

COMPANY REGISTRATION NUMBER 950138

**UNIVERSAL MUSIC OPERATIONS LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2012



UNIVERSAL MUSIC OPERATIONS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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UNIVERSAL MUSIC OPERATIONS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

DS Joseph
MJ Swatton
Universal Music UK Limited
RM Constant
AM Barker
DRJ Sharpe

COMPANY SECRETARY

A Abioye

REGISTERED OFFICE

364-366 Kensington High Street
London
W14 8NS

AUDITORS

Ernst & Young LLP
Statutory Auditor
1 More London Place
London
SE1 2AF

UNIVERSAL MUSIC OPERATIONS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2012

The directors present their report and the financial statements of the company for the year ended 31 December 2012

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was to market and distribute recorded music and videos

The result and position of the company as at and for the year ended 31 December 2012 are set out in the profit and loss account, statement of total recognised gains and losses and balance sheet on pages 7, 8 and 9 respectively. The result and position of the company were in line with directors' expectations.

FUTURE DEVELOPMENTS

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

RESULTS AND DIVIDENDS

The company's loss for the financial year was £11,676,000 (2011 - loss £16,196,000). The retained loss for the year has been transferred to reserves.

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,
- uncertainty as to whether the growth of the digital market can replace the decline in the physical market, and
- interest rate fluctuations

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

DIRECTORS

The directors who served the company during the year and subsequently were as follows:

DT Bryant
DS Joseph
MJ Swatton
Universal Music UK Limited
RM Constant
AM Barker
DRJ Sharpe

UNIVERSAL MUSIC OPERATIONS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2012

DRJ Sharpe was appointed as a director on 20 January 2012

DT Bryant resigned as a director on 19 January 2012

SG Miron was appointed as a director on 1 February 2013

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A qualifying third party indemnity provision remains in force as at the date of approving the directors' report, subject to the provisions of s236 CA 2006 Vivendi 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

POLICY ON THE PAYMENT OF CREDITORS

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

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

In so far as each of the directors at the date of approving this report are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

UNIVERSAL MUSIC OPERATIONS LIMITED

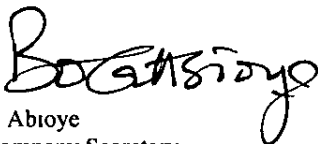
DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2012

DONATIONS

The company made no charitable or political donations in either year

By order of the board


A Abioye
Company Secretary

28 MAR 2013

Company Registration Number 950138

UNIVERSAL MUSIC OPERATIONS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC OPERATIONS LIMITED

YEAR ENDED 31 DECEMBER 2012

We have audited the financial statements of Universal Music Operations Limited for the year ended 31 December 2012 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended, and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC OPERATIONS LIMITED *(continued)*

YEAR ENDED 31 DECEMBER 2012

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Philip Young (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

London

4/4/13

Company Registration Number 950138

UNIVERSAL MUSIC OPERATIONS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
TURNOVER	2	328,800	322,387
Cost of sales		(221,052)	(223,248)
GROSS PROFIT		107,748	99,139
Distribution costs		(5,668)	(7,294)
Administrative expenses		(84,284)	(86,755)
OPERATING PROFIT	3	17,796	5,090
Income from participating interests	6	500	600
Income from other fixed asset investments		—	2,506
Interest receivable and similar income	7	18,098	19,228
Amounts written off investments	8	(4,000)	(1,100)
Interest payable and similar charges	9	(48,258)	(46,702)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(15,864)	(20,378)
Tax on loss on ordinary activities	10	4,188	4,182
LOSS FOR THE FINANCIAL YEAR		(11,676)	(16,196)

All of the activities of the company are classed as continuing operations

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

The notes on pages 10 to 27 form part of these financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	£'000	£'000
Loss for the financial year attributable to the shareholders	(11,676)	(16,196)
Actuarial gain/(loss) in respect of defined benefit pension scheme	6,700	(11,600)
Movement on deferred tax in respect of actuarial gain/(loss) on defined benefit pension scheme	(1,558)	3,036
Total gains and losses recognised since the last financial statements	<u>(6,534)</u>	<u>(24,760)</u>

The notes on pages 10 to 27 form part of these financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED

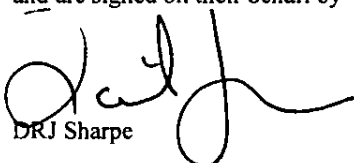
BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
FIXED ASSETS			
Tangible assets	11	4,628	6,258
Investments	12	4,204	8,204
		<u>8,832</u>	<u>14,462</u>
CURRENT ASSETS			
Stocks	13	3,159	3,673
Debtors	14	1,690,287	1,819,715
Cash at bank		—	6,285
		<u>1,693,446</u>	<u>1,829,673</u>
CREDITORS: Amounts falling due within one year	15	<u>(1,383,108)</u>	<u>(1,510,769)</u>
NET CURRENT ASSETS		<u>310,338</u>	<u>318,904</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>319,170</u>	<u>333,366</u>
CREDITORS: Amounts falling due after more than one year	16	(136,000)	(136,129)
PROVISIONS FOR LIABILITIES			
Provisions for liabilities and charges	18	(14,248)	(12,498)
NET ASSETS EXCLUDING PENSION LIABILITY		<u>168,922</u>	<u>184,739</u>
Defined benefit pension scheme liability	19	(2,303)	(11,586)
NET ASSETS		<u>166,619</u>	<u>173,153</u>
CAPITAL AND RESERVES			
Called-up equity share capital	22	15	15
Profit and loss account	23	166,604	173,138
EQUITY SHAREHOLDERS' FUNDS	23	<u>166,619</u>	<u>173,153</u>

These financial statements were approved by the board of directors and authorised for issue on
and are signed on their behalf by

28 MAR 2013


DRJ Sharpe

The notes on pages 10 to 27 form part of these financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

As the ultimate parent undertaking prepares publicly available consolidated accounts and is incorporated within the European Union the company has taken advantage of the exemption under section 400 of the Companies Act 2006 from preparing consolidated accounts. As such, these financial statements give information about the company as an individual undertaking and not about its group

The Company's business activities, together with the factors likely to affect its future developments, its financial exposures and its risk exposures are described above

After making enquiries, the directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future. Accordingly, they continue to adapt the going concern basis in preparing the financial statements

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 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 of investees of that group

Revenue recognition

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

Digital and 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. Royalties payable are charged against the relevant income of the same period

Fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Land & Buildings	- 2% - 7% straight line
Plant & Machinery	- 2% - 25% straight line
Motor Vehicles	- 25% straight line

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable

Investments

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

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES *(continued)*

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Finance lease agreements

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 in accordance with the above depreciation policies 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 on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

The company participates in a pension scheme in the UK, ultimately operated by Vivendi S A, the Universal Music Group Pension Scheme ("UMGPS" or "the Scheme"). The Scheme is a mixed defined benefit and defined contribution Scheme and operates on a pre-funded basis.

In respect of employees of the Company, Company contributions 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. The defined contribution section of the Scheme closed to future accrual from 31 March 2011.

With effect from 1 April 2011 defined contribution accrual is under a contract based Group Personal Pension ("GPP") arrangement operated by Standard Life. In respect of employees of the Company, Company contributions to the GPP are charged to the profit and loss account as they become payable.

FRS 17 requires that the Scheme's underlying assets and liabilities can be allocated to the entities sponsoring the Scheme. This allocation could not be done on a consistent and reasonable basis for Universal Music Operations Ltd alone. As a result, the defined benefit membership of the Scheme has been accounted for on a defined contribution basis in these financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES *(continued)*

Taxation

The credit for taxation is based on the loss for the period and takes into account taxation deferred because of the 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 have occurred at that date that will result in an obligation to pay more tax in the future or a right to pay less tax in future

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

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are recorded in the profit and loss account

Advances

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. Long term advances to artists, where the effect of the time value of money is material, are discounted

Classification of shares as debt or equity

Preference shares that provided 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

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. Interest bearing debt is increased by the finance cost in respect of the reporting period and reduced by any settlement made. Interest is charged and earned on a fixed element of the debt at an arms length rate

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

YEAR ENDED 31 DECEMBER 2012

2. TURNOVER

Turnover by destination is as follows

	2012 £'000	2011 £'000
United Kingdom	208,343	233,879
Rest of Europe	53,934	40,506
United States of America	42,559	30,945
Rest of World	23,964	17,057
	<u>328,800</u>	<u>322,387</u>

Turnover by source is exclusively derived in the United Kingdom

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	2012 £'000	2011 £'000
Depreciation of owned fixed assets	1,822	1,995
Depreciation of assets held under finance lease agreements	86	157
Loss/(Profit) on disposal of fixed assets	12	(50)
Auditor's remuneration - audit of the financial statements	192	142
Operating lease costs		
- Plant and machinery	-	88
- Land and buildings	2,616	3,931
Net loss on foreign currency translation	<u>788</u>	<u>1,166</u>

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £269,000 (2011 - £214,000) The loss for the year included £111m of bad debt provision

4. PARTICULARS OF EMPLOYEES

The company had no employees during the year 2012 (2011 - nil)

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

5. DIRECTORS' REMUNERATION

The directors' aggregate remuneration and other payments in respect of qualifying services were

	2012 £'000	2011 £'000
Remuneration receivable	2,373	2,325
Value of company pension contributions to money purchase schemes	142	93
Compensation for loss of directorship	518	—
	<u>3,033</u>	<u>2,418</u>

The directors' emoluments above were paid and ultimately borne by the principal

Retirement benefits are accruing to four directors (2011 four) under the Universal defined contribution section of the Universal Music Group Pension Scheme (UMGPS) and the Group Personal Pension (GPP) arrangement

Two directors were not members of any retirement benefit schemes

The emoluments of two directors (2011 two) were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company

Remuneration of highest paid director:

	2012 £'000	2011 £'000
Total remuneration (excluding pension contributions)	1,434	1,462
Value of company pension contributions to money purchase schemes	45	50
	<u>1,479</u>	<u>1,512</u>

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £Nil (2011 - £Nil) together with a lump sum amounting to £23,000 (2011 - £130,000)

Five directors, one of whom was the highest paid director received share options under the group's long term incentive grant scheme (2011 five) The amounts receivable to the directors under long term incentive schemes were £Nil (2011 - £Nil)

6. INCOME FROM PARTICIPATING INTERESTS

	2012 £'000	2011 £'000
Income from participating interests	<u>500</u>	<u>600</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £'000	2011 £'000
Interest receivable from group undertakings	17,042	18,424
Other similar income receivable	1,056	804
	<u>18,098</u>	<u>19,228</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

8 AMOUNTS WRITTEN OFF INVESTMENTS

	2012 £'000	2011 £'000
Amount written off investments	4,000	1,100

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £'000	2011 £'000
Interest on pension obligation	3,800	3,400
Expected return on pension scheme assets	(2,000)	(1,700)
Other finance charges	645	3,371
Interest payable to group undertakings	45,813	41,631
	48,258	46,702

10. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(a) Analysis of (credit) / charge in the year

	2012 £'000	2011 £'000
Current tax		
UK Taxation		
In respect of the year		
Adjustments in respect of previous years	(463)	691
Group relief payable for losses surrendered from other group undertakings	(3,689)	(6,676)
	(4,152)	(5,985)
Foreign tax		
Current tax on income for the year	190	192
Total current tax	(3,962)	(5,793)
Deferred tax		
Origination and reversal of timing differences	(226)	1,611
Total deferred tax (note 18)	(226)	1,611
Tax on loss on ordinary activities	(4,188)	(4,182)

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

10. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 24.50% (2011 - 26.50%)

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the average rate of corporation tax in the UK of 24.5% (2011 - 26.5%). The Finance Act 2012, which includes a reduction in the UK corporate tax rate to 24% from April 2012 and 23% from April 2013 has been enacted. Deferred tax assets and liabilities are measured at the rate that is expected to apply to the period when the asset is realised or the liability is settled, based on the rates that have been enacted at the balance sheet date. Therefore, at 31 December 2012, deferred tax assets and liabilities have been calculated based on the rates that have been enacted by the balance sheet date.

	2012 £'000	2011 £'000
Loss on ordinary activities before taxation	(15,864)	(20,378)
Loss on ordinary activities at the standard rate of UK Corporation tax of 24.50% (2011 - 26.50%)	(3,887)	(5,400)
Expenses not deductible for tax purposes	1,212	11
Adjustments in respect of previous periods	(463)	691
Foreign tax suffered in the period	190	192
Movement in timing differences	(1,042)	(1,177)
Impact of statutory rate change	28	(110)
Current tax credit for the financial year	(3,962)	(5,793)

(c) Factors that may affect future tax charges

The UK Government intends to reduce the UK corporate income tax further, to 20% from 1 April 2015. The future reductions have not been enacted at the balance sheet date so the effect of these has not been reflected in the financial statements, however it is not expected that these changes would have a significant effect on the value of the company's deferred tax balances at the balance sheet date.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

11. TANGIBLE FIXED ASSETS

	Land and Buildings £'000	Plant & Machinery £'000	Motor Vehicles £'000	Total £'000
COST				
At 1 January 2012	13,493	3,998	675	18,166
Additions	375	130	—	505
Disposals	—	(100)	(314)	(414)
At 31 December 2012	13,868	4,028	361	18,257
DEPRECIATION				
At 1 January 2012	8,792	2,783	333	11,908
Charge for the year	1,302	520	86	1,908
On disposals	—	—	(187)	(187)
At 31 December 2012	10,094	3,303	232	13,629
NET BOOK VALUE				
At 31 December 2012	3,774	725	129	4,628
At 31 December 2011	4,701	1,215	342	6,258
			2012 £'000	2011 £'000
The net book amount of land and buildings comprises:				
Short leaseholds			3,774	4,701

Finance lease agreements

Included within the net book value of £4,628,000 is £129,000 (2011 - £342,000) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £86,000 (2011 - £157,000).

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

12 INVESTMENTS

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
COST			
At 1 January 2012 and 31 December 2012	16,382	23	16,405
PROVISION FOR IMPAIRMENT			
At 1 January 2012	8,178	23	8,201
Written off in year	4,000	-	4,000
At 31 December 2012	12,178	23	12,201
NET BOOK VALUE			
At 31 December 2012	4,204	-	4,204
At 31 December 2011	8,204	-	8,204

The company's investment in a Limited Partnership represents a 50% share of Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom

Subsidiary Undertakings

The principal subsidiaries of Universal Music Operations Limited, all incorporated in England and Wales as at 31 December 2012 were as follows

Name	Ordinary share holdings	Nature of business
Fiction Records Limited	100%	Dormant company (Non-Trading)
Serious Records Limited	100%	Dormant company (Non-Trading)
Vice Versa Limited	100%	Dormant company (Non-Trading)
All Around The World Limited	50%	Marketing and distribution of recorded music

13. STOCKS

	2012 £'000	2011 £'000
Finished goods	3,159	3,673

The difference between the purchase price or production cost of stock and their replacement cost is not material

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

14 DEBTORS

	2012 £'000	2011 £'000
Trade debtors	32,557	67,760
Amounts owed by group undertakings	1,564,543	1,676,251
Other debtors	51,991	53,169
Prepayments and accrued income	41,196	22,535
	<u>1,690,287</u>	<u>1,819,715</u>

Included within amounts owed by group undertakings are the following interest-bearing amounts

- £207,673,000 (2011 - £207,673,000) in respect of an intercompany balance with Universal Music (UK) Holdings Limited. Interest accrues on the loan at the 1 month LIBOR plus 1%.
- £136,000,000 (2011 - £136,000,000) in respect of an intercompany loan with a fellow group undertaking, Universal Music Holdings Limited. This balance was held with Centenary UK Limited in the prior year. Interest accrues on the loan at the 1 month LIBOR plus 1%.
- £560,000,000 (2011 - £560,000,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at the 1 month LIBOR plus 0.1% and is repayable on demand.
- £199,969,000 (2011 - £199,969,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at the 1 month LIBOR plus 0.1% and is repayable on demand.

All other amounts owed by UK group undertakings are unsecured and repayable on demand. Interest accrues on these amounts at 1 month LIBOR plus 0.1%.

At 31 December 2011 £12,859,000 related to discounted advances due in more than 1 year.

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2012

15 CREDITORS: Amounts falling due within one year

	2012	2011
	£'000	£'000
Bank loans and overdrafts	2,474	185
Trade creditors	166,042	161,879
Amounts owed to group undertakings	1,157,354	1,287,688
Corporation tax	1,000	1,000
Other taxation and social security	12,944	12,944
VAT	815	1,991
Finance lease agreements	121	146
Other creditors	931	12,348
Accruals and deferred income	41,427	32,588
	<u>1,383,108</u>	<u>1,510,769</u>

Included within amounts owed to group undertakings are the following interest-bearing amounts

- £8,924,012 (2011 - £4,560,160) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S A
- £525,000,000 (2011 - £525,000,000) in respect of an intercompany balance with Universal Music Leisure Limited. Interest accrues on the loan at 6%

All other amounts owed to group undertakings are due to UK group undertakings, are unsecured and repayable on demand. Interest accrues on these amounts at 1 month LIBOR plus 0.1%

16. CREDITORS: Amounts falling due after more than one year

	2012	2011
	£'000	£'000
Finance lease agreements	—	129
Shares classed as financial liabilities	136,000	136,000
	<u>136,000</u>	<u>136,129</u>

17 COMMITMENTS UNDER FINANCE LEASE AGREEMENTS

Future commitments under finance lease agreements are as follows

	2012	2011
	£'000	£'000
Amounts payable within 1 year	121	146
Amounts payable between 1 and 2 years	-	129
	<u>121</u>	<u>275</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Artist royalties £'000	Other provisions £'000	Deferred taxation £'000	Total £'000
Balance brought forward	4,600	3,720	4,178	12,498
Balance brought forward deferred tax on pension liability	-	-	(3,914)	(3,914)
STRGL movement arising in the year	-	-	1,558	1,558
Profit and Loss Account movement arising during the year	(206)	3,841	(226)	3,409
Balance carried forward	<u>4,394</u>	<u>7,561</u>	<u>1,596</u>	<u>13,551</u>

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

Included within the deferred tax provision is the deferred tax asset of £698,000 (2011 £3,914,000) in relation to the net pension liability, excluding which results in a year end provision of £2,293,000 (2011 £4,178,000)

The other provisions amount represents provisions for dilapidations on properties

The deferred tax is included in the balance sheet is as follows:

	2012 £'000	2011 £'000
Included in Provisions for liabilities (note 18)	(2,293)	(4,178)
Included in defined benefit pension scheme liability (note 19)	698	3,914
Provision for deferred tax	<u>(1,595)</u>	<u>(264)</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2012 £'000	2011 £'000
Excess of depreciation over taxation allowances	(1,006)	(1,006)
Other timing differences	<u>3,299</u>	<u>5,184</u>
	<u>2,293</u>	<u>4,178</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

19 PENSIONS AND OTHER POST RETIREMENT BENEFITS

Vivendi S A operates the UMGPS, formerly known as the Vivendi Universal Pension Scheme, in the United Kingdom. It is designed to provide retirement benefits for certain employees. This is the most significant scheme operated by Vivendi S A in the UK and the principal company of the Scheme is Universal Music Operations 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.

Prior to 13 November 2008, each defined benefit member of the Scheme was subject to one of two different benefit structures. Members with a Universal benefit structure consisted 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 consisted of former SWSG employees. The underlying assets and liabilities of the Scheme allocated to the Universal Music members were accounted for within Universal Music Operations Limited and the underlying assets and liabilities of the Scheme allocated to the SWSG and VUE members were accounted for within Centenary Holdings Limited ("CHL"). Both companies are fellow group undertakings.

On 13 November 2008 the pensioner members of the Scheme transferred to the Vivendi 2008 Pensioners' Scheme ("VPS"), which is accounted for in its entirety within CHL. The underlying liabilities allocated to these members and related assets were transferred at the same point in time and the transfer was accounted for as a settlement within UMGPS. Consequently, from 13 November 2008 Universal Music Operations Limited no longer holds any liability in respect of the transferring pensioner members.

Following the transfer of pensioner members the underlying assets and liabilities of the Scheme allocated to the Universal Music members at 13 November 2008 remain accounted for within Universal Music Operations Limited.

FRS 17 requires that a pension scheme's underlying assets and liabilities can be allocated to the entities sponsoring the scheme. This allocation could not be done on a consistent and reasonable basis for Universal Music Operations Limited alone. As a result, the defined benefit membership of the Scheme has been accounted for on a defined contribution basis in these financial statements. Full disclosures relating to the underlying assets and liabilities of the UMGPS can be found in these financial statements of Universal Music Operations Limited for the year ended 31 December 2012.

Formal actuarial valuations are carried out on an at least a triennial basis and updated at each reporting year end. A full formal actuarial valuation was carried out as at 5 April 2009 by Mercer Limited as independent, professionally qualified actuaries to the Scheme. A revised schedule of contributions was subsequently agreed with effect from 8 April 2011. As such, the total contributions to the defined benefit section of the UMGPS over 2012 were £7,601,021. The next full formal actuarial valuation is underway as at 5 April 2012 and is scheduled to be completed by 5 July 2013.

The provisional results of the 5 April 2012 valuation have been updated to 31 December 2012 for FRS 17 purposes. Over the reporting year 2012, the valuation update showed that the deficit decreased from £15.5 million to £3.0 million. The updated valuation at 31 December 2012 showed the market value of the assets in the defined benefit section was £75.0 million and that the liabilities were £78.0 million. Consequently, the market value of the assets at 31 December 2012 were sufficient to cover 96% of the benefits that had accrued to defined benefit members, after allowing for expected future increases in earnings where appropriate and future revaluations during deferment.

The Company's contributions to the GPP from 1 January 2012 to 31 December 2012 were £7,600,000 (2011 from 1 April 2011 to 31 December 2011 £7,300,000).

The Company's total contributions amounted to £7,600,000 for the year ended 31 December 2012 (2011 £7,300,000).

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

19 PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The amounts recognised in the profit and loss account are as follows:

	2012 £'000	2011 £'000
Amounts included in other finance cost		
Expected return on scheme assets	(2,000)	(1,700)
Interest on scheme liabilities	3,800	3,400
Other finance cost	1,800	1,700
Total charge to the profit and loss account	1,800	1,700

Other finance cost is included in the profit and loss account within interest payable and similar charges

The amounts recognised in the statement of total recognised gains and losses are as follows:

	2012 £'000	2011 £'000
Actual return on scheme assets	7,700	2,300
Less expected return on pension scheme assets	(2,000)	(1,700)
Other actuarial gains	5,700	600
	1,000	(12,200)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	6,700	(11,600)

At 31 December 2012 the cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £13,800,000 (2011 - £20,500,000)

The amounts recognised in the balance sheet are as follows

	2012 £'000	2011 £'000
Present value of funded obligations	(78,001)	(76,100)
Fair value of scheme assets	75,000	60,600
	(3,001)	(15,500)
Related deferred tax asset	698	3,914
Net pension liability	(2,303)	(11,586)

The fair value of scheme assets consists of bonds of £53,850,000 (2011 - £60,600,000) and £21,150,000 other assets (2011 - £nil)

Changes in the present value of the defined benefit obligation scheme are as follows:

	2012 £'000	2011 £'000
Opening defined benefit obligation	76,100	61,700
Interest on scheme liabilities	3,800	3,400
Actuarial (gain)/loss	(1,000)	12,200
Benefits paid	(900)	(400)
Other	—	(800)
Closing defined benefit obligation	78,000	76,100

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

19. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Changes in the fair value of scheme assets are as follows:

	2012 £'000	2011 £'000
Opening fair value of scheme assets	60,600	51,400
Expected return on scheme assets	2,000	1,700
Contributions by employer	7,600	7,300
Actuarial gain	5,700	600
Benefits paid	(900)	(400)
Closing fair value of scheme assets	75,000	60,600

The principal actuarial assumptions as at the balance sheet date were:

	2012 %	2011 %
Discount rate	4.25	5.00
Expected return on scheme assets Others	4.25	—
Rate of increase in salaries	4.50	5.00
Rate of increase in deferred pensions	3.00	3.50
Rate of inflation rpi	3.00	3.50
Rate of inflation cpi	2.50	3.00
Expected return on scheme assets Bonds	4.25	3.00

History of experience gains and losses

	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of defined benefit obligation	(78,001)	(76,100)	(61,700)	(58,800)
Fair value of scheme assets	75,000	60,600	51,400	40,700
Deficit in scheme	(3,001)	(15,500)	(10,300)	(18,100)
Experience adjustments arising on plan liabilities	(1,000)	12,200	200	(1,300)
Experience adjustments arising on plan assets	(5,700)	(600)	(3,300)	100

The assumed life expectations on retirement at age 65 for those retiring today (member age 65) and those retiring in 20 years (member age 45 today) are 24.4 (2011 - 24.4) and 26.2 (2011 - 26.2) respectively

The total pension contributions made by the company were £7,600,000 in 2012 (2011 - £7,300,000). The company charged a service fee amounting to £1,322,000 in 2012 (2011 - £1,187,000) to fellow subsidiaries in respect of defined benefit contributions.

With effect from 1 December 2006 the defined benefit section of the scheme closed to future accrual. Past service benefits remain linked to the 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 a total of £6,700,000 per annum, plus the cost of administration expenses and death in service insurance premiums. The company's share of this amounted to £7,600,000 in 2012 (2011 - £7,300,000). The company expects to contribute £6,700,000 to its pension plan in 2013.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

20 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2012	2011
	£'000	£'000
Operating leases which expire		
Within 1 year	-	581
Within 2 to 5 years	2,780	163
After more than 5 years	891	3,083
	<u>3,671</u>	<u>3,827</u>

21. RELATED PARTY TRANSACTIONS

During the year, Universal Music Operations Limited distributed product on behalf of All Around The World Limited, a company which is 50% owned. At 31 December 2012, Universal Music Operations Limited were owed by this related party £55,000 (2011 - £607,000). Universal Music Operations Limited also has 50% shareholdings in Future Records Limited and Global Talent Music Recordings Limited. The company was owed £5,060,000 and £2,494,000 respectively by these related parties as at 31 December 2012. Universal Music Operations Limited also have a 25% shareholding in Mother Records Limited who owed the company £171,000 as at 31 December 2012.

22. SHARE CAPITAL

Allotted and called up:

	2012		2011	
	No	£'000	No	£'000
Ordinary shares of £1 each	15,000	15	15,000	15
4 82% non-redeemable preference shares of £1 each	2,045	2	2,045	2
	<u>17,045</u>	<u>17</u>	<u>17,045</u>	<u>17</u>

	2012	2011
	£'000	£'000
Amounts presented in equity.		
Ordinary shares of £1 each	<u>15</u>	<u>15</u>
Amounts presented in liabilities.		
4 82% non-redeemable preference shares of £1 each	<u>2</u>	<u>2</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

22. SHARE CAPITAL *(continued)*

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:

- 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.
- The shares carry the right to receive notice of or to attend or vote at General Meetings of the company. Whenever the holders of the 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.
- 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.

The company has the right to redeem on any date all of its preference shares issued and outstanding by giving written notice. The preference shares must be redeemed, in any event, no later than the fifth anniversary of the date of their issue.

On 20 March 2008 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.

23. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £'000	Profit and loss account £'000	Total share- holders' funds £'000
Balance brought forward at 1 January 2011	15	197,898	197,913
Loss for the year	—	(16,196)	(16,196)
Actuarial (loss)/gain in respect of defined benefit pension scheme	—	(8,564)	(8,564)
Balance brought forward at 1 January 2012	15	173,138	173,153
Loss for the year	—	(11,676)	(11,676)
Actuarial (loss)/gain in respect of defined benefit pension scheme	—	5,142	5,142
Balance carried forward at 31 December 2012	15	166,604	166,619

The actuarial gain/(loss) in respect of the defined benefit pension scheme for the year ended 31 December 2012 is net of tax of £1,558,000 (2011 - £3,036,000).

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

24. ULTIMATE PARENT COMPANY

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

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