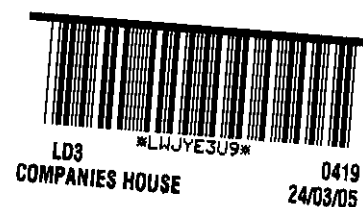


**Mercury Records Limited**  
**(Registered Number: 586873)**

**Directors' Report and Financial Statements**  
**for the Year Ended 31 December 2004**



# **Mercury Records Limited**

## **Director's 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 and future developments**

The company's principal activity during the year was to distribute and market compact and digital video discs, 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 2004 are set out on page 4 of the financial statements.

### **Results and dividends**

The company's result for the year was £nil (2003: £nil).

The directors do not recommend the payment of a dividend (2003: £nil).

### **Directors and their interests**

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

S Cuttell  
LC Grainge  
Universal Music UK Limited  
G Castell  
MD Jagger  
AM Barker  
SA Lillywhite (resigned 1 February 2004)

At no time during the year ended 31 December 2004 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 £nil (2003 £1,645). The company made no political donations during either year.

# **Mercury Records Limited**

## **Director's Report for the year ended 31 December 2004 (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.

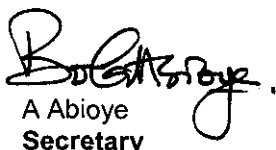
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have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

Following the resignation of PricewaterhouseCoopers LLP as auditors on 20 December 2004, the directors have appointed its successors Ernst & Young LLP.

By Order of the Board

  
A Abioye  
Secretary

23 March 2005

1 Sussex Place  
London  
W6 9XS

## **Mercury Records Limited**

### **Independent auditors' report to the members of Mercury Records 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 13. 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.

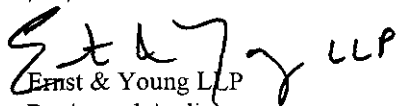
#### **Basis of audit opinion**

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 result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered Auditor  
London  
23 March 2005

## Mercury Records 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	70,490	61,265
Cost of sales		(44,385)	(32,783)
<b>Gross profit</b>		<b>26,105</b>	<b>28,482</b>
Administrative expenses		(24,430)	(26,112)
Distribution costs		(1,675)	(2,370)
<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 2004

	Note	31 December 2004 £'000	31 December 2003 £'000
<b>Current assets</b>			
Debtors	7	28,482	23,709
<b>Creditors: amounts falling due within one year</b>	8	(26,107)	(20,520)
<b>Net current assets</b>		2,375	3,189
<b>Provisions for liabilities and charges</b>	9	(1,875)	(2,689)
<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 23 March 2005 and were signed on its behalf by:



**Director**  
S Cuttall

# **Mercury Records Limited**

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

### **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. 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 Universal Music Operations Limited. The company records revenue and directly attributable costs in its financial statements and passes the net margin to the principal under the terms of the agency agreement. The principal bears indirect operating costs on behalf of the company. The company earns no agency fee for its services to the principal and accordingly records no net profit in the year. The transactions are also reflected in the financial statements of the principal.

#### **b) Turnover**

Turnover represents the invoiced value of goods and services and royalty income excluding value added tax.

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

UK 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 immediately to the profit and loss account. 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 prepayments although advances may be recoverable after more than one year.

#### **d) 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.

#### **e) Pensions & other retirement benefits**

The company participates in a number of pension schemes in the United Kingdom 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.

## Mercury Records Limited

### Notes to the financial statements for the year ended 31 December 2004 (Continued)

#### 2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
	£'000	£'000
United Kingdom	64,607	52,167
Europe	3,196	4,600
United States of America	1,227	2,521
Other	1,460	1,977
	<b>70,490</b>	<b>61,265</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.

#### 3 Operating result

Indirect 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 £9,000 (2003: £12,000) 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 2004	Year ended 31 December 2003
	£'000	£'000
UK Corporation tax at 30% (2003: 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 financial statements of the company, as well as in the books of the principal. No provision for current or deferred taxation is therefore required.



# Mercury Records Limited

## Notes to the financial statements for the year ended 31 December 2004 (Continued)

### 5 Directors' emoluments

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Aggregate emoluments	1,039	1,169
Compensation for loss of office	823	-
Company contributions to defined benefit schemes	24	21
Company contributions to money purchase benefit schemes	-	-
	<b>1,886</b>	<b>1,190</b>

The directors' emoluments above were paid and ultimately borne by the principal.

The aggregate emoluments of the highest paid director during the year ended 31 December 2004 were £413,800 (Year ended 31 December 2003: £595,085). The highest paid director is not a member of the defined benefit scheme. The emoluments of two directors were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company.

Retirement benefits are accruing to one director (2003: one) under the Vivendi Universal defined benefit pension scheme. Three directors were not members of any retirement benefit schemes.

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

### 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 2004 Number	Year ended 31 December 2003 Number
Commercial and administrative	46	62

### 7 Debtors

	31 December 2004 £'000	31 December 2003 £'000
Prepayments	10,572	14,407
Amounts owed by group undertakings	17,910	9,302
	<b>28,482</b>	<b>23,709</b>

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 2004 (Continued)

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

	31 December 2004 £'000	31 December 2003 £'000
Trade creditors	20,495	15,659
Other creditors	20	42
Accruals and deferred income	5,592	4,819
	<b>26,107</b>	<b>20,520</b>

### 9 Provisions for liabilities and charges

	Total £'000
At 1 January 2004	2,689
Utilised in the year	(673)
Released in the year	(358)
Charged in the year	217
<b>At 31 December 2004</b>	<b>1,875</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 2004 £'000	31 December 2003 £'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

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

	Share capital £'000	Profit and loss account £'000	Total equity shareholders' funds £'000
At 1 January 2004	500	-	500
Result for the year	-	-	-
<b>At 31 December 2004</b>	<b>500</b>	<b>-</b>	<b>500</b>

## **Mercury Records Limited**

### **Notes to the financial statements for the year ended 31 December 2004 (Continued)**

#### **12 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 United Kingdom 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 Mercury Records 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. The company's contributions amounted to £130,598 for the year ended 31 December 2004. At 31 December 2004, there were no accrued or prepaid pension costs (2003: £nil).

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 Vivendi Universal Pension Scheme deficit as at 31 December 2004 was £47.7m. Further details on the Vivendi Universal Pension Scheme can be obtained from the financial statements of Universal Music Leisure Limited.

#### **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