

COMPANY REGISTRATION NUMBER 1302416

**FICTION RECORDS LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL**  
**STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**FICTION RECORDS LIMITED**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2010**

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<b>CONTENTS</b>	<b>PAGES</b>
Officers and professional advisers	<b>1</b>
Directors' report	<b>2 to 4</b>
Independent auditor's report to the members	<b>5 to 6</b>
Profit and loss account	<b>7</b>
Balance sheet	<b>8</b>
Notes to the financial statements	<b>9 to 13</b>

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# **FICTION RECORDS LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

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### **THE BOARD OF DIRECTORS**

DT Bryant  
TC Fisher

### **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

# **FICTION RECORDS LIMITED**

## **DIRECTORS' REPORT**

**YEAR ENDED 31 DECEMBER 2010**

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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 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 and balance sheet on pages 7 and 8 respectively. The result and position of the company were in line with directors' expectations

Turnover decreased by 29% compared to the prior year primarily due to poor sales performance worldwide

Operating profit decreased by £114,926 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, granting licence to all of its revenue earning rights under artist recording contracts in favour of Universal Music Operations Limited, a fellow subsidiary of Universal Music Holdings Limited. This agreement is effective from 1st January 2011 and the company is not expected to reflect any economic benefit in respect of such rights in the foreseeable future

### **RESULTS AND DIVIDENDS**

The company's profit for the financial year was £138,833 (2009 - £219,394). The retained profit for the year has been transferred to reserves

The directors do not recommend the payment of a dividend on the ordinary shares in issue (2009 - £nil)

### **PRINCIPAL RISKS AND UNCERTAINTIES**

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

- competition from other major and independent record companies that market and distribute recorded music and video
- competition from alternative entertainment products,
- price pressure from the increased presence of supermarkets in the music market and their threat to survival of independent music retailers,
- the threat of a devalued product due to piracy and the illegal use of music,
- 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  
TC Fisher

# **FICTION RECORDS LIMITED**

## **DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31 DECEMBER 2010**

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### **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

### **DONATIONS**

The company made no political donations in either year

# FICTION RECORDS LIMITED

## DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2010

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By order of the board



A Abioye  
Company Secretary

30th March 2011

Company Registration Number 1302416

# **FICTION RECORDS LIMITED**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FICTION RECORDS LIMITED**

**YEAR ENDED 31 DECEMBER 2010**

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We have audited the financial statements of Fiction Records Limited for the year ended 31 December 2010 which comprise Profit and Loss Account, the Balance Sheet and the related notes 1 to 13. 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.

# **FICTION RECORDS LIMITED**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FICTION RECORDS LIMITED** *(continued)*

**YEAR ENDED 31 DECEMBER 2010**

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### **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 profit 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

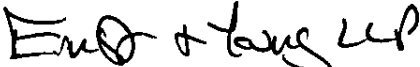
### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

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

### **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

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

30 March 2011

Company Registration Number 1302416



**FICTION RECORDS LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

	<b>Note</b>	<b>2010 £</b>	<b>2009 £</b>
<b>TURNOVER</b>	<b>2</b>	491,214	691,997
Cost of sales		(318,429)	(404,286)
<b>GROSS PROFIT</b>		<u>172,785</u>	<u>287,711</u>
<b>OPERATING PROFIT</b>		<u>172,785</u>	<u>287,711</u>
Interest receivable and similar income	<b>5</b>	20,041	17,003
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>192,826</u>	<u>304,714</u>
Tax on profit on ordinary activities	<b>6</b>	(53,993)	(85,320)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>138,833</u>	<u>219,394</u>

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

The company has no recognised gains or losses other than the results for the year as set out above

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

**The notes on pages 9 to 13 form part of these financial statements**

# FICTION RECORDS LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 £	2009 £
<b>CURRENT ASSETS</b>			
Debtors	7	2,608,881	2,517,518
<b>CREDITORS</b> Amounts falling due within one year	9	(133,108)	(180,578)
<b>NET CURRENT ASSETS</b>		<u>2,475,773</u>	<u>2,336,940</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,475,773</u>	<u>2,336,940</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	10	20,200	20,200
Profit and loss account	11	2,455,573	2,316,740
<b>EQUITY SHAREHOLDERS' FUNDS</b>	11	<u>2,475,773</u>	<u>2,336,940</u>

These financial statements were approved by the board of directors and authorised for issue on 30<sup>th</sup> March 2011 and are signed on their behalf by

DT Bryant

The notes on pages 9 to 13 form part of these financial statements.

# **FICTION RECORDS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **YEAR ENDED 31 DECEMBER 2010**

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#### **1 ACCOUNTING POLICIES**

##### **Basis of preparation**

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

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 a 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.

##### **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.

**FICTION RECORDS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2010**

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**1 ACCOUNTING POLICIES** *(continued)*

**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.

**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.

**2 TURNOVER**

Turnover by destination is as follows

	2010 £'000	2009 £'000
United States of America	155,807	208,269
Rest of World	335,407	483,728
	<u>491,214</u>	<u>691,997</u>

Turnover by source is exclusively derived in the United Kingdom.

**3 OPERATING PROFIT**

Auditors remuneration of £4,000 (2009 - £4,000) and certain administrative costs are borne by other United Kingdom undertakings. No amounts were paid to the auditors in relation to non-audit services.

**4 PARTICULARS OF EMPLOYEES**

The average monthly number of employees during the year was nil (2009 - nil).

The directors received no remuneration in respect of their services to the company (2009 - nil).

**5 INTEREST RECEIVABLE AND SIMILAR INCOME**

	2010 £	2009 £
Interest receivable from group undertakings	<u>20,041</u>	<u>17,003</u>

**FICTION RECORDS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2010**

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**6 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES**

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

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 28% (2009 - 28%)	53,712	85,250
Total current tax	53,712	85,250
Deferred tax		
Origination and reversal of timing differences		
Capital allowances	281	70
Tax on profit on ordinary activities	53,993	85,320

**(b) Factors affecting current tax charge**

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before taxation	192,826	304,714
Profit on ordinary activities at the standard rate of UK Corporation tax of 28% (2009 - 28%)	53,991	85,320
Capital allowances for period in excess of depreciation	(281)	(70)
Rounding on tax charge	2	-
Current tax charge for the financial year	53,712	85,250

**(c) Factors that may affect future tax charges**

None

**7 DEBTORS**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Amounts owed by group undertakings	2,608,881	2,517,237
Deferred taxation (note 8)	-	281
	2,608,881	2,517,518

Amounts due from 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 1%.

**FICTION RECORDS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2010**

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**8 DEFERRED TAXATION**

The deferred tax included in the Balance sheet is as follows

	2010 £	2009 £
Included in debtors (note 7)	-	281

The movement in the deferred taxation account during the year was

	2010 £	2009 £
Balance brought forward	281	351
Profit and loss account movement arising during the year	(281)	(70)
Balance carried forward	-	281

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2010 £	2009 £
Excess of depreciation over taxation allowances	-	281
	-	281

A number of changes to the UK Corporation tax system were introduced in the 2010 Finance Act. The UK corporation tax rate will reduce to 27% effective 1 April 2011 and disclosure of deferred tax has been adjusted to reflect the enactment of the revised rate but with no significant impact on these financial statements.

**9 CREDITORS Amounts falling due within one year**

	2010 £	2009 £
Trade creditors	132,505	180,278
Other creditors	303	300
Accruals and deferred income	300	-
	133,108	180,578

Amounts due to 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 1%.

**FICTION RECORDS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2010**

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**10 SHARE CAPITAL**

**Authorised share capital**

	2010 £	2009 £
10,000 Ordinary shares of £1 each	10,000	10,000
28,400 'A' Ordinary US \$1 42 shares of £0 879331 each	24,973	24,973
	<u>34,973</u>	<u>34,973</u>

**Allotted and called up**

	2010 No	£	2009 No	£
Ordinary shares fully paid of £1 each	200	200	200	200
'A' Ordinary US \$1 42 shares - £1 paid of £0 879331 each	20,000	20,000	20,000	20,000
	<u>20,200</u>	<u>20,200</u>	<u>20,200</u>	<u>20,200</u>

**11 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES**

	Share capital £	Profit and loss account £	Total share- holders' funds £
Balance brought forward at 1 January 2009	20,200	2,097,346	2,117,546
Profit for the year	—	219,394	219,394
Balance brought forward at 1 January 2010	20,200	2,316,740	2,336,940
Profit for the year	—	138,833	138,833
Balance carried forward at 31 December 2010	<u>20,200</u>	<u>2,455,573</u>	<u>2,475,773</u>

**12 POST BALANCE SHEET EVENTS**

With effect from 1st January 2011 the company entered into a licence agreement, granting licence to all of its revenue earning rights under artist recording contracts in favour of Universal Music Operations Limited, a fellow subsidiary of Universal Music Holdings Limited

**13 ULTIMATE PARENT COMPANY**

The immediate parent undertaking is Universal Music Operations 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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Cedex 08  
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