

Universal Music (UK) Holdings Limited

(Registered Number: 3383881)

**Directors' Report and Financial Statements
for the year ended 31 December 2007**

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Universal Music (UK) Holdings Limited

Directors' Report for the year ended 31 December 2007

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

Principal activity

The company's principal activity during the year was to act as a holding and finance company

Business review

The result and position of the company as at and for the year ended 31 December 2007 are set out in the profit and loss account and balance sheet on pages 5 and 6 respectively. The result and position of the company were in line with directors' expectations.

Result before taxation decreased by £26,557,000 from 2006 to become a loss of £18,781,000 due to higher net interest payable.

Results and dividends

The company's loss after taxation for the year ended 31 December 2007 was £13,147,000 (2006 £5,443,000 profit). The directors do not recommend the payment of a dividend (2006 nil). The retained profit for the year has been transferred to reserves.

Principal risks and uncertainties

The company is exposed to an interest rate risk. The company's primary expense is derived from interest payable on loans with group undertakings. The interest receivable is an agreed percentage above the London Interbank Offered Rate ("LIBOR").

Directors and their interests

The directors who held office during the year ended 31 December 2007 and subsequently were as follows:

RM Constant
BJ Muir
PJA Negre

At no time during the year ended 31 December 2007 did any director have any interest in the share capital of the company which is required to be notified to the company under Section 324 of the Companies Act 1985.

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.

Universal Music (UK) Holdings Limited

Directors' Report for the year ended 31 December 2007

Future developments

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

Elective resolutions

On 1 June 2000, an elective resolution under Section 379A of the Companies Act 1985 was passed in respect of dispensing with the following provisions

- the laying of the annual report and financial statements before the company in general meeting,
 - the holding of an annual general meeting, and
 - the requirement to reappoint annually the registered auditors of the company in general meeting
- The provisions of this elective resolution will apply for subsequent years until the election is revoked

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations

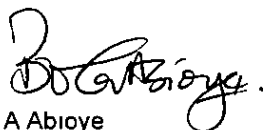
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern 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 2007 and that applicable accounting standards have been followed

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

At the date of approving this report, so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors confirm that they have taken all necessary steps, as directors, to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information

By Order of the Board



A Abioye
Company Secretary
18 March 2008

364-366 Kensington High Street
London
W14 8NS

Universal Music (UK) Holdings Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC (UK) HOLDINGS LIMITED

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account and the Balance Sheet and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Universal Music (UK) Holdings Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

19 March 2008

Universal Music (UK) Holdings Limited

Profit and loss account for the year ended 31 December 2007

	<i>Note</i>	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Interest receivable and similar income	4	36,287	25,861
Interest payable and similar charges	5	(55,068)	(18,085)
(Loss)/ profit on ordinary activities before taxation		(18,781)	7,776
Tax credit/(charge) on (loss)/profit on ordinary activities	6	5,634	(2,333)
Retained (loss)/ profit for the financial year	11	(13,147)	5,443

The above results were derived entirely from continuing operations

The company has no recognised gains and losses other than the loss 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 retained profit for the financial year and their historical cost equivalents

Universal Music (UK) Holdings Limited

Balance Sheet as at 31 December 2007

	<i>Note</i>	31 December 2007 £'000	31 December 2006 £'000
Fixed assets			
Investments	7	886,158	-
Current assets			
Debtors	8	207,843	883,647
Creditors amounts falling due within one year	9	(654,514)	(431,013)
Net current (liabilities)/assets		(446,671)	452,634
Total assets less current liabilities		439,487	452,634
Net assets		439,487	452,634
Capital and reserves			
Called-up share capital	10	240,051	240,051
Profit and loss account	11	199,436	212,583
Total shareholders' funds	11	439,487	452,634

The financial statements on pages 5 to 12 were approved and authorised for issue by the board of directors on 18 March 2008 and were signed on its behalf by



Richard Constant
Director

Universal Music (UK) Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

1 Accounting policies

a) Basis of preparation

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

Cash flow statement and related party disclosures

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

Continued support from intermediate parent undertaking

The financial statements have been prepared on the going concern basis as the company has received confirmation from Universal Music Group, Inc., the company's intermediate parent undertaking, of its intention to continue to provide financial and other support to the extent necessary to enable the company to continue to pay its liabilities as and when they become due for a period not less than one year from the date of approval of these financial statements. Having regard to this intention, the directors believe it is appropriate to prepare these financial statements on a going concern basis, notwithstanding the deficit on net current liabilities at 31 December 2007

b) Interest-bearing loans and borrowings

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

c) Investments

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

Universal Music (UK) Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

1 Accounting policies (continued)

d) 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 respects 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

2 Operating profit on ordinary activities before interest and taxation

Operating profit for the year was £nil (2006 £nil)

Auditors' remuneration of £4,000 (2006 £4,000) and certain other administrative costs were borne by other United Kingdom fellow group undertakings in both years. No costs were incurred in respect of non-audit services in either year

3 Directors' emoluments and employee information

The directors received no remuneration in respect of their services to the company (2006 nil)

The company had no employees during the year ended 31 December 2007 (2006 nil)

4 Interest receivable and similar income

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Interest receivable on amounts due from group undertakings	36,287	25,861

Universal Music (UK) Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

5 Interest payable and similar charges

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Interest payable on amounts due to group undertakings	55,068	18,085

6 Tax (credit)/charge on (loss)/profit on ordinary activities

(a) Analysis of (credit)/charge for the year	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Current tax		
Group relief (receivable)/payable for losses surrendered (to)/from other group companies for the year	(5,634)	2,333
Total current tax (credit)/charge (see (b) below)	(5,634)	2,333
Total taxation (credit)/charge for the year	(5,634)	2,333

(b) Factors affecting tax (credit)/charge for the year	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
(Loss)/profit on ordinary activities before tax	(18,781)	7,776
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(5,634)	2,333
Total current tax	(5,634)	2,333

(c) Factors that may affect future tax charges

As a result of the share buyback transaction in 2002, the directors anticipate that capital losses of approximately £192,000,000 have arisen. In accordance with FRS 19, the potential deferred tax asset for these capital losses has not been recognised as uncertainty exists as to its ultimate recoverability.

From financial year 2008, the UK corporation tax rate will reduce from 30% to 28%. As a result the company's unrecognised deferred tax asset has been adjusted in the current year to reflect this change and has decreased by £3,840,000.

Universal Music (UK) Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

7 Fixed asset investments

	Subsidiary Undertakings £'000
Cost and net book value	
At 1 January 2007	-
Additions	886,158
At 31 December 2007	886,158

On 31 March 2007, the company subscribed for 886,158,000 additional ordinary shares of £1 each in Universal Music Leisure Limited for a consideration of £886,158,000

Subsidiary undertakings

The directors are of the opinion that the number of subsidiary undertakings is such that compliance with the full disclosure requirements of paragraph 1 of Schedule 5 to the Companies Act 1985 would result in particulars of excessive length. Accordingly, only those subsidiary undertakings whose profit or assets are significant in terms of the company have been included.

The group has the following principal investments in subsidiary undertakings:

Name of company	Country of incorporation	Ordinary share holdings	Nature of business
A&M Records Limited	England & Wales	100%	Marketing and distribution of recorded music
Decca Music Group Limited	England & Wales	100%	Marketing and distribution of recorded music
Go! Discs Limited	England & Wales	100%	Marketing and distribution of recorded music
Mercury Records Limited	England & Wales	100%	Agency company
Polydor Limited	England & Wales	100%	Marketing and distribution of recorded music
Universal – Island Records Limited	England & Wales	100%	Marketing and distribution of recorded music
Universal – MCA Music (UK) Limited	England & Wales	100%	Marketing and distribution of recorded music
Universal / Island Music Limited	England & Wales	100%	Marketing and distribution of recorded music
Universal/MCA Music Limited	England & Wales	100%	Marketing and distribution of recorded music
Universal Music Group International Limited	England & Wales	100%	Management services
Universal Music Leisure Limited*	England & Wales	100%	Finance and holding company
Universal Music Operations Limited	England & Wales	100%	Marketing and distribution of recorded music
Universal Music Publishing Limited*	England & Wales	100%	Music publishing

Those marked with an asterisk are directly owned. All other companies are held through subsidiary undertakings.

Universal Music (UK) Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

8 Debtors

	31 December 2007 £'000	31 December 2006 £'000
Amounts due from group undertakings	207,843	883,647

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% (2006: nil).

9 Creditors: amounts falling due within one year

	31 December 2007 £'000	31 December 2006 £'000
Corporation tax payable	2,632	2,632
Amounts due to group undertakings	651,882	428,381
	654,514	431,013

Included within amounts due to group undertakings is an amount of £207,673,000 in respect of an intercompany loan with a fellow group undertaking, Universal Music Operations Limited (2006: £nil). Interest accrues on the loan at the 1 month LIBOR plus 1.00% (2006: no interest charged). The loan is unsecured and repayable on demand.

Included in the amounts due to group undertakings is an amount of £300,000,000 in respect of a loan with a fellow group undertaking, Universal Music International Finance S A S. The interest rate on the loan was a variable rate linked to the 12 month LIBOR plus 1.3%. The loan is unsecured and repayable on demand.

All other 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% (2006: nil).

Universal Music (UK) Holdings Limited

Notes to the financial statements for the year ended 31 December 2007

10 Called-up share capital

	31 December 2007 £'000	31 December 2006 £'000
Authorised		
250,000,000 ordinary shares of £1 each	250,000	250,000
Allotted, called-up and fully paid		
240,050,945 ordinary shares of £1 each	240,051	240,051

11 Reconciliation of movements in equity shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total equity shareholders' funds £'000
At 1 January 2007	240,051	212,583	452,634
Retained loss for the year		(13,147)	(13,147)
At 31 December 2007	240,051	199,436	439,487

12 Ultimate controlling party

The immediate parent undertaking is Centenary UK 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:

Vivendi SA
42 Avenue de Friedland
75380 Paris
Cedex 08
France