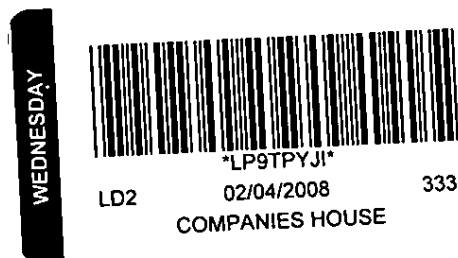


Universal Music Operations Limited
(Registered Number: 950138)

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



Universal Music Operations 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 market and distribute recorded music and videos. The company has two agent companies acting on its behalf.

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 7 and 8 respectively. The result and position of the agents are shown in their own financial statements as well as in the financial statements of this company. The result and position of the company were in line with directors' expectations.

Turnover decreased by 9% during the year primarily due to less strong sales performances in the UK & overseas.

Operating profit decreased by £28,707,000 during the year primarily due to same reason as above.

Results and dividends

The company's loss on ordinary activities after taxation for the year was £17,317,000 (2006 £40,280,000 profit). The retained loss for the year of £17,317,000 (2006 £40,280,000 profit) has been transferred to reserves.

On 20 March 2008 the holder of all of the issued fixed-rate, non-redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends. The directors do not recommend the payment of a dividend on the ordinary shares in issue (2006 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, and
- uncertainty as to whether the growth of the digital market can replace the decline in the physical market
- interest income and expense is derived from amounts receivable and payable on loans with other group undertakings, interest is an agreed percentage above the London inter bank offered rate (LIBOR)

All risks and uncertainties are regularly monitored by the Board of Directors of the company.

Universal Music Operations 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

Directors and their interests

The directors who held office during the year and subsequently were as follows

DT Bryant
R M Constant
TC Fisher
L C Grainge
M N Henny
MJ Swatton
Universal Music UK Ltd

At no time during the year did any director have any interest 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

Disabled employees

The group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately fulfilled by a handicapped or disabled person

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate

Employee involvement

During the year, the policy of providing employees with information about the group has been continued. Employees have also been encouraged to present their suggestions and views on the company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas

Charitable and political donations

During the year the company made charitable donations of £6,980 (2005 £27,626). The company made no political donations in either year

Universal Music Operations Limited

Directors' report for the year ended 31 December 2007

Creditor payment policy and practice

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

Elective resolutions

On 29 November 1990, 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

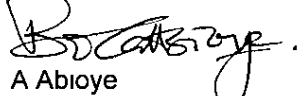
Universal Music Operations Limited

Directors' report for the year ended 31 December 2007

Statement of directors' responsibilities (continued)

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
31 March 2008

364-366 Kensington High Street
London
W14 8NS

Independent auditors' report to the shareholders of Universal Music Operations Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. 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.

Independent auditors' report to the members of Universal Music Operations 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 L L P

31 March 2008

Ernst & Young LLP
Registered auditor
London

Universal Music Operations 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
Turnover	2	311,375	342,952
Cost of sales		(227,830)	(218,306)
Gross profit		83,545	124,646
Distribution costs		(13,273)	(21,024)
Administrative expenses		(58,957)	(63,600)
Operating profit	3	11,315	40,022
Income from investments		1,528	-
Amounts written off investments		(1,528)	(395)
Exceptional costs	4	(16,158)	-
Interest receivable and similar income	7	50,841	27,791
Interest payable and similar charges	8	(59,945)	(6,413)
(Loss)/ profit on ordinary activities before taxation		(13,947)	61,005
Tax on profit on ordinary activities	9	(3,370)	(20,725)
(Loss)/ profit on ordinary activities after taxation and retained profit for the financial year	18	(17,317)	40,280

The company's results were entirely from continuing operations

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

Statement of total recognised gains and losses

	<i>Note</i>	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
(Loss)/ profit on ordinary activities after taxation		(17,317)	40,280
Actuarial profit/ (loss) recognised on defined benefit pension schemes	21	3,300	(5,600)
Movement on deferred tax relating to the actuarial loss on defined benefit pension schemes		(1,116)	1,680
Total gains and losses recognised for the year		(15,133)	36,360

Universal Music Operations Limited

Balance sheet as at 31 December 2007

	Note	31 December 2007 £'000	31 December 2006 £'000
Fixed assets			
Tangible assets	10	21,104	21,983
Investments	11	2,682	2,682
		23,786	24,665
Current assets			
Stock	12	1,274	1,243
Debtors	13	1,619,892	1,559,927
Cash at bank and in hand		-	2,230
		1,621,166	1,563,400
Creditors amounts falling due within one year	14	(1,283,209)	(1,204,456)
Net current assets		337,957	358,944
Total assets less current liabilities		361,743	383,609
Creditors amounts falling due after one year	15	(303)	(310)
Provisions for liabilities and charges	16	(16,124)	(18,667)
Non redeemable preference shares	17	(136,000)	(136,000)
Net assets excluding pension liability		209,316	228,632
Defined benefit pension liability	21	(15,277)	(19,460)
Net assets		194,039	209,172
Capital and reserves			
Called-up share capital	17	15	15
Profit and loss account	18	194,024	209,157
Total shareholders' funds	18	194,039	209,172
Analysis of shareholders' funds			
Equity shareholders' funds		194,039	209,172
Total shareholders' funds	18	194,039	209,172

The financial statements on pages 7 to 29 were approved and authorised for issue by the board of directors on 31 March 2008



DT Bryant
Director

Universal Music Operations Limited

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

1 Accounting policies

a) Basis of preparation

These financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom 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 financial statements of Vivendi S A , the company has taken advantage of the exemption under section 228 of the Companies Act 1985 from preparing consolidated financial statements. 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

b) Share-based payments

In accordance with FRS 20 'Share Based Payments', all share options and employee share awards are expensed in the profit and loss account, with the expense measured at fair value at the date of grant and charged over the vesting period of the scheme, and with appropriate disclosures of the nature of the scheme. Additional disclosures have been made in note 22

Universal Music Operations Limited

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

1 Accounting policies

c) Pension and other post retirement benefits

The Company participates in a scheme in the UK, ultimately operated by Vivendi S A , the Vivendi Universal Pension Scheme ("VUPS" or "the Scheme") The Scheme is a mixed defined benefit and defined contribution scheme and operates on a pre-funded basis Each defined benefit member of the Scheme is subject to one of two different benefit structures Members with a Universal benefit structure consist of current and former Universal Music employees and former Vivendi Universal Entertainment ("VUE") employees Members with a Seagram Wines and Spirits Group ("SWSG") benefit structure consist of former SWSG employees The underlying assets and liabilities of the Scheme allocated to the Universal Music members are accounted for within Universal Music Operations Limited and the underlying assets and liabilities of the scheme allocated to the SWSG and VUE members are accounted for within Centenary Holdings Limited Both companies are fellow group undertakings

Contributions in respect of employees of the Company to the defined contribution section are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme

The Company has been able to separately identify the Universal Music share of the underlying assets and liabilities on a consistent and reasonable basis and has therefore accounted for the benefits of current and former Universal Music employees on a defined benefit scheme basis in accordance with FRS 17 'Retirement Benefits' In accordance with the standard, the operating and financing costs are recognised separately in the profit and loss account in the period in which they arise Operating costs consist of service costs, past service benefit enhancements, settlements and curtailments Financing costs consist of expected return on pension scheme assets and interest on pension liabilities The difference between the actual and expected return on assets during the year, changes in actuarial assumptions and experience gains/losses are recognised in the Statement of Total Recognised Gains and Losses

The difference between the market value of assets that are attributable to SWSG and VUE members and the present value of the corresponding liabilities is recognised as an asset or liability on the Company's balance sheet net of deferred taxation (to the extent that it is recoverable)

The Company charges a monthly service charge to other fellow subsidiaries in respect of the Universal Music defined benefit operating and finance costs

d) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment Depreciation is charged on a straight line basis to write off the cost of the assets, less residual value, over their estimated useful lives

Rates of depreciation are

Land and buildings	2%-7%
Plant & equipment	2%-25%
Motor vehicles	25%

Universal Music Operations Limited

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

1. Accounting policies

e) Investments

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

f) Turnover

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

g) Royalties and advances

United Kingdom 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 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. Advances to other artists are written down to the estimated amount that will be recoverable from future royalty payments to the artist. Net advances to artists are classified as falling due within one year, although elements may not be recovered until more than one year. Long term advances to artists, where the effect of the time value of money is material, are discounted

h) Stock

Stock is stated at the lower of cost and estimated net realisable value. Provision is made for obsolete and slow-moving items, where appropriate

i) Lease commitments

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease

Universal Music Operations Limited

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

1 Accounting policies

j) 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 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 taxable profits from which the future reversal of the underlying timing differences can be deducted.

k) 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.

l) Classification of shares as debt or equity

Preference shares that provide for the contractual right to deliver cash to another entity are classified as a financial instrument. The corresponding dividends are charged to the profit and loss account.

The company's 4.82% non-redeemable preference shares have been accounted for as such a financial instrument.

m) 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.

Universal Music Operations Limited

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

2 Turnover

Turnover by destination is as follows

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
United Kingdom	258,588	310,064
Europe	27,895	14,871
United States of America	12,694	10,119
Other	12,198	7,898
	311,375	342,952

Turnover by source is exclusively derived in the United Kingdom

3 Operating profit

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Operating profit is stated after charging / (crediting)		
Depreciation on tangible fixed assets		
- owned	1,426	2,991
- leased	162	160
Exchange loss/(gain)	(1,532)	(412)
Operating lease charges		
- plant and machinery	307	263
- land and buildings	2,832	2,097
Auditor's remuneration		
Audit services	122	118
Sarbanes-Oxley initial compliance	-	190
Due diligence services	-	32

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £210,000 (2006 £209,000)

Universal Music Operations Limited

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

4 Exceptional costs

	Year ended 31 December 2007	Year ended 31 December 2006
Amounts written off intercompany debts	16,158	-

5 Directors' emoluments

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Aggregate emoluments	2,194	2,222
Company contributions to money purchase scheme	37	37
	2,231	2,259

Retirement benefits are accruing to two directors (2006 two) under the Universal defined contribution section of the Vivendi Universal Pension Scheme. Two directors were not members of any retirement benefit schemes.

Retirement benefits ceased accruing to the directors under the Universal defined benefit section of the Vivendi Universal Pension Scheme as at 31 December 2006. One director transferred out of the Scheme during August 2007.

The aggregate emoluments of the highest paid director during the year ended 31 December 2007 were £938,023 (Year ended 31 December 2006 £1,011,080). The highest paid director is not a member of any retirement benefit scheme.

In addition, the highest paid director is a participant in the Universal Music Group Equity Incentive Plan. Awards of equity units initially vest over the period of his employment contract through the applicable vesting date, with the initial award granted vesting in 2008. Any subsequent awards granted vest over a period as determined by the HR Committee. The vesting and payment rules are based on a pre-determined formula and, on vesting, the Plan is to be paid out in cash. As at 31 December 2007, there is no amount due to the highest paid director under the Plan (2006 £nil) (See note 22 Share based payments).

The emoluments of two directors (2006 two) were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company.

Three directors received share options under the group's long term incentive grant scheme (2006 three). The amounts receivable to the directors under long term incentive schemes were £nil (2006 £nil).

Universal Music Operations Limited

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

6 Employee information

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

	Year ended 31 December 2007 No	Year ended 31 December 2006 No
Commercial and administrative	695	740

Their aggregate remuneration comprised

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Wages and salaries	27,064	36,260
Social security costs	3,218	3,095
Other pension costs	1,610	2,368
Staff costs	31,892	41,723

7 Interest receivable and similar income

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Expected return on pension scheme assets	2,500	2,400
Interest receivable from banks and other interest receivable	4	48
Interest receivable from group companies	48,337	25,343
	50,841	27,791

8 Interest payable and similar charges

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Interest on pension liabilities	4,000	3,800
Interest payable on finance leases	47	54
Interest payable on bank overdraft and other interest payable	156	1,327
Interest payable to group companies	55,742	1,232
	59,945	6,413

Universal Music Operations Limited

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

9 Tax on profit on ordinary activities

(a) Analysis of charge in year	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Current tax		
UK corporation tax at 30% (2006 30%)	-	4,185
Group relief payable re losses for the year	-	17,005
Adjustments in respect of previous years		
UK corporation taxation	(7)	1,698
Foreign taxation		-
Total current taxation (see (b) below)	(7)	22,888
Deferred taxation for the year	2,435	(465)
Adjustments in respect of previous years	942	(1,698)
Deferred taxation (credit) / charge (see note 8d)	3,370	(2,163)
Total taxation charge	3,370	20,725

(b) Factors affecting tax charge for the year	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Profit on ordinary activities before tax	13,947	61,005
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(4,184)	18,302
Effects of		
Expenses not deductible for tax purposes	6,317	1,322
Adjustments to tax (credit) / charge in respect of prior years		
Movement in timing differences (see (d) below)	(2,435)	465
Adjustments to tax charge in respect of prior periods	(7)	1,698
Effect of change in tax rate	302	-
Tax effect of prior year restatement	-	1,101
Total current tax charge	(7)	22,888

(c) Factors that may affect future tax charges

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 £302,000.

Universal Music Operations Limited

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

8 Tax on profit on ordinary activities (continued)

(d) The following deferred tax assets / (liability) have been provided

	Year ended 31 December 2007			Year ended 31 December 2006 Restated		
	Provided £'000	Not Provided £'000	Total £'000	Provided £'000	Not Provided £'000	Total £'000
Accelerated capital allowances	90	-	90	(287)	-	(287)
Tax losses carried forward	(299)	-	(299)			
Other short-term timing differences	263	-	263	2,425	-	2,425
	54	-	54	2,138	-	2,138

Deferred taxation asset / (liability) movements:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Asset / (Liability) as at start of year	2,138	(505)
Deferred taxation credit/(charge) in profit & loss account (see (a) above)	(2,435)	465
Prior year adjustment	(937)	1,698
Pension adjustment	1,288	480
Asset / (Liability) as at end of year	54	2,138

Universal Music Operations Limited

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

10 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2007	27,054	14,048	1,067	42,169
Additions	903	1,087	259	2,249
Disposals	-	(1,278)	(286)	(1,564)
At 31 December 2007	27,957	13,857	1,040	42,854
Depreciation				
At 1 January 2007	7,977	11,730	455	20,162
Charge for year	1,670	1,204	200	3,074
Disposals	-	(1,279)	(207)	(1,486)
At 31 December 2007	9,647	11,655	448	21,750
Net book amount				
At 31 December 2007	18,310	2,202	592	21,104
At 31 December 2006	19,077	2,294	612	21,983

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
The net book amount of land and buildings comprises		
Freehold	9,787	10,094
Short leaseholds	8,524	8,983
	18,311	19,077

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Assets held under finance leases and capitalised in plant and machinery		
Cost	880	930
Accumulated depreciation	(364)	(384)
Net book amount	516	546

Universal Music Operations Limited

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

11 Fixed asset investments

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
Cost			
At 1 January 2007	6,651	23	6,674
Additions	1,528	-	1,528
At 31 December 2007	8,179	23	8,202
Provision for impairment			
At 1 January 2007	(3,969)	(23)	(3,992)
Charge for the year	(1,528)	-	(1,528)
At 31 December 2007	(5,497)	(23)	(5,520)
Net book value			
At 31 December 2007	2,682	-	2,682
At 31 December 2006	2,682	-	2,682

The company's investment in a Limited Partnership represents a 50% share in Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom. The aggregate investment in associated undertakings and in the limited partnership under equity accounting at 31 December 2007 is nil (31 December 2006 nil).

On 1 January 2007, Universal Music Operations Limited acquired 100% of the share capital of Universal Music Mobile UK Limited for consideration of £1,528,000. This investment was fully impaired during the year.

Subsidiary undertakings

The group has the following investments in directly held subsidiary undertakings:

Name	Country of registration	Ordinary share holdings	Nature of business
Fiction Records Limited	England and Wales	100%	Marketing and distribution of recorded music
Serious Records Limited	England and Wales	100%	Marketing and distribution of recorded music
Universal Music Mobile Limited	England and Wales	100%	Dormant company
Vice Versa Limited	England and Wales	100%	Dormant company

Universal Music Operations Limited

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

12 Stock

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Finished goods and goods for resale	1,274	1,243

13 Debtors

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Debtors amounts falling due within one year		
Trade debtors	96,652	81,301
Amounts due from group undertakings		
Overseas group undertakings	207,766	154,451
UK group undertakings	1,304,050	1,314,390
Other debtors	2,065	188
Prepayments and accrued income	9,359	9,597
	1,619,892	1,559,927

Included within trade debtors are advances to artists of £37,207,000 (2006 £23,690,000)

Included within amounts due from overseas group undertakings are the following interest-bearing amounts

- £169,520,000 (2006 £124,330,000) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S A

Included within amounts due from UK group undertakings are the following interest-bearing amounts

- £207,674,000 (2006 £207,674,000) in respect of an intercompany balance with Universal Music (UK) Holdings Limited Interest accrues on the loan at the 1 month LIBOR plus 1 00% (2006 Interest accrues on the balances at the 1-month LIBOR + 1 3%)
- £136,000,000 (2006 £136,000,000) in respect of an intercompany loan with a fellow group undertaking, Centenary UK Limited Interest accrues on the loan at the 1 month LIBOR rate + 1 1% (2006 1 month LIBOR + 2 3%)
- £560,000,000 (2006 £560,000,000) in respect of an intercompany loan due to a fellow group undertaking, Centenary Music Holdings Limited The loan is unsecured, interest free and repayable on demand

All amounts due from UK 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%

Universal Music Operations Limited

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

14 Creditors: amounts falling due within one year

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Obligations under finance leases (note 19)	230	258
Trade creditors	134,279	147,134
Amounts owed to group undertakings		
Overseas group undertakings	3,693	6,019
UK group undertakings	1,047,215	954,141
Corporation tax	50,091	53,107
Other taxation and social security	6,886	12,012
Other creditors	1,453	7,195
Accruals and deferred income	38,253	24,590
Bank overdraft	1,109	-
	1,283,209	1,204,456

All amounts due to UK 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%.

15 Creditors: amounts falling due after one year

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Obligations under finance leases (note 18)	303	310
	303	310

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

16 Provisions for liabilities and charges

	Artist royalties	Deferred taxation	Equity incentive plan	Other	Total
	£'000	(note 8) £'000	(note 22) £'000	£'000	£'000
Provision at the start of year	10,130	(2,138)	9,175	1,500	18,667
Arisen in the year	-	2,084	1,228	-	3,312
Utilised	(886)	-	-	(1,379)	(2,265)
Released	-	-	(3,590)	-	(3,590)
Provision at the end of the year	9,244	(54)	6,813	121	16,124

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

Universal Music Operations Limited

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

17 Called-up share capital

	Year ended 31 December 2007	Year ended 31 December 2006
	£'000	£'000
Authorised		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	2
	17	17
Allotted, called up and fully paid		
15,000 ordinary shares of £1 each	15	15
	15	15

The company reclassified the 4.82% non redeemable preference shares from share capital to financial liabilities in the prior year

The preference shares, classified as financial liabilities on the balance sheet, carry the right to preferential dividends at the rate of 4.82% per annum of the amount paid up (including the premium). The shares carry the following rights and obligations:

- (i) On a return of assets, on a winding-up, or otherwise, the shares carry the right to a sum equal to all arrears or accruals of the fixed dividend to the date of commencement of the winding-up and no right to repayment of capital. Holders of non-redeemable preference shares are not entitled to any right of participation in the assets of the company.
- (ii) The shares carry the right to receive notice of or to attend or vote at General Meetings of the company. Whenever the holders of preference shares are entitled to vote on a resolution at a general meeting of the company, the shares carry the right to one vote per share.
- (iii) The shares carry the right to two preferential dividends on 30 June and 31 December per annum at the rate of 4.82% per annum of the amount paid up (including the premium), or any amount which falls to be treated as paid up, on each preference share. Holders of preference shares are not entitled to any further right of participation in the profits of the company.

On 20 March 2008 the holder of all of the issued fixed-rate, non-redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends.

The non-redeemable preference shares valued at £2,045 and the related share premium of £135,998,000 are therefore considered in total as £136,000,000 of non-equity.

Universal Music Operations Limited

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

18 Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
As 1 January 2007	15	209,157	209,172
(Loss) for the year	-	(17,317)	(17,317)
Net actuarial gains on pensions	-	2,184	2,184
At 31 December 2007	15	194,024	194,039

19 Leases

Annual obligations under non-cancellable operating leases are as follows

	Year ended 31 December 2007		Year ended 31 December 2006	
	Land and buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire				
Within one year	-	-	-	263
In the second to fifth years inclusive	-	-	-	-
Over five years	3,092	-	3,092	-
	3,092	-	3,092	263

Obligations under non-cancellable finance leases are as follows

	Year ended 31 December 2007 Plant & equipment £'000	Year ended 31 December 2006 Plant & equipment £'000
Gross lease rentals outstanding	776	820
Less Finance charges outstanding	(243)	(252)
Net obligations	533	568
On demand or within one year	230	258
Due between one and two years	221	189
Due between two and five years	82	121
Net obligations	533	568

Universal Music Operations Limited

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

20 Related party transactions

During the year, Universal Music Operations Limited, distributed product on behalf of NBC Universal, a company which is 20% owned by the ultimate parent undertaking, Vivendi Universal S A

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Distribution fee income received	7,011	12,007

At 31 December 2007, the related party owed Universal Music Operations Limited £93,000 (2006 £58,069,000)

21 Pension scheme arrangements

Vivendi Universal S A 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 UK 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 HM Revenue & Customs for taxation purposes.

The Scheme is a mixed defined benefit and defined contribution scheme. Each defined benefit member of the Scheme is subject to one of two different benefit structures. Members with a Universal benefit structure consist of current and former Universal Music employees and former Vivendi Universal Entertainment ("VUE") employees. Members with a Seagram Wines and Spirits Group ("SWSG") benefit structure consist of former SWSG employees. Universal Music Operations Limited accounts for the underlying assets and liabilities of the Scheme allocated to the Universal Music members and Centenary Holdings Limited accounts for the underlying assets and liabilities of the Scheme allocated to the SWSG and VUE members.

The pension cost for the Scheme as a whole under FRS 17 has been assessed using the projected unit basis. The Scheme assets were valued based on their market value.

Formal actuarial valuations are normally carried out on a triennial basis. The FRS 17 disclosures for the year ending 31 December 2006 were based on the preliminary results of a full formal actuarial valuation as at 5 April 2006 and updated to the 2006 year end by an independent qualified actuary. The FRS 17 disclosures for the year ending 31 December 2007 have been based on the results of a full formal actuarial valuation as at 5 April 2006 and updated to the 2007 year end by an independent qualified actuary. Scheme assets are stated at their market value at the balance sheet dates.

The deficit as at 31 December 2007 and related FRS 17 disclosures relating to the Universal Music Section have been identified below.

Universal Music Operations Limited

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

The key assumptions were.

	Year ended 31 December	Year ended 31 December	Year ended 31 December
	2007	2006	2005
Rate of increase in salaries	4.85%	4.55%	4.30%
Rate of increase of pensions in payment	3.35%	3.05%	2.80%
Discount rate	5.70%	4.90%	4.90%
Inflation assumption	3.35%	3.05%	2.80%

The assets attributable to the defined benefits of current and former Universal Music employees and the expected rates of return were

	Year ended 31 December	Year ended 31 December	Year ended 31 December
	2007	2006	2005
	£ million	£ million	£ million
Equities*	14.6	13.2	12.5
Bonds	41.0	44.0	45.1
Cash	0.4	0.5	0.4
Total market value of assets	56.0	57.7	58.0
Actuarial value of liability	(77.2)	(85.5)	(81.8)
Scheme deficit/surplus	(21.2)	(27.8)	(23.8)
Related deferred tax asset	5.9	8.3	7.1
Net pension liability	(15.3)	(19.5)	(16.7)

	Year ended 31 December	Year ended 31 December	Year ended 31 December
	2007	2006	2005
Equities	5.40%	4.90%	4.85%
Bonds	4.80%	4.30%	4.25%
Cash	4.80%	4.30%	3.75%

*This asset split reflects the investment strategy of the Scheme implemented with effect from October 2005. Various derivative products are being used to gain exposure to £14.6 million worth of equities with the remainder of the invested assets held in actively managed corporate bond portfolios.

Universal Music Operations Limited

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

Analysis of amount charged to operating profit

	Year ended 31 December 2007 £ million	Year ended 31 December 2006 £ million
Service costs	-	0.4
Curtailment gain / loss	-	-
Past service costs	-	0.4
Total operating charge	-	0.8

Analysis of amount charged / credited to finance income

	Year ended 31 December 2007 £ million	Year ended 31 December 2006 £ million
Expected return on pension scheme assets	2.5	2.4
Interest on pension liabilities	(4.0)	(3.8)
Net return	(1.5)	(1.4)

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses

	Year ended 31 December 2007 £ million	Year ended 31 December 2006 £ million
Actual return less expected return on assets	(4.2)	2.2
Experience gains and losses on liabilities	2.5	1.8
Changes in assumptions	5.0	(9.6)
Actuarial gain / (loss) recognised in STRGL	3.3	(5.6)

Movement in deficit/surplus during the year

	Year ended 31 December 2007 £ million	Year ended 31 December 2006 £ million
Deficit/surplus in scheme at beginning of year	(27.8)	(23.8)
Movement in year		
(Current service cost)	-	(0.4)
Contributions	4.8	3.8
Curtailment/settlement gain/(loss)	-	-
Past service (costs)/credits	-	(0.4)
Net return on assets/(interest cost)	(1.5)	(1.4)
Actuarial gain/(loss)	3.3	(5.6)

Universal Music Operations Limited

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

Deficit/surplus in scheme at end of year **(21.2)** **(27.8)**

The actuarial valuation at 31 December 2007 showed an increase in the deficit from £27.8 million to £21.2 million

The total defined benefit pension contributions made by the Company were £4.8 million in 2007 (2006 £3.8 million)

The Company charged a service charge amounting to £nil to fellow subsidiaries in respect of defined benefit contributions (2006 £1.3 million)

With effect from 1 December 2006, the Defined Benefit Section of the Scheme closed to future accrual. Past service benefits remain linked to final salary for active members of the Scheme who accrued defined benefits up to or after 1 October 2005

The participating employers to the Scheme agreed to contribute £580,000 per month up to 5 July 2007 in respect of the overall Scheme past service deficit increasing to £825,500 per month from 5 July 2007, plus the cost of administration expenses and death in service insurance premiums. In total for the Company, this amounted to £4.8 million in 2007

History of experience gains and losses

	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2005
Difference between actual and expected return on scheme assets			
Amount (£ million)	(4.2)	2.2	3.1
Percentage of scheme assets	-7%	4%	5%
Experience gains and losses on scheme liabilities			
Amount (£ million)	2.5	1.8	(0.2)
Percentage of scheme liabilities	3%	2%	0%
Total actuarial gains/losses recognised in statement of total recognised gains and losses			
Amount (£ million)	3.3	(5.6)	(5.2)
Percentage of scheme liabilities	4%	-7%	-6%

Universal Music Operations Limited

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

22 Share based payments

Since 2003, Universal Music Group (UMG) of which the company is a member, has maintained an Equity Incentive Plan, under which certain key executives of UMG are awarded Equity Units. These Equity Units are phantom stock units whose value is intended to reflect the value of UMG, net of certain other adjustments as defined in the plan. These Equity Units are simply units of account, and they do not represent an actual ownership interest in either the company, UMG or Vivendi (the ultimate parent undertaking). In general, the plan calls for Equity Units to vest at the end of a fixed vesting period that typically coincides with the term of the director's employment agreement. In general, the plan calls for cash payments to be made to participants at the end of that vesting period, based on the value of the Equity Units at that time (all amounts under the plan are due in 2008 and 2009). The Plan is denominated in US\$.

Except in the case of certain transactions, the cash payments made under the Plan will be based upon the appraised value of UMG as determined by a third party valuation. This appraised value is based on UMG's total enterprise value, taking into account other adjustments as defined in the Plan, as of December 31 of the year preceding the payment. No payments have yet been made (or are due to be made) under the plan. Accordingly, no third party valuation has yet been undertaken. In order to value the Equity Units for accounting purposes prior to an actual payment, the value of the Units is estimated based on publicly-available estimates of UMG's enterprise value.

While an executive's Equity Units generally vest at the end of a fixed vesting period, an expense is recognised over the vesting period as services are rendered. Specifically, the expense recognised is based on the portion of the vesting period that has elapsed and the estimated value of those Equity Units. As at 31 December 2007 the estimated value of the rights vested in respect of employees of the company amounted to £6,070,000 not including social security costs (2006 £8,160,000).

No payments have yet been made (or are payable) under the Plan to any employees of the company.

23 Contingent liabilities

The company has given an unlimited multilateral company guarantee in respect of an overdraft facility held by Universal Island Records Limited.

24 Ultimate parent undertaking & controlling party

The immediate parent undertaking is Universal Music Leisure 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 will be 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