

**Mercury Records Limited**  
(Registered Number: 586873)

**Directors' Report and Financial Statements  
for the Year Ended 31 December 2003**



# **Mercury Records Limited**

## **Director's Report for the year ended 31 December 2003**

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

### **Principal activity and future developments**

The company's principal activity during the year was to distribute and market compact and digital video discs, together with gramophone records, and music and video cassettes as an agent for another group undertaking, Universal Music Operations Limited, the principal. The directors expect these activities to continue at the present level for the foreseeable future.

### **Business review**

The company earns no agency fee for its services to the principal and accordingly records no net profit in either period.

The results of the company for the year ended 31 December 2003 are set out on page 4 of the financial statements.

### **Results and dividends**

The company's result for the year was £nil (2002: £nil).

The directors do not recommend the payment of a dividend (2002: £nil).

### **Directors and their interests**

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

S Cuttill

LC Grainge

Universal Music UK Limited

G Castell

SA Lillywhite (resigned 1 February 2004)

MD Jagger (appointed 3 February 2003)

AM Barker (appointed 19 June 2003)

At no time during the year ended 31 December 2003 did any director have any interest which is required to be notified to the company under Section 324 of the Companies Act 1985.

### **Charitable and political donations**

During the year the company made charitable donations of £1,645 (2002: £25,509). The company made no political donations during either year.

# **Mercury Records Limited**

## **Director's Report for the year ended 31 December 2003 (Continued)**

### **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.

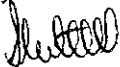
### **Statement of directors' responsibilities**

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 2003 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.

By Order of the Board



**Director**  
S Cuttall

17 September 2004

1 Sussex Place  
London  
W6 9XS

# Mercury Records Limited

## Independent auditors' report to the members of Mercury Records Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

### Basis of audit opinion

We conducted our audit in accordance with 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 the company's affairs at 31 December 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London

17 September 2004

## Mercury Records Limited

### Profit and loss account for the year ended 31 December 2003

	<b>Note</b>	<b>Year ended 31 December 2003 £'000</b>	<b>Year ended 31 December 2002 £'000</b>
Turnover	2	61,265	82,822
Cost of sales		(32,783)	(48,552)
<b>Gross profit</b>		<b>28,482</b>	<b>34,270</b>
Administrative expenses		(26,112)	(31,819)
Distribution costs		(2,370)	(2,451)
<b>Operating result and result on ordinary activities before taxation</b>	3	-	-
Tax on result on ordinary activities	4	-	-
<b>Result on ordinary activities after taxation for the financial year</b>	11	-	-

The company's results were entirely from continuing operations.

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

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

# Mercury Records Limited

## Balance sheet as at 31 December 2003

	Note	31 December 2003 £'000	31 December 2002 £'000
<b>Current assets</b>			
Debtors	7	23,709	35,725
<b>Creditors: amounts falling due within one year</b>	8	(20,520)	(31,887)
<b>Net current assets</b>		3,189	3,838
<b>Provisions for liabilities and charges</b>	9	(2,689)	(3,338)
<b>Net assets</b>		500	500
<b>Capital and reserves</b>			
Called-up share capital	10	500	500
Profit and loss account	11	-	-
<b>Equity shareholders' funds</b>	11	500	500

The financial statements on pages 4 to 10 were approved by the board of directors on 17 September 2004 and were signed on its behalf by:



Director  
S Cutteli

# **Mercury Records Limited**

## **Notes to the financial statements for the year ended 31 December 2003**

### **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.

The company is also a wholly owned subsidiary of Vivendi Universal 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 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.

The company acts as an agent for an undisclosed principal and consequently all transactions should be recorded gross in the company's books. The company earns no agency fee for its services to the principal and accordingly records no net profit in the year. The transactions will also be reflected in the books of the principal.

#### **b) Turnover**

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

#### **c) Royalties and advances**

UK royalty income is credited to the profit and loss account on a receipts basis. Royalties payable are charged against the relevant income of the same period. 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.

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.

# Mercury Records Limited

## Notes to the financial statements for the year ended 31 December 2003 (Continued)

### 1 Accounting policies (continued)

#### d) 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 profits from which the future reversal of the underlying timing differences can be deducted.

#### e) Foreign currencies

Transactions in foreign currencies are recorded using the rates 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 rates of exchange ruling at that date. All differences are taken to the profit and loss account.

### 2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2003	Year ended 31 December 2002
	£'000	£'000
United Kingdom	52,167	71,892
Europe	4,600	5,933
United States of America	2,521	2,371
Other	1,977	2,626
	<b>61,265</b>	<b>82,822</b>

Turnover by origin is exclusively derived in the United Kingdom. All turnover is derived from the single class of business described in the directors' report.



## Mercury Records Limited

### Notes to the financial statements for the year ended 31 December 2003 (Continued)

#### 3 Operating result

All operating costs were borne by the principal in both periods. No agency fee was earned by the company for its service to the principal in either period.

Auditors' remuneration of £12,000 (2002: £15,000) is borne by other United Kingdom group undertakings. No amounts were paid to the auditors in respect of non-audit services.

#### 4 Tax on profit on ordinary activities

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
UK Corporation tax at 30% (2002: 30%)	-	-

Under the terms of the agency arrangement, no fees are receivable by the company and as disclosed in note 1a) all transactions are recorded gross in the books of the company, as well as in the books of the principal. No provision for current or deferred taxation is therefore required.

#### 5 Directors' emoluments

The emoluments of the directors were paid and borne by the principal. They received no remuneration in respect of their services to the company for both periods.

#### 6 Employee Information

The company has contracted with individual employees but their activities are performed on behalf of the principal and all their costs are borne by the principal in both periods.

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

	Year ended 31 December 2003 Number	Year ended 31 December 2002 Number
Commercial and administrative	62	61

#### 7 Debtors

	31 December 2003 £'000	31 December 2002 £'000
Trade debtors	14,407	16,016
Amounts owed by group undertakings	9,302	19,709
	23,709	35,725

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

## Mercury Records Limited

### Notes to the financial statements for the year ended 31 December 2003

#### (Continued)

#### 8 Creditors: amounts falling due within one year

	31 December 2003 £'000	31 December 2002 £'000
Trade creditors	15,659	23,553
Other creditors	42	35
Accruals and deferred income	4,819	8,299
	<b>20,520</b>	<b>31,887</b>

#### 9 Provisions for liabilities and charges

	Total £'000
At 1 January 2003	3,338
Utilised in the year	(260)
Released in the year	(571)
Charged in the year	182
<b>At 31 December 2003</b>	<b>2,689</b>

Provision is made against the outcome of artist royalty audits ongoing at the balance sheet date and against additional artist royalty obligations anticipated by management at the balance sheet date, resulting from a past event likely to give rise to the transfer of economic benefit. The directors anticipate that these liabilities will crystallise in the foreseeable future.

#### 10 Called-up share capital

	31 December 2003 £'000	31 December 2002 £'000
<b>Authorised:</b>		
500,100 ordinary shares of £1 each	500	500
<b>Allotted, called up and fully paid</b>		
500,100 ordinary shares of £1 each	500	500

## Mercury Records Limited

### Notes to the financial statements for the year ended 31 December 2003 (Continued)

#### 11 Movements in reserves and equity shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total equity shareholders' funds £'000
At 1 January 2003	500	-	500
Result for the year	-	-	-
<b>At 31 December 2003</b>	<b>500</b>	<b>-</b>	<b>500</b>

#### 12 Pension commitments

The Company is a member of the Vivendi Universal Pension Scheme formerly known as the Seagram Distillers plc Pension Scheme, which is a combination of both funded defined benefit and defined contribution schemes. Details of the Scheme, including particulars of the most recent valuation performed by independent qualified actuaries as at 6 April 2001 can be found in the Annual report of Universal Music Leisure Limited (a fellow group undertaking) for the period ended 31 December 2003. The results of the formal valuation as at 6 April 2004 will be known later in 2004. The pension costs relating to the Scheme are assessed in accordance with the advice of an independent professionally qualified actuary.

As stated in Note 6 all employee costs are borne by the principal.

#### 13 Ultimate controlling party

The immediate parent undertaking is Universal Music Leisure Limited, a company incorporated in England and Wales.

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 will be consolidated will be that headed by Vivendi Universal S.A. incorporated in France. Copies of its annual report in English may be obtained from:

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