.4</u>	<u>0.1</u>
Total market value of assets	57.7	58.0	49.9
Actuarial value of liability	<u>(85.5)</u>	<u>(81.8)</u>	<u>(69.0)</u>
Scheme deficit/surplus	(27.8)	(23.8)	(19.1)
Related deferred tax asset	<u>8.3</u>	<u>7.1</u>	<u>5.7</u>
Net pension liability	(19.5)	(16.7)	(13.4)

	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Equities	4.90%	4.85%	5.20%
Bonds	4.30%	4.25%	4.60%
Cash	4.30%	3.75%	4.05%

*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 £13.2 million worth of equities with the remainder of the invested assets held in actively managed corporate bond portfolios.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

Analysis of amount charged to operating profit

	Year ended 31 December 2006 £ million	Year ended 31 December 2005 £ million
Service costs	0.4	1.6
Curtailment gain / loss	-	(0.6)
Past service costs	0.4	0.0
Total operating charge	0.8	1.0

Analysis of amount charged / credited to finance income

	Year ended 31 December 2006 £ million	Year ended 31 December 2005 £ million
Expected return on pension scheme assets	2.4	2.4
Interest on pension liabilities	(3.8)	(3.7)
Net return	(1.4)	(1.3)

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses

	Year ended 31 December 2006 £ million	Year ended 31 December 2005 £ million
Actual return less expected return on assets	2.2	3.1
Experience gains and losses on liabilities	1.8	(0.2)
Changes in assumptions	(9.6)	(8.1)
Actuarial gain / (loss) recognised in STRGL	(5.6)	(5.2)

Movement in deficit/surplus during the year

	Year ended 31 December 2006 £ million	Year ended 31 December 2005 £ million
Deficit/surplus in scheme at beginning of year	(23.8)	(19.1)
Movement in year:		
(Current service cost)	(0.4)	(1.6)
Contributions	3.8	2.8
Curtailment/settlement gain/(loss)	-	0.6
Past service (costs)/credits	(0.4)	-
Net return on assets/(interest cost)	(1.4)	(1.3)
Actuarial gain/(loss)	(5.6)	(5.2)
Deficit/surplus in scheme at end of year	(27.8)	(23.8)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

The actuarial valuation at 31 December 2006 showed an increase in the deficit from £23.8 million to £27.8 million.

The total defined benefit pension contributions made by the Company were £3.8 million in 2006 (2005 £2.8 million).

The Company charged a service charge amounting to £1.3 million to fellow subsidiaries in respect of defined benefit contributions.

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. With effect from 1 December 2006, the Defined Benefit Section of the Scheme closed to future accrual. Past service benefits remain linked to final salary for active members of the Scheme who accrued defined benefits up to or after 1 October 2005.

The participating employers to the Scheme agreed to contribute £1 million per month up to 31 December 2005 in respect of the overall Scheme past service deficit reducing to £580,000 per month from 1 January 2006, plus the cost of administration expenses and death in service insurance premiums. In total for UMO, this amounted to £0.21m per month towards the defined benefit section. In addition, UMO made contributions of £1.3m in respect of benefit augmentations and accrual of benefits during 2006.

History of experience gains and losses

	Year ended 31 December 2006	Year ended 31 December 2005
Difference between actual and expected return on scheme assets:		
Amount (£ million)	2.2	3.1
Percentage of scheme assets	4%	5%
Experience gains and losses on scheme liabilities:		
Amount (£ million)	1.8	(0.2)
Percentage of scheme liabilities	2%	0%
Total actuarial gains/losses recognised in statement of total recognised gains and losses:		
Amount (£ million)	(5.6)	(5.2)
Percentage of scheme liabilities	-7%	-6%

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2006

21 Share based payments

Since 2003, Universal Music Group (UMG) of which the company is a member, has maintained an Equity Incentive Plan, under which certain key executives of UMG are awarded Equity Units. These Equity Units are phantom stock units whose value is intended to reflect the value of UMG, net of certain other adjustments as defined in the plan. These Equity Units are simply units of account, and they do not represent an actual ownership interest in either the company, UMG or Vivendi (the ultimate parent undertaking). In general, the plan calls for Equity Units to vest at the end of a fixed vesting period that typically coincides with the term of the director's employment agreement. In general, the plan calls for cash payments to be made to participants at the end of that vesting period, based on the value of the Equity Units at that time (all amounts under the plan are due in 2008 and 2009). The Plan is denominated in US\$.

Except in the case of certain transactions, the cash payments made under the Plan will be based upon the appraised value of UMG as determined by a third party valuation. This appraised value is based on UMG's total enterprise value, taking into account other adjustments as defined in the Plan, as of December 31 of the year preceding the payment. No payments have yet been made (or are due to be made) under the plan. Accordingly, no third party valuation has yet been undertaken. In order to value the Equity Units for accounting purposes prior to an actual payment, the value of the Units is estimated based on publicly-available estimates of UMG's enterprise value.

While an executive's Equity Units generally vest at the end of a fixed vesting period, an expense is recognised over the vesting period as services are rendered. Specifically, the expense recognised is based on the portion of the vesting period that has elapsed and the estimated value of those Equity Units. As at 31 December 2006 the estimated value of the rights vested in respect of employees of the company amounted to £8,160,000 not including social security costs (2005 £4,987,000).

No payments have yet been made (or are payable) under the Plan to any employees of the company.

22 Contingent liabilities

The company has given an unlimited multilateral company guarantee in respect of an overdraft facility held by Universal Island Records Limited.

23 Ultimate parent undertaking & controlling party

The immediate parent undertaking is Universal Music Leisure Limited. The ultimate parent undertaking and controlling party is Vivendi 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 S.A., incorporated in France. Copies of its annual report in English may be obtained from:

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