

COMPANY REGISTRATION NUMBER 950138

UNIVERSAL MUSIC OPERATIONS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016



UNIVERSAL MUSIC OPERATIONS LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

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UNIVERSAL MUSIC OPERATIONS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

DS Joseph
RM Constant
AM Barker
DRJ Sharpe

COMPANY SECRETARY

A Abioye

REGISTERED OFFICE

364-366 Kensington High Street
London
W14 8NS

AUDITOR

Ernst & Young LLP
Statutory Auditor
1 More London Place
London
SE1 2AF

UNIVERSAL MUSIC OPERATIONS LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2016

The directors present their strategic report for the company for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was to market and distribute recorded music and videos.

The result and position of the company for the year ended 31 December 2016 are set out in the statement of comprehensive income, statement of financial position and statement of changes in equity on pages 8, 9 and 10 respectively. The result and position of the company were in line with directors' expectations.

RESULTS AND DIVIDENDS

The company's loss for the financial year was £13,723,000 (2015 - loss £17,974,000). The retained loss for the year has been transferred to reserves.

The directors do not recommend a dividend payment for the year ended 31 December 2016 (2015 - £Nil).

KEY PERFORMANCE INDICATORS

The company uses a variety of performance indicators to review historical performance and plan for the future. The key indicators are turnover and gross profit margin, as described below.

Turnover

Turnover levels were maintained in 2016, with a fall of just 1% compared to the prior year. The outlook for future years appears positive based on increasing demand for streaming services.

Gross profit margin

The company's gross profit margin increased from 28.5% to 30.3% this year. This was the result of both product mix and strong cost controls maintained by the company.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company uses a variety of financial instruments including cash, equity instruments and various instruments such as artist advances, trade receivables and trade payables that arise directly from its operations.

The directors are of the view that the main risks arising from the company's financial instruments are exchange rate risk, interest rate risk, liquidity risk and credit risk, as summarised below:

Exchange rate risk

Exchange rate fluctuation presents a risk because some sales are priced in overseas currencies, and certain balances are denominated in currencies other than Sterling. The directors do not consider that the potential downside is significant enough to require hedging but continue to monitor the potential risk.

Interest rate risk

The company does not have any significant external borrowings and as such the directors consider the interest rate risk to be minimal at this stage.

UNIVERSAL MUSIC OPERATIONS LIMITED

STRATEGIC REPORT (continued)

YEAR ENDED 31 DECEMBER 2016

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The company manages its financial risk by ensuring liquidity is sufficient to meet future needs, and that sufficient funding is in place before any new commitments are entered into. The cash position and cash flow forecasts are monitored by management on a regular basis.

Credit risk

The principal credit risk arises from trade debtors. Management approve credit terms for all new customers, and regularly review the credit position of existing accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

The company is faced with similar risks and uncertainties as other companies operating in the recorded music business, broadly:

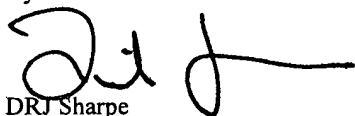
- competition from major and independent record companies that market and distribute recorded music and video;
- competition from alternative entertainment products;
- price pressure from the increased presence of supermarkets in the music market and their threat to survival of independent music retailers;
- the threat of a devalued product due to piracy and the illegal use of music;
- as to whether the growth in the subscription services market can replace the decline in the physical and download market; and
- interest rate fluctuations.

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

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.

By order of the board



DRJ Sharpe
Director

31 MAY 2017

UNIVERSAL MUSIC OPERATIONS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2016

The directors present their report, the strategic report and the financial statements of the company for the year ended 31 December 2016.

DIRECTORS

The directors who served the company during the year and subsequently were as follows:

DS Joseph
MJ Swatton
RM Constant
AM Barker
DRJ Sharpe
SG Miron
K Brown

K Brown resigned as a director on 28 February 2016.

SG Miron resigned as a director on 31 January 2016.

MJ Swatton resigned as a director on 10 March 2016.

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.

POLICY ON THE PAYMENT OF CREDITORS

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.

DONATIONS

During the year the company made the following contributions:

	2016 £	2015 £
Charitable donations	<u>310,469</u>	<u>360,810</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

DIRECTORS' REPORT (continued)

YEAR ENDED 31 DECEMBER 2016

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report, the strategic report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

In so far as each of the directors at the date of approving this report are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board



A Abioye

Company Secretary

Company Registration Number: 950138

31 MAY 2017

UNIVERSAL MUSIC OPERATIONS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC OPERATIONS LIMITED

YEAR ENDED 31 DECEMBER 2016

We have audited the financial statements of Universal Music Operations Limited for the year ended 31 December 2016, which comprise the statement of comprehensive income, the statement of financial position and statement of changes in equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

UNIVERSAL MUSIC OPERATIONS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC OPERATIONS LIMITED (continued)

YEAR ENDED 31 DECEMBER 2016

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Philip Young (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

31/5/17

Company Registration Number: 950138

UNIVERSAL MUSIC OPERATIONS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Total 2016 £'000	Total 2015 £'000
TURNOVER	4	316,443	320,839
Cost of sales		(221,252)	(229,284)
GROSS PROFIT		95,191	91,555
Distribution costs		(4,683)	(4,355)
Administrative expenses		(89,544)	(84,589)
OPERATING PROFIT	5	964	2,611
Income from participating interests	8	7,000	6,500
Interest receivable and similar income	9	19,957	13,898
Amounts written off investments	10	-	(400)
Interest payable and similar charges	11	(44,634)	(46,392)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(16,713)	(23,783)
Tax on loss on ordinary activities	12	2,990	5,809
LOSS FOR THE FINANCIAL YEAR		(13,723)	(17,974)
Other comprehensive income			
Actuarial loss in respect of defined pension scheme		(4,800)	(7,000)
Tax on other comprehensive loss		816	(140)
TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR		(17,707)	(25,114)

All of the activities of the company are classed as continuing operations.

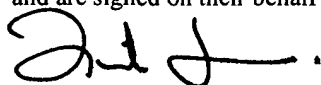
The notes on pages 11 to 32 form part of these financial statements

UNIVERSAL MUSIC OPERATIONS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
FIXED ASSETS			
Property, plant & equipment	13	637	1,268
Financial assets	14	400	400
Defined benefit pension asset	21	4,680	2,730
		<u>5,717</u>	<u>4,398</u>
CURRENT ASSETS			
Inventories	15	2,936	1,610
Debtors: Amounts falling due within one year	16	1,576,752	2,053,628
		<u>1,579,688</u>	<u>2,055,238</u>
CREDITORS: Amounts falling due within one year	17	<u>(1,465,968)</u>	<u>(1,790,401)</u>
NET CURRENT ASSETS		<u>113,720</u>	<u>264,837</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>119,437</u>	<u>269,235</u>
CREDITORS: Amounts falling due after more than one year	18	-	(136,000)
PROVISIONS FOR LIABILITIES			
Provisions for liabilities and charges	20	<u>(22,562)</u>	<u>(18,651)</u>
NET ASSETS		<u>96,875</u>	<u>114,584</u>
CAPITAL AND RESERVES			
Called-up equity share capital	26	15	15
Profit and loss account		<u>96,861</u>	<u>114,569</u>
EQUITY SHAREHOLDERS' FUNDS		<u>96,875</u>	<u>114,584</u>

These accounts were approved by the board of directors and authorised for issue on and are signed on their behalf by:

31 MAY 2017



DRJ Sharpe
Director

The notes on pages 11 to 32 form part of these financial statements

UNIVERSAL MUSIC OPERATIONS LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	Profit & Loss Account £'000	Total share-holde rs' funds £'000
Balance at 1 January 2015	15	139,683	139,698
Total comprehensive income for the period			
Loss for the year	-	(17,974)	(17,974)
Other comprehensive income expense	-	(7,140)	(7,140)
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2016	15	114,569	114,584
Total comprehensive income for the period			
Loss for the year	-	(13,723)	(13,723)
Other comprehensive expense	-	(3,984)	(3,984)
	<hr/>	<hr/>	<hr/>
Balance carried forward at 31 December 2016	15	96,861	96,875

The notes on pages 11 to 32 form part of these financial statements

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

1. STATUTORY INFORMATION

Universal Music Operations Limited is a company limited by shares and incorporated and domiciled in the UK. The registered office is 364-366 Kensington High Street, London, W14 8NS.

2. STATEMENT OF COMPLIANCE

The company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. ACCOUNTING POLICIES

Basis of preparation of financial statements

These financial statements have been prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in sterling, which is the functional currency of the company, and have been rounded to the nearest £'000.

FRS 102 - Qualifying exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- from preparing a statement of cash flows and related notes;
- from preparing a reconciliation of the number of shares outstanding from the beginning to end of the financial year;
- from disclosing related party disclosures;
- from disclosing key management personnel compensation;
- from certain financial instrument disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instruments*; and
- from certain share based payment disclosures required by FRS 102.26 *Share Based Payment*.

This information is included in the consolidated financial statements of the company's ultimate parent undertaking, Vivendi SA, copies of which can be obtained from 42 Avenue de Friedland, 75380 Paris, Cedex 08, France.

Other qualifying exemptions

As the ultimate parent undertaking prepares publicly available consolidated accounts and is incorporated within the European Union the company has taken advantage of the exemption under section 400 of the Companies Act 2006 from preparing consolidated accounts. As such, these financial statements give information about the company as an individual undertaking and not about its group.

Going concern

The Company's business activities, together with the factors likely to affect future developments, its financial exposures and its risk exposures are described in the strategic report.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

3. ACCOUNTING POLICIES (continued)

Revenue recognition

Turnover represents goods sold less returns, the invoiced value of services and royalty income, excluding VAT. Turnover is attributable to one activity; the marketing and distribution of recorded music.

United Kingdom digital and royalty income is credited to the statement of comprehensive income in the period to which it relates, or if it cannot be reliably estimated, on a receipt basis. Overseas digital and royalty income, which is all collected on behalf of the company by other group undertakings, is credited to the statement of comprehensive income in the period overseas sales are reported to the company. Royalties payable are charged against the relevant income of the same period.

Property, plant and equipment

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold improvements	over the life of the lease
Plant & Machinery	2% - 25% straight line

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

3. ACCOUNTING POLICIES (continued)

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Advances

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.

Interest-bearing loans classified as basic financial instruments

All interest-bearing loans and borrowings are initially recognised at net proceeds. 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.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Investments in preference and ordinary shares

Preference shares that provided for the contractual right to deliver cash to another entity are classified as a financial instrument. The corresponding dividends are charged to the statement of comprehensive income.

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

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised through profit and loss. Other investments are measured at cost less impairment in profit and loss.

Investments in subsidiaries, jointly controlled entities and associates

These are separate financial statements of the company. Investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are repayable on demand.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

3. ACCOUNTING POLICIES (continued)

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets, other than stock and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

3. ACCOUNTING POLICIES (continued)

Employee benefits

Pension costs and other post-retirement benefits

The company participates in a pension scheme in the UK, ultimately operated by Vivendi SA; the Universal Music Group Pension Scheme ("UMGPS" or "the Scheme"). The Scheme is a mixed defined benefit and defined contribution Scheme and operates on a pre-funded basis.

In respect of employees of the Company, Company contributions to the defined contribution section are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Scheme. The defined contribution section of the Scheme closed to future accrual from 31 March 2011.

With effect from 1 April 2011 defined contribution accrual is under a contract based Group Personal Pension ("GPP") arrangement operated by Standard Life. In respect of employees of the Company, Company contributions to the GPP are charged to the statement of comprehensive income as they become payable.

FRS 102 requires that the Scheme's underlying assets and liabilities can be allocated to the entities sponsoring the Scheme. This allocation could not be done on a consistent and reasonable basis for Universal Music Operations Limited alone.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is possible that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Provision for royalty audit claims

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Provision for financial guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Expenses

Operating lease agreements

Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

3. ACCOUNTING POLICIES (continued)

Expenses (continued)

Finance lease agreements

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 statement of financial position as a tangible fixed asset and is depreciated in accordance with the above depreciation policies 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 statement of comprehensive income on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges, unwinding of the discount on provisions, and net foreign exchange losses that are recognised through profit or loss in the statement of comprehensive income .

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue. Dividend income is recognised in the statement of comprehensive income on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised through profit or loss in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, associated and joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

3. ACCOUNTING POLICIES (continued)

Expenses (continued)

Foreign currencies

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised through profit or loss in the statement of comprehensive income except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income.

4. TURNOVER

Turnover by activity is as follows:

	2016	2015
	£'000	£'000
Product Sales	169,024	159,468
Royalties	147,419	161,371
	<u>316,443</u>	<u>320,839</u>

Turnover by destination is as follows:

	2016	2015
	£'000	£'000
United Kingdom	238,988	220,790
Rest of Europe	29,853	36,280
United States of America	31,418	44,990
Rest of World	16,184	18,779
	<u>316,443</u>	<u>320,839</u>

Turnover by source is exclusively derived in the United Kingdom.

UNIVERSAL MUSIC OPERATIONS LIMITED
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5. OPERATING PROFIT EXPENSES

Operating profit is stated after charging/(crediting):

	2016	2015
	£'000	£'000
Depreciation of owned fixed assets	660	855
Auditor's remuneration	209	270
Operating lease costs:		
- Land and buildings	5,615	4,969
Net loss/(gain) on foreign currency translation	<u>1,010</u>	<u>(906)</u>

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £269,000 (2015 - £350,000).

6. PARTICULARS OF EMPLOYEES

The company had no employees during the year ended 31 December 2016 (2015 - Nil).

7. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were:

	2016	2015
	£'000	£'000
Remuneration receivable	7,065	3,595
Value of company pension contributions to money purchase schemes	17	51
	<u>7,082</u>	<u>3,646</u>

Retirement benefits are accruing to two directors (2015 : two) under the Universal defined contribution section of the Universal Music Group Pension Scheme (UMGPS) and the Group Personal Pension (GPP) arrangement.

Five directors (2015 : Five) were not members of any retirement benefit schemes.

The directors emoluments of two directors (2015 : two) are paid for by a fellow group company of the Universal Music Group. The relevant fellow subsidiary has not recharged any amount to the company (2015: nil) as they are unable to make a reasonable apportionment of the portion of these total emoluments that relate to qualifying services provided by directors of the company.

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

7. DIRECTORS' REMUNERATION (continued)

Remuneration of highest paid director:

	2016	2015
	£'000	£'000
Total remuneration (excluding pension contributions)	<u>5,819</u>	<u>2,424</u>

None of the directors, including the highest paid director received share options under the group's long term incentive grant scheme (2015 : None). The amounts receivable to the directors under long term incentive schemes were £Nil (2015 : £Nil).

8. INCOME FROM PARTICIPATING INTERESTS

	2016	2015
	£'000	£'000
Income from participating interests	<u>7,000</u>	<u>6,500</u>

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016	2015
	£'000	£'000
Bank interest receivable	-	74
Interest receivable from group undertakings	18,468	13,824
Other similar income receivable	1,489	-
	<u>19,957</u>	<u>13,898</u>

10. AMOUNTS WRITTEN OFF INVESTMENTS

	2016	2015
	£'000	£'000
Amount written off investments	<u>-</u>	<u>400</u>

UNIVERSAL MUSIC OPERATIONS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016

11. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Interest on pension obligation	4,000	3,900
Expected return on pension scheme assets	(4,400)	(4,400)
Other finance charges	-	4,795
Interest payable to group undertakings	45,034	42,097
	<u>44,634</u>	<u>46,392</u>

12. TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Analysis of tax credit in the year

	2016 £'000	2015 £'000
Current tax:		
UK Taxation		
In respect of the year		
Withholding tax	217	237
Adjustments in respect of previous years	(184)	(487)
Group relief payable/(receivable) for losses claimed from/surrendered to other group undertakings	(5,073)	(4,212)
Double taxation relief	(217)	(237)
Foreign tax		
Current tax on income for the year	217	237
Total current tax	<u>(5,040)</u>	<u>(4,462)</u>
Deferred tax:		
Origination and reversal of timing differences	2,050	(1,106)
Adjustments in respect of prior periods	-	(241)
Total deferred tax	<u>2,050</u>	<u>(1,347)</u>
Tax on loss on ordinary activities	<u>(2,990)</u>	<u>(5,809)</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

12. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

	2016 £'000	2016 £'000	2016 £'000	2015 £'000	2015 £'000	2015 £'000
	Current Tax	Deferred Tax	Total Tax	Current Tax	Deferred Tax	Total Tax
Recognised in Profit and loss	(5,040)	2,050	(2,990)	(4,462)	(1,347)	(5,809)
Recognised in other comprehensive income	-	(816)	(816)	-	140	140
Total Tax	(5,040)	1,234	(3,806)	(4,462)	(1,207)	(5,669)

(b) Factors affecting tax credit

The tax assessed on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%).

Under the Finance (No. 2) Act 2015, the main rate of corporation tax was reduced from 20% to 19% effective from 1 April 2017. A further reduction to 17% from 1 April 2020 will apply by virtue of the Finance Act 2016 s46 which was enacted on 15 September 2016. Deferred tax assets and liabilities are measured at the rate expected to apply to the accounting period when the asset is realised or the liability is settled, based on the above rates.

	2016 £'000	2015 £'000
Loss on ordinary activities before taxation	(16,713)	(23,783)
Loss on ordinary activities at the standard rate of UK Corporation tax of 20.00% (2015: 20.25%)	(3,343)	(4,816)
Expenses not deductible for tax purposes	(1,384)	(1,196)
Adjustments in respect of previous periods	(184)	(728)
Double tax relief	(217)	(237)
Foreign tax suffered in the period	217	237
Impact of statutory rate change	53	161
Effect of movements in pension provision	1,866	770
Current tax credit for the financial year	(2,990)	(5,809)

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13. PROPERTY, PLANT & MACHINERY (TANGIBLE ASSETS)

	Leasehold Improvem ents £'000	Plant & Machinery £'000	Total £'000
COST			
At 1 January 2016	9,521	3,726	13,247
Additions	-	29	29
At 31 December 2016	9,521	3,755	13,276
DEPRECIATION			
At 1 January 2016	8,431	3,548	11,979
Charge for the year	590	70	660
At 31 December 2016	9,021	3,618	12,639
NET BOOK VALUE			
At 31 December 2016	500	137	637
At 31 December 2015	1,090	178	1,268

14. FINANCIAL ASSETS (INVESTMENTS)

	Shares In Subs/Grp £'000	Def American Limited Partnership £'000	Total £'000
COST			
At 1 January 2016	17,582	23	17,605
At 31 December 2016	17,582	23	17,605
PROVISION FOR IMPAIRMENT			
At 1 January 2016	17,182	23	17,205
At 31 December 2016	17,182	23	17,205
NET BOOK VALUE			
At 31 December 2016	400	-	400
At 31 December 2015	400	-	400

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

14. FINANCIAL ASSETS (INVESTMENTS) (continued)

The company's investment in a Limited Partnership represents a 50% share of Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom.

Subsidiary Undertakings

The subsidiaries of Universal Music Operations Limited as at 31 December 2016 are set out below. All of the subsidiaries have a registered office address of 364 - 366 Kensington High Street, London W14 8NS.

Name	Country of Incorporation	Ordinary share holding	Nature of business
Fiction Records Limited	England & Wales	100%	Dormant company
Serious Records Limited	England & Wales	100%	Dormant company
Wolftone Limited	England & Wales	50.1%	Marketing and distribution of recorded music
All Around The World Limited	England & Wales	50%	Marketing and distribution of recorded music
Now that's what I call music LLP	England & Wales	50%	Marketing and distribution of recorded music
Future Records Limited	England & Wales	50%	Marketing and distribution of recorded music
Global Talent Music Recordings Limited	England & Wales	50%	Marketing and distribution of recorded music
Composed Limited	England & Wales	50%	Music streaming service
Composed Technology International Limited	England & Wales	100%	Music streaming service
Naughty Records Limited	England & Wales	51%	Marketing and distribution of recorded music
The Wild Card Label Limited	England & Wales	51%	Marketing and distribution of recorded music
Vice Versa Limited	England & Wales	100%	Dormant company
Closer Records Limited	England & Wales	51%	Marketing and distribution of recorded music

15. INVENTORIES

	2016 £'000	2015 £'000
Finished goods	2,936	1,610

The difference between the purchase price of inventories and their replacement cost is not material.

UNIVERSAL MUSIC OPERATIONS LIMITED

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YEAR ENDED 31 DECEMBER 2016

16. DEBTORS: Amounts due within one year

	2016 £'000	2015 £'000
Trade debtors	23,851	21,931
Amounts owed by group undertakings	1,474,908	1,945,216
VAT recoverable	3,475	353
Other debtors	17,679	21,598
Prepayments and accrued income	55,711	63,217
Deferred taxation (note 19)	1,129	1,313
	<u>1,576,752</u>	<u>2,053,628</u>

Included within amounts owed by group undertakings are the following interest-bearing amounts:

- £207,673,000 (2015 - £207,673,000) in respect of an intercompany balance with Universal Music (UK) Holdings Limited. Interest accrues on the loan at 1 month LIBOR plus 1%.
- £136,000,000 (2015 - £136,000,000) in respect of an intercompany loan with a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at 1 month LIBOR plus 1.1%
- £560,000,000 (2015 - £560,000,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at 1 month LIBOR plus 0.1% and is repayable on demand.
- £199,969,000 (2016 - £199,969,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at 1 month LIBOR plus 0.1% and is repayable on demand.

All other amounts owed by UK group undertakings are unsecured and repayable on demand. Interest accrues on these amounts at 1 month LIBOR plus 0.1%.

At 31 December 2016 £14,766,681 (2015 - £13,207,194) included within other debtors related to discounted advances due in more than 1 year.

17. CREDITORS: Amounts falling due within one year

	2016 £'000	2015 £'000
Bank loans and overdrafts	10,668	8,550
Trade creditors	127,508	144,934
Amounts owed to group undertakings	1,251,146	1,560,185
Corporation tax	-	500
Other taxation and social security	2,927	2,889
Other creditors	9,227	9,408
Accruals and deferred income	64,492	63,935
	<u>1,465,968</u>	<u>1,790,401</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

17. CREDITORS: Amounts falling due within one year (continued)

Included within amounts owed to group undertakings are the following interest-bearing amounts:

£8,924,012 (2015 - £8,924,012) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury SA. The interest rate on the loan is 1 year LIBOR plus 3%. The loan is unsecured and repayable on demand.

£525,000,000 (2015 - £525,000,000) in respect of an intercompany balance with Universal Music Leisure Limited. Interest accrues on the loan at 6%.

All other amounts owed to group undertakings are due to UK group undertakings, are unsecured and repayable on demand. Interest accrues on these amounts at 1 month LIBOR plus 0.1%.

18. CREDITORS: Amounts falling due after more than one year

	2016 £'000	2015 £'000
Shares classed as financial liabilities	-	136,000
	-	136,000

During the year a return of capital to the parent company, Universal Music Holdings Limited, was affected by way of settlement of intercompany balances. As such the 4.82% preference shares and associated share premium have been reduced to nil.

19. DEFERRED TAXATION

The movement in the deferred taxation account during the year was:

	2016 £'000	2015 £'000
Balance brought forward	(1,313)	34
Balance brought forward deferred tax on pension liability	1,470	1,330
Exclude Deferred Tax Asset included in defined benefit pension scheme liability note	(2,520)	(1,470)
Charge to deferred taxation on defined benefit pension scheme movement in the year	1,050	140
Deferred taxation on ordinary activities account movement arising during the year	184	(1,347)
Provision carried forward	(1,129)	(1,313)

The movement for deferred taxation consists of the tax effect of timing differences in respect of:

	2016 £'000	2015 £'000
Excess of depreciation over taxation allowances	(754)	(881)
Other timing differences	(375)	(432)
	(1,129)	(1,313)

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19. DEFERRED TAXATION (continued)

The deferred tax is included in the statement of financial position is as follows:

	2016 £'000	2015 £'000
Included in debtors (note 16)	1,129	1,313
Included in defined benefit pension scheme liability (note 21)	(2,520)	(1,470)

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Artist Royalties £'000	Other Provisions £'000	Total £'000
At 1 January 2016	14,302	4,349	18,651
Additions	3,260	651	3,911
At 31 December 2016	17,562	5,000	22,562

	Artist Royalties £'000	Other Provisions £'000	Total £'000
At 1 January 2016	14,302	4,349	18,651
Statement of comprehensive income movement arising during the year	3,260	651	3,911
At 31 December 2016	17,562	5,000	22,562

Provision is made against the outcome of artist royalty audits ongoing at the statement of financial position date, and against additional artist royalty obligations anticipated by management at the statement of financial position 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.

The other provisions amount represents provisions for dilapidations on properties.

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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21. PENSIONS AND OTHER POST RETIREMENT BENEFITS

Vivendi SA operates the UMGPS, formerly known as the Vivendi Universal Pension Scheme, in the United Kingdom. It is designed to provide retirement benefits for certain employees. This is the most significant scheme operated by Vivendi SA in the UK and the principal company of the Scheme is Universal Music Operations 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.

Prior to 13 November 2008, each defined benefit member of the Scheme was subject to one of two different benefit structures. Members with a Universal benefit structure consisted 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 consisted of former SWSG employees. The underlying assets and liabilities of the Scheme allocated to the Universal Music members were accounted for within Universal Music Operations Limited and the underlying assets and liabilities of the Scheme allocated to the SWSG and VUE members were accounted for within Centenary Holdings Limited ("CHL"). Both companies are fellow group undertakings.

On 13 November 2008 the pensioner members of the Scheme transferred to the Vivendi 2008 Pensioners' Scheme ("VPS"), which is accounted for in its entirety within CHL. The underlying liabilities allocated to these members and related assets were transferred at the same point in time and the transfer was accounted for as a settlement within UMGPS. Consequently, from 13 November 2008, the company no longer holds any liability in respect of the transferring pensioner members

Following the transfer of pensioner members the underlying assets and liabilities of the Scheme allocated to the Universal Music members at 13 November 2008 remain accounted for within Universal Music Operations Limited.

FRS 102 requires that a pension scheme's underlying assets and liabilities can be allocated to the entities sponsoring the scheme. This allocation could not be done on a consistent and reasonable basis for Universal Music Operations Limited alone.

Formal actuarial valuations are carried out on at least a triennial basis and updated at each reporting year end. A full formal actuarial valuation was carried out as at 5 April 2015 by Mercer Limited as independent, professionally qualified actuaries to the Scheme.

The results of the 5 April 2015 valuation have been updated to 31 December 2016 for FRS 102 purposes. Over the reporting year 2016, the valuation update showed that the surplus increased from £4.2 million to £7.2 million. The updated valuation at 31 December 2016 showed the market value of the assets in the defined benefit section was £152.8 million and that the liabilities were £145.6 million. Consequently, the market value of the assets at 31 December 2016 were sufficient to cover the benefits that had accrued to defined benefit members, after allowing for expected future increases in earnings where appropriate and future revaluations during deferment.

The Company's total contributions amounted to £7,800,000 for the year ended 31 December 2016 (2015: £7,300,000).

UNIVERSAL MUSIC OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

21. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

Change in defined benefit obligation:

	2016 £'000	2015 £'000
Defined benefit obligation at end of prior year	110,200	106,100
Interest expense	4,000	3,900
Cash flows		
Benefit payment from plan assets	(5,300)	(1,800)
Remeasurements		
Effect of changes in assumptions	34,800	5,000
Effect of experience adjustments	1,900	(3,000)
Defined benefit obligation at end of year	<u>145,600</u>	<u>110,200</u>

Change in fair value of plan assets:

	2016 £'000	2015 £'000
Fair value of plan assets at end of prior year	114,400	109,900
Interest income	4,400	4,400
Cash flows		
Total employer contribution	7,800	7,300
Benefit payments from plan assets	(5,300)	(1,800)
Administrative expenses paid from plan assets	(400)	(400)
Remeasurements		
Return on plan assets (excluding interest income)	31,900	(5,000)
Fair value of plan assets at end of year	<u>152,800</u>	<u>114,400</u>

Amounts recognised in the statement of financial position:

	2016 £'000	2015 £'000
Defined benefit obligation	145,600	110,200
Fair value of plan assets	(152,800)	(114,400)
Funded status	<u>(7,200)</u>	<u>(4,200)</u>
Net defined benefit liability/(asset)	(7,200)	(4,200)
Closing deferred tax balance	2,520	1,470
Net defined benefit liability/(asset) after taxation	<u>(4,680)</u>	<u>(2,730)</u>

UNIVERSAL MUSIC OPERATIONS LIMITED

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21. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

Defined benefit obligation:

	2016 £'000	2015 £'000
Defined benefit obligation by participant status		
Actives	21,500	16,300
Vested deferred	89,400	69,600
Retirees	34,700	24,300
Total	145,600	110,200

Cost relating to defined benefit plans:

	2016 £'000	2015 £'000
Cost (excluding interest)		
Interest expense on DBO	4,000	3,900
Interest (Income) on plan assets	(4,400)	(4,400)
Total net interest cost	(400)	(500)
Administrative expenses and/or taxes (not reserved within DBO)	400	400

Cost relating to defined benefit plans included in statement of comprehensive income - (100)

Remeasurements (recognised in other comprehensive income)		
Effect of change in assumptions	34,800	5,000
Effect of experience adjustments	1,900	(3,000)
(Return) on plan assets (excluding interest income)	(31,900)	5,000

Total remeasurements included in other comprehensive income 4,800 7,000

Total taxation included in statement of total comprehensive income (816) 140

Total cost related benefit plans recognised in the total statement of comprehensive income 3,984 7,040

Plan assets:

	2016 £'000	2015 £'000
Fair value of plan assets		
Cash and cash equivalents	7,000	3,300
Debt instruments	123,600	88,000
Diversified growth assets	22,200	23,100
Total	152,800	114,400
Actual return on plan assets	36,300	(600)

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21. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

The principal actuarial assumptions to determine cost relating to defined benefit obligations:

	2016 %	2015 %
Discount rate	2.62	3.75
Salary increase rate	3.50	3.75
Price inflation rate (RPI)	2.50	3.50
Price inflation rate (CPI)	3.50	2.75
Pension in payment increase rate	3.50	3.50

The total pension contributions made by the company were £7,800,000 in 2016 (2015 - £7,300,000). The company charged a service fee amounting to £Nil in 2016 (2015 - £Nil) to fellow subsidiaries in respect of defined benefit contributions.

The principal actuarial assumptions to determine cost relating to defined benefit plans:

	2016 %	2015 %
Discount rate	3.75	3.75
Salary increase rate	3.75	5.00
Price inflation rate (RPI)	3.50	3.50
Price inflation rate (CPI)	2.75	2.75
Pension in payment increase rate	3.50	3.50

Expected total benefit payments:

Year 1 £'000	Year 2 £'000	Year 3 £'000	Year 4 £'000	Year 5 £'000	Next 5 years £'000
2,000	2,100	2,200	2,200	2,300	12,900

With effect from 1 December 2006, the defined benefit section of the scheme closed to future accrual. Past service benefits remain linked to the 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 a minimum of £7,800,000 per annum, plus the cost of administration expenses and death in service insurance premiums. The company's share of this amounted to £7,800,000, in 2016 (2015 - £7,300,000). The company expects to contribute £7,100,000 to its pension plan in 2017.

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22. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2016 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2016	2015
	£'000	£'000
Operating leases which expire:		
Within 1 year	3,357	5,357
Within 2 to 5 years	5,037	7,292
After more than 5 years	801	1,941
	9,195	14,590

23. RELATED PARTY TRANSACTIONS

During the year, Universal Music Operations Limited operated a joint venture with All Around The World Limited, a company which is 50% owned. At 31 December 2016, Universal Music Operations Limited owe this related party £422,000 (2015 : £1,664,000 receivable). Universal Music Operations Limited also has 50% shareholdings in Future Records Limited which owed the company £5,422,000 (2015 : £4,808,000) and Global Talent Music Recordings Limited which the company owe £1,221,000 (2015 : £2,295,477) as at 31 December 2016. Universal Music Operations Limited also have a 25% shareholding in Mother Records Limited who owed the company £355,000 as at 31 December 2016 (2015 : £355,000). Universal Music Operations Limited also has 51% shareholdings in Naughty Records Limited and as at 31 December 2016 owed the company £1,447,000 (2015 : £998,085).

Sales to All Around The World Limited during the year 2016 were £2,086,000 (2015: purchases £1,401,000). Purchases from Future Records Ltd during the year 2016 were £614,000 (2015 : £361,000). Purchases from Global Talent Music Recordings Limited during the year 2016 were £1,074,477 (2015 : £1,855,477). Sales from Mother Records Limited during the year 2016 were £Nil (2015 : £Nil). Purchases to Naughty Records Limited during the the year 2016 were £448,915 (2015 : £570,865).

24. POST BALANCE SHEET EVENTS

No post balance sheet events have been identified by management.

25. CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 2016 or 31 December 2015.

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26. SHARE CAPITAL

Allotted, called up and fully paid:

	2016		2015	
	No	£'000	No	£'000
Ordinary shares of £1 each	15,000	15	15,000	15
4.82% of non-redeemable preference shares of £1 each	-	-	2,045	2
	15,000	15	17,045	17

Amounts presented in equity:	2016	2015
	£'000	£'000
15,000 of Ordinary shares of £1 each	15	15
Amounts presented in liabilities:		
4.82% non-redeemable preference shares of £1 each	-	2

During the year a return of capital to the parent company, Universal Music Holdings Limited, was affected by way of settlement of intercompany balances. As such the 4.82% preference shares and associated share premium have been reduced to nil.

27. ULTIMATE PARENT COMPANY

The immediate parent undertaking is Universal Music Leisure Limited. The ultimate parent undertaking and controlling party as at 31 December 2016 was Vivendi SA, a company incorporated in France. The smallest and largest group in which the results of the company are consolidated is that headed by Vivendi SA. Copies of its annual report in English may be obtained from:

Vivendi SA
42 Avenue de Friedland
75380 Paris
Cedex 08
France

On 25 April 2017, Bolloré Group became the ultimate parent undertaking and controlling party.