

Universal Music Operations Limited
(Registered Number: 950138)

Directors' Report and Financial Statements
for the year ended 31 December 2004



Universal Music Operations Limited

Directors' Report for the year ended 31 December 2004

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activity

The company's principal activity during the year was to distribute and market recorded music and videos. The company expects this activity to continue for the forthcoming year.

Business review

The results of the company for the year ended 31 December 2004 are set out on page 5 of the financial statements. These are in line with the expectations of the directors.

Results and dividends

The company's profit after taxation for the year was £56,796,000 (year ended 31 December 2003: £6,805,000).

On 14 March 2005 the holder of all of the issued fixed rate non redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends (year ended 31 December 2003: £nil). The directors do not recommend the payment of a dividend on the ordinary shares in issue (year ended 31 December 2003: £nil). The retained profit for the year of £56,796,000 (year ended 31 December 2003: £6,805,000) has been transferred to reserves.

Directors and their interests

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

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

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

Universal Music Operations Limited

Directors' Report for the year ended 31 December 2004 (continued)

Disabled employees

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

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

Employee involvement

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

Charitable and political donations

During the year the company made charitable donations of £20,235 (year ended 31 December 2003: £18,333). The company made no political donations in either period.

Elective resolutions

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

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

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

Universal Music Operations Limited

Directors' Report for the year ended 31 December 2004 (continued)

Statement of directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

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

Auditors

After completing the 31 December 2003 audit, PricewaterhouseCoopers LLP resigned as auditors on 20 December 2004 and the directors appointed Ernst & Young LLP.

By Order of the Board


A Abioye
Company Secretary

1 Sussex Place
London
W6 9XS

31 March 2005

Universal Music Operations Limited

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

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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


Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London
31 March 2005

Universal Music Operations Limited

Profit and loss account for the year ended 31 December 2004

	<i>Note</i>	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Turnover	2	304,867	288,479
Cost of sales		(211,167)	(199,639)
Gross profit		93,700	88,840
Distribution costs		(20,152)	(19,068)
Administrative expenses		(57,763)	(88,514)
Operating profit / (loss)		15,785	(18,742)
Interest receivable and similar income	6	51,136	49,904
Interest payable and similar charges	7	(4,394)	(7,656)
Profit on ordinary activities before taxation	3	62,527	23,506
Taxation charge on profit on ordinary activities	8	(5,731)	(16,701)
Profit for the financial year		56,796	6,805
Dividends	9	-	-
Profit on ordinary activities after taxation and retained profit for the financial year	18	56,796	6,805

The company's results were entirely from continuing operations.

The company has no material recognised gains and losses other than the profit reported above and therefore no separate statement of total recognised gains and losses has been presented.

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

Universal Music Operations Limited

Balance sheet as at 31 December 2004

	<i>Note</i>	31 December 2004 £'000	31 December 2003 £'000
Fixed assets			
Tangible assets	10	17,017	18,789
Investments	11	1,724	1,724
		18,741	20,513
Current assets			
Stock	12	1,229	698
Debtors	13	1,257,344	1,313,561
Cash at bank and in hand		115,460	93,258
		1,374,033	1,407,517
Creditors: amounts falling due within one year	14	(1,094,758)	(1,051,765)
Net current assets		279,275	355,752
Total assets less current liabilities		298,016	376,265
Creditors: amounts falling due after one year	15	(473)	(136,535)
Provisions for liabilities and charges	16	(1,806)	(789)
Net assets		295,737	238,941
Capital and reserves			
Called-up share capital	17	17	17
Share premium account	18	135,998	135,998
Profit and loss account	18	159,722	102,926
Total shareholders' funds	18	295,737	238,941
Analysis of shareholders' funds			
Equity shareholders' funds		159,737	102,941
Non-equity shareholders' funds	17	136,000	136,000
Total shareholders' funds	18	295,737	238,941

The financial statements on pages 5 to 24 were approved by the board of directors on 31 March 2005 and were signed on its behalf by:


M J Swatton
Director

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

1 Accounting policies

a) Basis of preparation

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

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

Cashflow statement and related party disclosures

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

b) Tangible fixed assets

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

Rates of depreciation are:

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

c) Investments

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

d) Turnover

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

e) Royalties and advances

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

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

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

1 Accounting policies (continued)

f) Stock

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

g) Lease commitments

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

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

h) Deferred taxation

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

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

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

i) Foreign currencies

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

j) Pension and other retirement benefits

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

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
United Kingdom	284,322	265,663
Europe	7,649	11,191
United States of America	7,715	6,490
Other	5,181	5,135
	304,867	288,479

Turnover by source is exclusively derived in the United Kingdom.

3 Profit on ordinary activities before taxation

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Depreciation on tangible fixed assets:		
- owned	3,413	5,911
- leased	244	275
Profit on disposal of tangible fixed assets	(52)	(95)
Exchange gains	(557)	(194)
Operating lease charges:		
- plant and machinery	-	774
- land and buildings	2,071	1,803
Auditors' remuneration:		
Audit services	157	210

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £99,000 (year ended 31 December 2003: £128,000).

Amounts payable to the auditors by the company in respect of non-audit services were £nil (year ended 31 December 2003: £nil).

Amounts due from UK group undertakings

For the year ended 31 December 2004 a provision has been made against an amount due from a group undertaking of £779,000 (year ended 31 December 2003: £30,581,000).

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Notes to the financial statements for the year ended 31 December 2004

4 Directors' emoluments

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Aggregate emoluments	2,726	4,060
Company contributions to defined benefit schemes	217	169
Company contributions to money purchase benefit schemes	13	10
	2,956	4,239

The aggregate emoluments of the highest paid director, excluding pensions contributions, were £1,514,359 (year ended 31 December 2003: £2,574,490).

Retirement benefits are accruing to five directors (year ended 31 December 2003: five) under a defined benefit scheme. The accumulated retirement benefits accruing to the highest paid director were £256,335 (year ended 31 December 2003: £192,921).

Retirement benefits are accruing to one director (year ended 31 December 2003: one) under a money purchase benefit scheme.

The gains on exercise of share options were £nil (year period ended 31 December 2003: £nil) and the amounts receivable to the directors under long term incentive schemes were £nil (year ended 31 December 2003: £nil).

5 Employee information

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

	Year ended 31 December 2004 No.	Year ended 31 December 2003 No.
Commercial and administrative	723	777

Their aggregate remuneration comprised:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Wages and salaries	33,950	29,165
Social security costs	3,385	3,120
Other pension costs	1,438	1,486
Staff costs	38,773	33,771

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Notes to the financial statements for the year ended 31 December 2004

6 Interest receivable and similar income

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Interest receivable from banks and other interest receivable	205	710
Interest receivable from group companies	50,931	49,194
	51,136	49,904

7 Interest payable and similar charges

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Interest payable on finance leases	77	84
Interest payable on bank overdraft and other interest payable	3,116	7,572
Interest payable to group companies	1,201	-
	4,394	7,656

8 Tax on profit on ordinary activities

(a) Analysis of charge in period

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Current tax		
UK corporation tax at 30% (31 December 2003: 30%)	17,165	15,803
Group relief payable re losses for the period	1,151	1,577
Adjustments in respect of previous periods:		
UK corporation taxation	(13,614)	1,062
Foreign taxation suffered at source	87	684
Double taxation relief claim	(75)	(586)
Total current taxation (see (b) below)	4,714	18,540
Deferred taxation for the period	1,022	(823)
Adjustments in respect of previous periods	(5)	(1,016)
Deferred taxation charge / (credit) (see note 16)	1,017	(1,839)
Total taxation charge	5,731	16,701

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

8 Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for the period	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Profit on ordinary activities before tax	62,527	23,506
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (year ended 31 December 2003: 30%)	18,758	7,052
Effects of :		
Expenses not deductible for tax purposes	346	331
Adjustments to tax charge in respect of prior periods		
UK corporation taxation	(13,614)	1,062
Accelerated capital allowances	(159)	426
Short term timing differences	(863)	397
Higher tax rates on overseas earnings	12	98
Provision against intercompany balances	234	9,174
Total current tax charge	4,714	18,540

(c) Factors that may affect future tax charges : None (2003: none)

9 Dividends

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Non-equity: preference		
Interim dividend paid of £nil per £1 share (2003: £nil)	-	-
Final dividend paid of £nil per £1 share (2003: £nil)	-	-
	-	-

On 14 March 2005 the holder of all of the issued fixed rate non-redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

10 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2004 (restated)	19,740	18,532	1,683	39,955
Additions	979	1,805	338	3,122
Transfers from group undertakings	-	-	15	15
Transfers to group undertakings	(1,855)	-	-	(1,855)
Disposals	-	(8,717)	(636)	(9,353)
At 31 December 2004	18,864	11,620	1,400	31,884
Depreciation				
At 1 January 2004 (restated)	5,343	15,014	809	21,166
Charge for year	1,333	2,067	257	3,657
Transfers from group undertakings	-	-	1	1
Transfers to group undertakings	(746)	-	-	(746)
Disposals	-	(8,702)	(509)	(9,211)
At 31 December 2004	5,930	8,379	558	14,867
Net book amount				
At 31 December 2004	12,934	3,241	842	17,017
At 31 December 2003 (restated)	14,397	3,518	874	18,789
			Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000 (restated)
The net book amount of land and buildings comprises:				
Freehold			11,373	11,680
Short leaseholds			1,561	2,717
			12,934	14,397
			Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Assets held under finance leases and capitalised in plant and machinery				
Cost			1,260	1,529
Accumulated depreciation			(480)	(635)
Net book amount			780	894

Cost and Depreciation as at 1 January 2004 has been restated to correctly classify categorisation of assets. There has been no impact on the overall net book value of fixed assets as at 1 January 2004.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

11 Fixed asset investments

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
Cost			
At 1 January 2004	4,674	23	4,697
At 31 December 2004	4,674	23	4,697
Provision for impairment			
At 1 January 2004 and at 31 December 2004	(2,950)	(23)	(2,973)
Net book value			
At 31 December 2004	1,724	-	1,724
At 31 December 2003	1,724	-	1,724

The company's investment in a Limited Partnership represents a 50% share in Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom. The aggregate investment in associated undertakings and in the limited partnership under equity accounting at 31 December 2004 is £nil (31 December 2003: £nil).

Subsidiary undertakings

The group has the following investments in subsidiary undertakings:

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

All companies are directly owned.

12 Stock

	31 December 2004 £'000	31 December 2003 £'000
Finished goods and goods for resale	1,229	698

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

13 Debtors

	31 December 2004 £'000	31 December 2003 £'000
Debtors: amounts falling due within one year		
Trade debtors	107,384	154,788
Amounts due from group undertakings:		
Overseas group undertakings	542,757	610,673
UK group undertakings	454,033	409,226
Other debtors	10,318	2,395
Prepayments and accrued income	6,852	479
	1,121,344	1,177,561
Debtors: amounts falling due after one year		
Amounts due from group undertakings:		
UK group undertakings	136,000	136,000
	1,257,344	1,313,561

Included within trade debtors are advances to artists of £24,162,000 (31 December 2003: £22,451,000).

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

- £Nil (31 December 2003: £136,000,000) in respect of an intercompany balance with a fellow group undertaking, Vivendi S.A. Interest accrued on the balance at the 1 month LIBOR rate + 2.0% (31 December 2003: 1 month LIBOR rate + 2.0%).
- £531,787,000 (31 December 2003: £464,151,000) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S.A. Interest accrues on the balance at the 1 month LIBOR rate + 2.0% (31 December 2003: 1 month LIBOR rate + 2.0%).

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

- £225,984,000 (31 December 2003: £207,674,000) in respect of an intercompany balance with fellow group undertakings. Interest accrues on the balances at the 1 month LIBOR rate + 0.6% (2003: 6.0%).

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

- £136,000,000 (31 December 2003: £136,000,000) in respect of an intercompany loan with a fellow group undertaking, Centenary UK Limited. Interest accrues on the loan at the 6 month LIBOR rate + 3.25% (31 December 2003: 6 month LIBOR rate + 3.25%). The loan is unsecured and falls due for repayment on 31 December 2007.

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

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Notes to the financial statements for the year ended 31 December 2004

14 Creditors: amounts falling due within one year

	31 December 2004 £'000	31 December 2003 £'000
Obligations under finance leases	321	378
Trade creditors	215,552	112,253
Amounts owed to group undertakings:		
Overseas group undertakings	6,197	7,839
UK group undertakings	780,321	828,769
Corporation tax	47,035	44,103
Other taxation and social security	3,675	15,783
Other creditors	14,350	9,965
Accruals and deferred income	27,307	32,675
	1,094,758	1,051,765

Included within amounts due to United Kingdom group undertakings is £33,289,000 (31 December 2003: £nil) in respect of an intercompany balance with fellow group undertaking, Universal Music International Ltd. Interest accrues on the balance at the 1 month LIBOR rate + 0.6% (2003: 6.0%).

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

15 Creditors: amounts falling due after one year

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Finance leases (see note 19)	473	535
Bank loans	-	136,000
	473	136,535

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

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Notes to the financial statements for the year ended 31 December 2004

16 Provisions for liabilities and charges

Deferred tax liability:

	Year ended 31 December 2004 £'000
Liability at the start of period	789
Charge for the year (see note 8(a))	1,017
Liability at the end of the period	1,806

The following deferred tax liabilities have been provided:

	Year ended 31 December 2004			Year ended 31 December 2003		
	Provided £'000	Not Provided £'000	Total £'000	Provided £'000	Not Provided £'000	Total £'000
Accelerated capital allowances	878	-	878	1,030	-	1,030
Other short term timing differences	(2,684)	-	(2,684)	(1,819)	-	(1,819)
	(1,806)	-	(1,806)	(789)	-	(789)

17 Called-up share capital

	31 December 2004 £'000	31 December 2003 £'000
Authorised:		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	2
	17	17
Allotted, called-up and fully paid:		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	2
	17	17

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

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

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Notes to the financial statements for the year ended 31 December 2004

17 Called-up share capital (continued)

- (ii) The shares carry the right to receive notice of or to attend or vote at General Meetings of the company. Whenever the holders of preference shares are entitled to vote on a resolution at a general meeting of the company, the shares carry the right to one vote per share.
- (iii) The shares carry the right to two preferential dividends on 30 June and 31 December per annum at the rate of 4.82% of the amount paid up (including the premium), or any amount which falls to be treated as paid up, on each preference share. Holders of preference shares are not entitled to any further right of participation in the profits of the company.
- (iv) On 14 March 2005 the holder of all of the issued fixed rate non-redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends.

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

18 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2004	17	135,998	102,926	238,941
Retained profit for the year			56,796	56,796
At 31 December 2004	17	135,998	159,722	295,737

19 Leases

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

	31 December 2004		31 December 2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	245	-	138	19
In the second to fifth years inclusive	-	-	260	-
Over five years	2,779	-	1,209	-
	3,024	-	1,607	19

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

19 Leases (continued)

Obligations under non-cancellable finance leases are as follows:

	31 December 2004 Plant & equipment £'000	31 December 2003 Plant & equipment £'000
Gross lease rentals outstanding	895	1,013
Less: Finance charges outstanding	(101)	(100)
Net obligations	794	913
On demand or within one year	321	378
Due between one and two years	334	276
Due between two and five years	139	259
Net obligations	794	913

20 Pension scheme arrangements

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

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

The Scheme is a multi-employer Scheme, and hence the actuarial valuation relates to the Scheme as a whole, not solely to Universal Music Operations Limited. As a result, the company is unable to separately identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis and therefore, accounts for the Scheme as a defined contribution scheme in accordance with FRS 17.

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

The pension cost for the Scheme has been assessed using the projected unit basis, with surpluses or deficits experienced being spread over the average remaining working lives of the members, at a constant percentage of payroll costs. The defined benefit section of the Scheme is closed to new entrants and therefore, under the projected unit method, the current service cost will increase as the members of the Scheme approach retirement. The Scheme assets were valued based on their market value.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

20 Pension scheme arrangements (continued)

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return of investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6.5% per annum, that salary increases would average 4.3% per annum (including an allowance for age related and merit increases) and that present and future pension increases for the Universal section members would be 2.8% per annum. For SWSG members, allowance is made for pension increases at 2.8% per annum on benefits accrued from 6 April 1997.

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

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

For the year ended 31 December 2004 the total pension cost for the company was £1,438,000 (2003: £1,486,000). At 31 December 2004 there were no accrued or prepaid pension costs (2003: £nil).

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

FRS 17 Disclosures

The deficit as at 31 December 2004 and related FRS 17 disclosures relating to the Scheme have been identified below. Please note that during the transitional period of FRS 17, the figures do not actually impact the Company's balance sheet. The following information is provided as a disclosure only.

The FRS 17 disclosures have been based on the preliminary results of the most recent actuarial valuation as at 5 April 2004 and updated by an independent qualified actuary in order to assess the liabilities of the scheme at 31 December 2004 and 31 December 2003. Scheme assets are stated at their market value at the respective balance sheet dates.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

20 Pension scheme arrangements (continued)

Balance sheet presentation

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Net assets excluding pension asset	-	-
Pension liability	(47.7)	(79.1)
Net assets including pension asset	(47.7)	(79.1)

Reserves note

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Profit & loss reserve excluding pension asset	-	-
Pension reserve	(47.7)	(79.1)
Profit & loss reserve	(47.7)	(79.1)

Composition of the scheme

The group operates a number of pension schemes in the UK, the most significant of which is this Scheme. A full actuarial valuation was carried out at 5 April 2004. The preliminary results of this valuation have been updated to 31 December 2004 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	Year End 31 December 2004	Year End 31 December 2003
Rate of increase in salaries	4.30%	4.30%
Rate of increase of pensions in payment	2.80%	2.80%
Discount rate	5.30%	5.36%
Inflation assumption	2.80%	2.80%

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

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Equities	5.20% 55.4	6.40% 51.9
Bonds	4.60% 136.3	5.00% 124.0
Cash	4.05% 0.6	3.35% 0
Total market value of assets	192.3	175.9
Actuarial value of liability	(240.0) ⁺	(255.0) ⁺
Recoverable deficit in the arrangements	(47.7)	(79.1)
Related deferred tax asset	-	-
Net pension liability	(47.7)	(79.1)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

20 Pension scheme arrangements (continued)

Analysis of the amount (credited)/charged to operating profit

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Current service cost	2.0	2.6
Settlement Gain	(0.1)	-
Curtailment Gain	(0.2)	(6.4)
Past service cost	(29.3)*	27.1*
Total operating (credit)/charge	(27.6)	23.3

Analysis of net interest cost on pension scheme

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Expected return on pension scheme assets	9.6	9.4
Interest on pension liabilities	(13.4)	(11.2)
Net interest cost	(3.8)	(1.8)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Actual return less expected return on assets	5.7	5.6
Experience gains and losses on liabilities	(1.7)	1.9
Changes in assumptions	(10.3)	(24.4)
Actuarial loss recognised in STRGL	(6.3)	(16.9)
Adjustment due to surplus cap	-	-
Net loss recognised	(6.3)	(16.9)

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

20 Pension scheme arrangements (continued)

Movement in deficit during the year

	Year End 31 December 2004 £ million	Year End 31 December 2003 £ million
Deficit in scheme at beginning of year	(79.1)	(52.0)
Movement in year:		
Current service cost	(2.0)	(2.6)
Contributions	13.9	14.9
Curtailment/settlement gain	0.3	6.4
Past service costs	29.3 ⁺	(27.1) [*]
Interest cost	(3.8)	(1.8)
Actuarial loss	(6.3)	(16.9)
Deficit in scheme at end of year	(47.7) ⁺	(79.1) [*]

The actuarial valuation at 31 December 2004 showed a decrease in the deficit from £79.1 million to £47.7 million.

* Includes an allowance for additional liabilities of £26.9m in respect of discretionary pension increases on benefits accrued in the SSWG Section prior to 6 April 1997.

+ The constructive obligation in respect of benefits accrued in the SSWG Section prior to 6 April 1997 was deemed to have been removed by a subsequent event. It is therefore not recognised in the disclosures as at 31 December 2004.

History of experience gains and losses

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

The actuarial valuation at 31 December 2004 showed a decrease in the deficit from £79.1 million to £47.7 million.

Universal Music Operations Limited

Notes to the financial statements for the year ended 31 December 2004

21 Ultimate controlling party

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

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