

COMPANY REGISTRATION NUMBER 950138

UNIVERSAL MUSIC OPERATIONS LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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UNIVERSAL MUSIC OPERATIONS LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

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UNIVERSAL MUSIC OPERATIONS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

DT Bryant
DS Joseph
MJ Swatton
TC Fisher
Universal Music UK Limited
RM Constant

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 2010

The directors present their report and the financial statements of the company for the year ended 31 December 2010

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was to market and distribute recorded music and videos. The company has two agents, Mercury Records Limited and Polydor Limited, acting on its behalf.

The result and position of the company as at and for the year ended 31 December 2010 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 agents are shown in their own financial statements as well as in the financial statements of this company. The result and position of the company were in line with directors' expectations.

Turnover decreased by 13% compared to the prior year primarily due to poorer sales performance in the United Kingdom and overseas.

Operating profit increased by £6,670,000 compared to the prior year primarily due to the same reason as above.

FUTURE DEVELOPMENTS

As part of a UK group restructure in January 2011, the company entered into a licence agreement, whereby it was granted licence to all revenue earning rights under artist recording contracts of fellow subsidiary recording companies of Universal Music Holdings Limited. This agreement was effective from 1 January 2011 and the company is expected to reflect any economic benefit in respect of such rights in the foreseeable future.

RESULTS AND DIVIDENDS

The company's loss for the financial year was £(21,978,421) (2009 - loss (9,887,857)). 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.

UNIVERSAL MUSIC OPERATIONS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2010

DIRECTORS

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

DT Bryant
MN Henny (United States Citizen)
DS Joseph
MJ Swatton
TC Fisher
Universal Music UK Limited
RM Constant

MN Henny (United States Citizen) resigned as a director on 19 November 2010

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

UNIVERSAL MUSIC OPERATIONS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2010


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

DONATIONS

The company made no political donations in either year

By order of the board



A Abioye
Company Secretary

31st MARCH 2011
Company Registration Number 950138

UNIVERSAL MUSIC OPERATIONS LIMITED

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

YEAR ENDED 31 DECEMBER 2010

We have audited the financial statements of Universal Music Operations Limited for the year ended 31 December 2010 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 27. 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 pages 3 to 4, 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.

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 2010 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

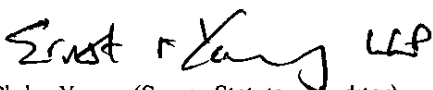
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC OPERATIONS LIMITED *(continued)*

YEAR ENDED 31 DECEMBER 2010

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


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

31 March 2011

Company Registration Number 950138

UNIVERSAL MUSIC OPERATIONS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
TURNOVER	2	277,143	314,616
Cost of sales		(195,454)	(226,366)
GROSS PROFIT		81,689	88,250
Distribution costs		(9,442)	(19,367)
Administrative expenses		(60,801)	(64,107)
OPERATING PROFIT	3	11,446	4,776
Income from shares in group undertakings	6	141	26
Income from participating interests	7	750	725
Interest receivable and similar income	8	19,380	31,983
Amounts written off investments	9	(1,581)	—
Interest payable and similar charges	10	(55,682)	(56,025)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(25,546)	(18,515)
Tax on loss on ordinary activities	11	3,567	8,627
LOSS FOR THE FINANCIAL YEAR		(21,979)	(9,888)

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 28 form part of these financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	£'000	£'000
Loss for the financial year attributable to the shareholders	(21,979)	(9,888)
Actuarial gain/(loss) in respect of defined benefit pension scheme	3,100	(4,800)
Movement on deferred tax in respect of actuarial gain/(loss) on defined benefit pension scheme	(861)	1,344
Total gains and losses recognised since the last financial statements	<u>(19,740)</u>	<u>(13,344)</u>

The notes on pages 10 to 28 form part of these financial statements

UNIVERSAL MUSIC OPERATIONS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Tangible assets	12	8,049	9,797
Investments	13	9,304	10,885
		<u>17,353</u>	<u>20,682</u>
CURRENT ASSETS			
Stocks	14	2,107	2,173
Debtors	15	2,828,701	1,313,242
Cash at bank		4,148	3
		<u>2,834,956</u>	<u>1,315,418</u>
CREDITORS: Amounts falling due within one year	16	<u>(2,504,741)</u>	<u>(965,414)</u>
NET CURRENT ASSETS		<u>330,215</u>	<u>350,004</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>347,568</u>	<u>370,686</u>
CREDITORS. Amounts falling due after more than one year	17	<u>(136,280)</u>	<u>(136,385)</u>
PROVISIONS FOR LIABILITIES			
Provisions for liabilities and charges	19	<u>(5,908)</u>	<u>(3,642)</u>
NET ASSETS EXCLUDING PENSION LIABILITY		<u>205,380</u>	<u>230,659</u>
Defined benefit pension scheme liability	20	<u>(7,493)</u>	<u>(13,032)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>197,887</u>	<u>217,627</u>
MINORITY INTERESTS		<u>26</u>	<u>26</u>
		<u>197,913</u>	<u>217,653</u>
CAPITAL AND RESERVES			
Called-up equity share capital	24	15	15
Profit and loss account	25	197,898	217,638
EQUITY SHAREHOLDERS' FUNDS	25	<u>197,913</u>	<u>217,653</u>

These financial statements were approved by the board of directors and authorised for issue on 31st MARCH 2011 and are signed on their behalf by


RM Constant

The notes on pages 10 to 28 form part of these financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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.

In the current year, the directors decided to reclassify certain items within the profit and loss and balance sheet. They believe this presentation is more appropriate, and provides the reader of the accounts more useful information, and consistency between UK companies within the ultimate parent company's group. Comparatives for the prior year have been reclassified accordingly.

The financial statements have been prepared on the going concern basis.

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.

United Kingdom 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. Overseas digital and 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.

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 2010

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.

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.

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 Globe Production Ltd alone. As a result, the defined benefit membership of the Scheme has been accounted for on a defined contribution basis in these financial basis.

Full disclosure relating to the underlying assets and liabilities of the UMGPS can be found in the financial statements of Universal Music Operations Limited for the year ended 31 December 2010.

Universal Music Operations Limited charges a monthly service fee to certain other fellow subsidiaries included in which is an element in respect of defined benefit operating and finance costs.

On 1 July 2010 the company ceased to be an employer and the employees were transferred to Universal Music Holdings Limited, a UK group undertaking, in terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

1 ACCOUNTING POLICIES *(continued)*

Taxation

The charge 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 2010

2. TURNOVER

Turnover by destination is as follows

	2010 £'000	2009 £'000
United Kingdom	237,674	226,697
Rest of Europe	19,527	48,556
United States of America	9,717	18,641
Rest of World	10,225	20,722
	<u>277,143</u>	<u>314,616</u>

Turnover by source is exclusively derived in the United Kingdom

3 OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	2010 £'000	2009 £'000
Depreciation of owned fixed assets	2,110	2,940
Depreciation of assets held under finance lease agreements	197	230
Profit on disposal of fixed assets	(56)	(622)
Auditor's remuneration - audit of the financial statements	134	413
Operating lease costs		
- Plant and machinery	100	456
- Land and buildings	3,700	3,158
Net loss/(profit) on foreign currency translation	<u>270</u>	<u>(8,564)</u>

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £306,000 (2009 - £214,000)

4 PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to

	2010 No	2009 No
Commercial and administrative	<u>208</u>	<u>398</u>

The aggregate payroll costs of the above were

	2010 £'000	2009 £'000
Wages and salaries	12,309	24,278
Social security costs	1,516	4,757
Other pension costs	(1,361)	(1,206)
	<u>12,464</u>	<u>27,829</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

4 PARTICULARS OF EMPLOYEES *(continued)*

The amounts above include the number and costs of directors serving during the year

On 1 July the company ceased to be an employer and the employees were transferred to Universal Music Holdings Limited, a UK group undertaking, in accordance with the Transfer of Undertakings, (Protection of Employment) Regulations 2006

5 DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were

	2010 £'000	2009 £'000
Remuneration receivable	2,565	3,118
Value of company pension contributions to money purchase schemes	110	106
	<u>2,675</u>	<u>3,224</u>

Remuneration of highest paid director*

	2010 £'000	2009 £'000
Total remuneration (excluding pension contributions)	1,417	1,819
Value of company pension contributions to money purchase schemes	45	44
	<u>1,462</u>	<u>1,863</u>

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £Nil (2009 - £Nil) together with a lump sum amounting to £122,000 (2009 - £90,000)

Retirement benefits are accruing to two directors (2009 - two) under the Universal defined contribution section of the Universal Music Group Pension Scheme (UMGPS) formerly Vivendi Universal Pension Scheme (VUPS). The scheme was renamed with effect from 16th September 2009. Three directors were not members of any retirement benefit schemes.

The emoluments of two directors (2009 - two) were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company.

Five directors, one of whom was the highest paid director, received share options under the group's long term incentive grant scheme (2009 - five). The amounts payable to the directors under long term incentive schemes were £nil (2009 - £nil).

6. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2010 £'000	2009 £'000
Other income	<u>141</u>	<u>26</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

7. INCOME FROM PARTICIPATING INTERESTS

	2010 £'000	2009 £'000
Income from participating interests	750	725

8 INTEREST RECEIVABLE AND SIMILAR INCOME

	2010 £'000	2009 £'000
Bank interest receivable	8	3,185
Interest receivable from group undertakings	18,244	28,798
Other similar income receivable	1,128	–
	19,380	31,983

9 AMOUNTS WRITTEN OFF INVESTMENTS

	2010 £'000	2009 £'000
Amount written off investments	1,581	–

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2009 £'000
Interest on pension obligation	3,200	3,200
Expected return on pension scheme assets	(1,600)	(1,800)
Finance charges payable under finance leases	138	51
Bank overdraft and other interest payable	2,217	1,631
Interest payable to group undertakings	51,727	52,943
	55,682	56,025

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

11 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

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

	2010	2009
	£'000	£'000
Current tax		
UK Taxation		
Adjustments in respect of previous years	1,211	(1,957)
Group relief payable for losses surrendered from other group undertakings	(8,576)	(7,515)
	<u>(7,365)</u>	<u>(9,472)</u>
Foreign tax		
Current tax on income for the year	-	76
Total current tax	<u>(7,365)</u>	<u>(9,396)</u>
Deferred tax		
Origination and reversal of timing differences	3,798	769
Total deferred tax (note 19)	<u>3,798</u>	<u>769</u>
Tax on loss on ordinary activities	<u>(3,567)</u>	<u>(8,627)</u>

(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 28% (2009 - 28%)

	2010	2009
	£'000	£'000
Loss on ordinary activities before taxation	<u>(25,546)</u>	<u>(18,515)</u>
Loss on ordinary activities at the standard rate of UK Corporation tax of 28% (2009 28%)	(7,153)	(5,184)
Expenses not deductible for tax purposes	646	(2,449)
Adjustments in respect of previous periods	1,211	(1,957)
Foreign tax suffered in the period	-	76
Movement in timing differences	(2,029)	118
Impact of statutory rate change	(40)	-
Current tax credit for the financial year	<u>(7,365)</u>	<u>(9,396)</u>

(c) Factors that may affect future tax charges

None

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

12 TANGIBLE FIXED ASSETS

	Land and Buildings £'000	Plant & Machinery £'000	Motor Vehicles £'000	Total £'000
COST				
At 1 January 2010	16,681	13,027	1,417	31,125
Additions	12	1,087	353	1,452
Disposals	(574)	(90)	(661)	(1,325)
At 31 December 2010	16,119	14,024	1,109	31,252
DEPRECIATION				
At 1 January 2010	8,689	11,807	832	21,328
Charge for the year	1,451	659	197	2,307
On disposals	—	—	(432)	(432)
At 31 December 2010	10,140	12,466	597	23,203
NET BOOK VALUE				
At 31 December 2010	5,979	1,558	512	8,049
At 31 December 2009	7,992	1,220	585	9,797
			2010 £'000	2009 £'000
The net book amount of land and buildings comprises:				
Short leaseholds			5,979	7,992

Finance lease agreements

Included within the net book value of £8,049,000 is £512,000 (2009 - £585,000) 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 £197,000 (2009 - £230,000).

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

13 INVESTMENTS

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
COST			
At 1 January 2010 and 31 December 2010	16,382	23	16,405
PROVISION FOR IMPAIRMENT			
At 1 January 2010	5,497	23	5,520
Written off in year	1,581	-	1,581
At 31 December 2010	7,078	23	7,101
NET BOOK VALUE			
At 31 December 2010	9,304	-	9,304
At 31 December 2009	10,885	-	10,885

Impairments in the year were made in respect of an investment in Vice Versa Limited

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 2010 were as follows

Name	Ordinary share holdings	Nature of business
Fiction Records Limited	100%	Marketing and distribution of recorded music
Serious Records Limited	100%	Marketing and distribution of recorded music
Universal Music Mobile Limited	100%	Dormant company
Vice Versa Limited	100%	Dormant company
All Around The World Limited	50%	Marketing and distribution of recorded music

14 STOCKS

	2010 £'000	2009 £'000
Finished goods	2,107	2,173

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
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15 DEBTORS

	2010	2009
	£'000	£'000
Trade debtors	65,092	48,214
Amounts owed by group undertakings	2,692,277	1,192,919
Other debtors	62,115	65,683
Prepayments and accrued income	9,217	6,426
	<u>2,828,701</u>	<u>1,313,242</u>

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

- £207,673,000 (2009 - £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 0.1%
- £136,000,000 (2009 - £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 1.1%
- £560,000,000 (2009 - £560,000,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. The loan is unsecured, interest free and repayable on demand.
- £199,969,000 (2009 - £199,969,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. The loan is unsecured, interest free and repayable on demand.

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

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

16 CREDITORS: Amounts falling due within one year

	2010 £'000	2009 £'000
Bank loans	1,703	651
Trade creditors	153,713	146,999
Amounts owed to group undertakings	2,292,766	778,032
Corporation tax	1,000	1,000
Other taxation and social security costs	12,711	4,694
Finance lease agreements	146	351
Other creditors	7,965	6,821
Accruals and deferred income	34,737	26,866
	<u>2,504,741</u>	<u>965,414</u>

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

- £6,032,000 (2009 - £10,784,000 debtor) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S A

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

17 CREDITORS: Amounts falling due after more than one year

	2010 £'000	2009 £'000
Finance lease agreements	280	385
Shares classed as financial liabilities	136,000	136,000
	<u>136,280</u>	<u>136,385</u>

18. COMMITMENTS UNDER FINANCE LEASE AGREEMENTS

Future commitments under finance lease agreements are as follows

	2010 £'000	2009 £'000
Amounts payable within 1 year	146	351
Amounts payable between 1 and 2 years	280	385
	<u>426</u>	<u>736</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Artist royalties £'000	Other provisions £'000	Deferred taxation £'000	Total £'000
Balance brought forward	2,503	(958)	2,097	3,642
Profit and Loss Account movement arising during the year	(1,090)	958	2,398	2,266
Balance carried forward	<u>1,413</u>	<u>-</u>	<u>4,495</u>	<u>5,908</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

Deferred taxation (liability)/asset movements.

	2010 £'000	2009 £'000
Asset as at start of year	(2,097)	(2,812)
Deferred taxation charge in profit & loss account	(445)	1,601
Prior year adjustment	(1,953)	(886)
(Liability)/asset as at end of year	<u>(4,495)</u>	<u>(2,097)</u>

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

	2010 £'000	2009 £'000
Excess of depreciation over taxation allowances	(1,780)	(754)
Other timing differences	6,275	2,851
	<u>4,495</u>	<u>2,097</u>

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

20. PENSIONS AND OTHER POST RETIREMENT BENEFITS

Vivendi S A operates the Vivendi Universal Pension Scheme ("UMGPS" or "the Scheme"), formerly known as the Vivendi Universal 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 principal employer of this Scheme is Universal Music Operations Limited ("UMO"). 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 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 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. 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 has been accounted for as a settlement within UMGPS. Consequently, from 13 November 2008 UMO 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 and the Scheme is accounted for within Universal Music Operations Limited.

FRS 17 requires that the 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 the financial statements of Universal Music Operations Limited for the year ended 31 December 2010.

Formal actuarial valuations are normally carried out on a triennial basis and updated at each reporting year end. A full and formal actuarial valuation was carried out as at 5 April 2006 by Mercer Limited as independent, professionally qualified actuaries to the Scheme. The agreed level of contributions to be made by Universal Music Operations Limited following this valuation as at 5 April 2006 was £7,368,000 per annum with effect from 5 July 2007. A revised schedule of contributions was subsequently agreed to reflect the reduced membership of the UMGPS and lower associated administration costs. As such the total contributions to the UMGPS over 2010 were £6,700,000. A further full formal actuarial valuation was carried out as at 5 April 2009. Formal agreement of contributions has still to be finalised.

The results of the 5 April 2009 valuation have been updated to 31 December 2009 and they have also been updated to 31 December 2010 for FRS17 purposes. Over the reporting year 2010, these valuation updates showed that the deficit decreased from £18.1 million to £10.3 million. The updated valuation at 31 December 2010 showed the market value of the assets in the defined benefit section was £51.4 million which is sufficient to cover 77% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The company's contributions amounted to £6,700,000 for the year ended 31 December 2010 (2009 - £6,700,000).

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

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

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

	2010	2009
	£'000	£'000
Amounts included in other finance cost		
Expected return on scheme assets	(1,600)	(1,800)
Interest on scheme liabilities	3,200	3,200
Other finance cost	1,600	1,400
Total charge to the profit and loss account	1,600	1,400

Other finance income is included in the profit and loss account within interest receivable and similar income

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

	2010	2009
	£'000	£'000
Actual return on scheme assets	5,000	1,700
Less expected return on pension scheme assets	(1,600)	(1,800)
	3,400	(100)
Other actuarial gains	(300)	(4,700)
Actuarial gain recognised in the statement of total recognised gains and losses	3,100	(4,800)

At 31 December 2010 the cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £8,900,000 (2009 - £12,000,000)

The amounts recognised in the balance sheet are as follows:

	2010	2009
	£'000	£'000
Present value of funded obligations	(61,700)	(58,800)
Fair value of scheme assets	51,400	40,700
	(10,300)	(18,100)
Related deferred tax asset	2,807	5,068
Net pension liability	(7,493)	(13,032)

The fair value of scheme assets consists of bonds of £51,400,000 (2009 - £40,700,000)

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

	2010	2009
	£'000	£'000
Opening defined benefit obligation	58,800	52,400
Interest on scheme liabilities	3,200	3,200
Actuarial loss	200	4,700
Benefits paid	(900)	(1,500)
Other	400	—
Closing defined benefit obligation	61,700	58,800

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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

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

	2010	2009
	£'000	£'000
Opening fair value of scheme assets	40,700	33,800
Expected return on scheme assets	1,600	1,800
Contributions by employer	6,700	6,700
Actuarial gain/(loss)	3,300	(100)
Benefits paid	(900)	(1,500)
Closing fair value of scheme assets	51,400	40,700

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

	2010	2009
	%	%
Discount rate	5.50	5.50
Rate of increase in salaries	4.75	4.75
Rate of increase in deferred pensions	3.25	3.25
Inflation	3.25	3.25
Expected return on scheme assets Bonds	3.00	3.75

History of experience gains and losses

	2010	2009	2008	2007
	£'000	£'000	£'000	£'000
Present value of defined benefit obligation	(61,700)	(58,800)	(52,400)	(77,200)
Fair value of scheme assets	51,400	40,700	33,800	56,000
Deficit in scheme	(10,300)	(18,100)	(18,600)	(21,200)
Experience adjustments arising on plan liabilities	200	(1,300)	(8,300)	(2,500)
Experience adjustments arising on plan assets	(3,300)	100	7,900	4,200

The total pension contributions made by the company were £6,700,000 in 2010 (2009 - £6,700,000). The company charged a service fee amounting to £1,068,000 in 2010 (2009 - £800,000) 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 £6,200,000 per annum, plus the cost of administration expenses and death in service insurance premiums. The company's share of this amounted to £6,700,000 in 2010 (2009 - £6,700,000). The company expects to contribute £6,700,000 to its pension plan in 2011.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

21 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2010	2009
	£'000	£'000
Operating leases which expire		
After more than 5 years	3,661	5,863

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. 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

	2010	2009
	£'000	£'000
Distribution fee income	25	25

At 31 December 2010, the related party owed Universal Music Operations Limited £25,000 (2009 - £25,000)

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

24 SHARE CAPITAL

Authorised share capital:

	2010 £'000	2009 £'000
15,000 Ordinary shares of £1 each	15	15
2,045 4 82% non-redeemable preference shares of £1 each	2	2
	<u>17</u>	<u>17</u>

Allotted and called up:

	2010 No	£'000	2009 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>

Amounts presented in equity:

	2010 £'000	2009 £'000
Ordinary shares of £1 each	<u>15</u>	<u>15</u>

Amounts presented in liabilities:

	2010 £'000	2009 £'000
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 2010

24 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.

25 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 2009	15	230,982	230,997
Loss for the year	–	(9,888)	(9,888)
Actuarial gain/(loss) in respect of defined benefit pension scheme	–	(3,456)	(3,456)
Balance brought forward at 1 January 2010	15	217,638	217,653
Loss for the year	–	(21,979)	(21,979)
Actuarial gain/(loss) in respect of defined benefit pension scheme	–	2,239	2,239
Balance carried forward at 31 December 2010	15	197,898	197,913

The actuarial gain/(loss) in respect of the defined benefit pension scheme for the year ended 31 December 2010 is net of tax of £861,000 (2009 - £1,344,000).

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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26 POST BALANCE SHEET EVENT

With effect from 1 January 2011, the company entered into licence agreements, whereby it was granted licence to all revenue earning rights under artist recording contracts of fellow subsidiary recording companies of Universal Music Holdings

27. 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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