

Universal Music Leisure Limited
(Registered Number: 3384487)

Directors' Report and Financial Statements
for the year ended 31 December 2006

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Universal Music Leisure Limited

Directors' Report for the year ended 31 December 2006

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

Principal activity

The company's principal activity during the year was to act as a holding and finance company and to provide management and other services to other group companies.

Business review

The result and position of the company as at and for the year ended 31 December 2006 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.

Turnover increased by 37% during the year primarily due to an increase in the service charge received from fellow subsidiaries in respect of the company's services.

Operating profit decreased by £4,878,000 due to higher administration charges.

Results and dividends

The company's loss after taxation for the year was £29,727,000 (2005: £1,138,000).

The directors do not recommend the payment of a dividend (2005 £nil). The loss after taxation for the year has been transferred to reserves.

Principal risks and uncertainties

The company is exposed to interest rate risk. Part of the company's income and expense is derived from interest receivable and payable on loans with group undertakings. The interest is an agreed percentage above London Inter-bank Offered Rate ("LIBOR").

The company is exposed to a risk in relation to the carrying value of its subsidiary undertakings and undertakes a review of these on an annual basis if there are indicators of impairment.

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.

Directors and their interests

The directors who held office during the year ended 31 December 2006 and subsequently were as follows:

RM Constant
BJ Muir

At no time during the year ended 31 December 2006 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.

Universal Music Leisure Limited

Directors' Report for the year ended 31 December 2006 (continued)

Elective resolutions

On 14 April 1998, 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

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 2006 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
Secretary

364-366 Kensington High Street
London
W14 8NS

30 March 2007

Universal Music Leisure Limited

Independent Auditors' Report to the members of Universal Music Leisure Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 13. 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 the preparation of 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). In addition 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*.

We also 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.

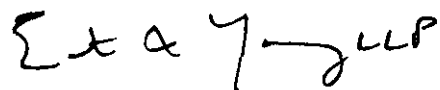
Universal Music Leisure Limited

Independent Auditors' Report to the members of Universal Music Leisure Limited (continued)

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 2006 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
Registered auditor
London

30 March 2007

Universal Music Leisure Limited

Profit and loss account for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Turnover	2	12,103	8,818
Cost of sales		(12,103)	(8,818)
Gross profit		-	-
Administrative expenses		(3,594)	
Other operating income		-	1,284
Operating (loss)/ profit		(3,594)	1,284
Surplus on liquidation of subsidiary undertaking		-	26,236
Amounts written off investments		(44)	-
Interest receivable and similar income	4	3,045	1,421
Interest payable and similar charges	5	(40,333)	(42,267)
Loss on ordinary activities before taxation	6	(40,926)	(13,326)
Taxation on loss on ordinary activities	7	11,199	12,188
Retained loss for the financial year	12	(29,727)	(1,138)

The results are derived entirely from continuing operations.

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

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

Universal Music Leisure Limited

Balance Sheet as at 31 December 2006

		31 December 2006 £'000	31 December 2005 £'000
	Note		
Fixed assets			
Investments	8	118,728	118,772
Current assets			
Debtors	9	418,956	599,861
Creditors: amounts falling due within one year	10	(797,473)	(948,695)
Net current liabilities		(378,517)	(348,834)
Total assets less current liabilities		(259,789)	(230,062)
Net liabilities		(259,789)	(230,062)
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	(259,789)	(230,062)
Total equity shareholders' deficit	12	(259,789)	(230,062)

The financial statements on pages 5 to 14 were approved by the board of directors on 30 March 2007 and were signed on its behalf by:



RM Constant
Director

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

1 Accounting policies

a) Basis of preparation

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

Cash flow statement and related party disclosures

The company is a wholly owned subsidiary of Vivendi S.A. which controls 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 PolyGram B.V., an 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 year 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 net liabilities at 31 December 2006.

b) Turnover

Turnover represents the invoiced value of services excluding value added taxation.

c) Investments

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

d) 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.

e) Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition, debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period. Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

1 Accounting policies (continued)

e) Deferred taxation

The charge for taxation is based on the profit/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 taxation 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 taxation in the future or a right to pay less taxation 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 taxation is recognised on permanent differences.

Deferred taxation is measured at the average taxation rates that are expected to apply in the period in which the timing differences are expected to reverse, based on taxation rates and law that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on a non-discounted basis. Deferred taxation 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 Turnover

Turnover is derived from one continuing activity, the provision of services to fellow subsidiary undertakings. All turnover relates to the United Kingdom.

3 Directors' emoluments and employee information

The directors received no remuneration in respect of their services to the company (2005: nil).
The company had no employees during the year ended 31 December 2006 (2005: nil).

4 Interest receivable and similar income

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Interest receivable from third parties	1,432	-
Interest receivable on short term loans to group undertakings	1,613	1,421
	3,045	1,421

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

5 Interest payable and similar charges

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Interest payable on short term loans from group undertakings	40,333	42,267
	40,333	42,267

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Amounts written off investments	44	-
Surplus on liquidation of subsidiary undertaking	-	(26,236)

Auditors' remuneration of £9,000 (2005: £10,000) 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.

Amounts written off investments

For the year ended 31 December 2006, an impairment charge of £44,000 (2005: nil) was booked against the carrying value of investments.

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

7 Taxation on loss on ordinary activities

(a) Analysis of taxation credit for the year

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Current taxation		
UK corporation taxation at 30% (2005: 30%)	-	-
Group relief receivable on losses surrendered to other group companies in the period	(11,186)	(12,241)
Adjustments in respect of previous years	(13)	53
Total current taxation (see (b) below)	(11,199)	(12,188)
Total taxation credit	(11,199)	(12,188)

(b) Factors affecting taxation credit for the year

	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Loss on ordinary activities before taxation	(40,926)	(13,326)
Loss on ordinary activities multiplied by standard rate of corporation taxation in the UK of 30% (2005: 30%)	(12,278)	(3,998)
Effects of:		
Expenses not deductible for taxation purposes	1,284	(372)
Write back of balance due from former group company	-	(385)
Investment write off- non taxable	-	(240)
Utilisation of losses previously not provided for	(192)	-
Adjustments to taxation charge in respect of prior years	(13)	53
Non-taxable profit on disposal of subsidiary	-	(7,631)
Total current taxation	(11,199)	(12,188)

(c) Factors that may affect future taxation charges:

There are unrelieved non-trading taxation losses estimated at £42,800,000 (2005: £43,423,000) available to be carried forward and set off against certain sources of income.

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

7 Taxation on loss on ordinary activities (continued)

(d) Deferred taxation

	31 December 2006			31 December 2005		
	Provided £000	Not Provided £000	Total £000	Provided £000	Not Provided £000	Total £000
Non-trading losses	-	12,837	12,837	-	13,207	13,207
Other short term timing differences	-	-	-	-	2	2
	-	12,837	12,837	-	13,209	13,207

8 Fixed asset investments

	Shares in Subsidiary Undertakings £'000
Cost	
At 1 January 2006	190,613
At 31 December 2006	190,613
Provision for impairment	
At 1 January 2006	71,841
Charge for the year	44
At 31 December 2006	71,885
Net book amount	
At 31 December 2006	118,728
At 31 December 2005	118,772

The directors have considered the carrying value of investments and are of the opinion that the aggregate value of the company's investments in subsidiary undertakings, including amounts owed by subsidiary undertakings, is not less than the amount at which they are stated in the accounts at 31 December 2006.

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

8 Fixed asset investments (continued)

Subsidiary undertakings

Information about the principal subsidiary undertakings is set out below. The directors are of the opinion that the number of subsidiary undertakings is such that compliance with the full disclosure requirements of paragraph 1 Schedule 5 to the Companies Act 1985 would result in particulars of excessive length. Accordingly, only those subsidiary undertakings whose reserves 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* (note a)	England & Wales	100%	Marketing and distribution of recorded music
Decca Music Group Limited* (note b)	England & Wales	100%	Marketing and distribution of recorded music
Go! Discs Limited*	England & Wales	100%	Marketing and distribution of recorded music
Island Entertainment Group Limited*	England & Wales	100%	Holding company
Mercury Records Limited*	England & Wales	100%	Agency company/ marketing and distribution of recorded music
Polydor Limited *	England & Wales	100%	Agency company/ 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 / Dick James Music Limited*	England & Wales	100%	Music publishing
Universal / Island Music Limited	England & Wales	100%	Music publishing
Universal Music Operations Limited*	England & Wales	100%	Marketing and distribution of recorded music
Universal Music Publishing Limited*	England & Wales	100%	Music publishing

The investment in the above companies is in 100% of the ordinary share capital except where indicated in notes (a) and (b) below. Those marked with an asterisk are directly owned, all other companies are held through subsidiary undertakings.

Notes

- Shareholding consists of 100% of the 100,000 ordinary shares of £1 each and 100% of the 33,000 preference shares of £1 each.
- Shareholding consists of 100% of the 1,000 ordinary shares of £1 each and 100% of the 100 5% non-cumulative preference shares of £1 each.

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

9 Debtors

	31 December 2006 £'000	31 December 2005 £'000
Amounts due from group undertakings	384,277	560,606
Corporation taxation	34,679	39,255
	418,956	599,861

Included within amounts due from group undertakings is an amount of £26,564,000 (2005: £26,564,000) in respect of intercompany balances due from fellow group undertakings. Interest accrues on the balances at the 1 month LIBOR + 1.3% (2005: 1 month LIBOR + 0.6%). These balances are unsecured and repayable on demand. All other amounts due from group undertakings are through the normal course of business and are unsecured and repayable on demand.

10 Creditors: amounts falling due within one year

	31 December 2006 £'000	31 December 2005 £'000
Amounts due to group undertakings	792,103	948,375
Other creditors	5,370	320
	797,473	948,695

Included within amounts due to group undertakings is an amount of £544,719,000 (2005: £544,719,000) in respect of an intercompany loan due to a fellow group undertaking, Universal Music (UK) Holdings Limited. Interest accrues on the loan at the 1 month LIBOR + 0.1% (2005: 12 month LIBOR + 0.5%). This loan is unsecured and repayable on demand.

Included within amounts due to group undertakings is an amount of £238,339,000 (2005: £238,339,000) in respect of intercompany balances due to other fellow group undertakings. Interest accrues on these balances at the 1 month LIBOR + 1.3% (2005: 1 month LIBOR + 0.6%).

All other amounts due to group undertakings are through the normal course of business and are unsecured and repayable on demand.

11 Called up share capital

	31 December 2006 £	31 December 2005 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
2 ordinary shares of £1 each	2	2

Universal Music Leisure Limited

Notes to the financial statements for the year ended 31 December 2006

12 Reconciliation of movements in equity shareholders' deficit

	Share capital £'000	Profit and loss account £'000	Total equity shareholders' deficit £'000
At 1 January 2006	-	(230,062)	(230,062)
Retained loss for the year		(29,727)	(29,727)
At 31 December 2006	-	(259,789)	(259,789)

13 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Universal Music (UK) Holdings Limited. The ultimate parent undertaking and controlling party is Vivendi S.A., a company incorporated in France.

The smallest and largest group in which the results of the company are consolidated is that headed by Vivendi S.A. incorporated in France. Copies of its annual report in English may be obtained from:

Vivendi S.A.
42 Avenue de Friedland
75380 Paris
Cedex 08
France