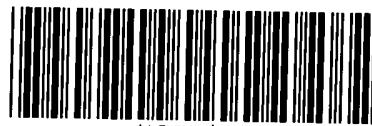


COMPANY REGISTRATION NUMBER 00950138

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2017**

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<b>CONTENTS</b>	<b>PAGES</b>
Officers and professional advisers	1
Strategic report	2 to 3
Directors' report	4 to 5
Independent auditor's report to the members	6 to 8
Statement of comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Notes to the financial statements	12 to 32

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# **UNIVERSAL MUSIC OPERATIONS LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

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### **THE BOARD OF DIRECTORS**

DS Joseph  
AM Barker  
DRJ Sharpe

### **COMPANY SECRETARY**

A Abioye

### **REGISTERED OFFICE**

364-366 Kensington High Street  
London  
W14 8NS

### **AUDITOR**

Deloitte LLP  
Statutory Auditor  
2 New Street Square  
London  
EC4A 3B7  
United Kingdom

# UNIVERSAL MUSIC OPERATIONS LIMITED

## STRATEGIC REPORT

### YEAR ENDED 31 DECEMBER 2017

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The directors present their strategic report for the company for the year ended 31 December 2017.

#### 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 of the company for the year ended 31 December 2017 and its position as at that date are set out in the statement of comprehensive income, statement of financial position and statement of changes in equity on pages 9, 10 and 11 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 £16,100,000 (2016 - loss £13,723,000). 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 2017 (2016 - £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, gross profit margin, and net assets, as described below.

##### *Turnover*

Turnover levels increased to £344,326,000 in 2017, compared to £316,443,000 in the previous year. This growth was driven by increased demand for streaming services, as well as the timing of new releases. The directors consider that the outlook for future years is positive as the expectation is for continued growth in demand for streaming services.

##### *Gross profit margin*

The company's gross profit margin increased from 30.1% to 31.0% this year. This was the result of both product mix and strong cost controls maintained by the company.

##### *Net assets*

The company's net asset position at 31 December 2017 remains strong at £69,903,000 (2016 - £96,876,000). The reduction on the prior year was driven by the overall loss for the financial year, along with the two significant exercises performed on the defined benefit pension scheme (see note 20 for further details). The loss was a result of interest payable to other group undertakings.

#### 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.

##### *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.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## STRATEGIC REPORT (continued)

YEAR ENDED 31 DECEMBER 2017

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### PRINCIPAL RISKS AND UNCERTAINTIES

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

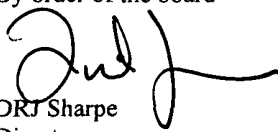
- competition from major and independent record companies that market and distribute recorded music and video;
- competition from alternative entertainment products;
- price pressure from the increased presence of supermarkets in the music market and their threat to survival of independent music retailers;
- the threat of a devalued product due to piracy and the illegal use of music;
- uncertainty 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

  
DRT Sharpe  
Director

Date: 18 May 2018

# UNIVERSAL MUSIC OPERATIONS LIMITED

## DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2017

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The directors present their report, together with the financial statements and the auditor's report of the company for the year ended 31 December 2017.

The directors have included the following matters with the strategic report, otherwise required to be disclosed in the directors' report, as they are considered to be of strategic importance to the company.

- Results and dividends;
- Financial risk management objectives and policies;
- Principal risks and uncertainties; and
- Future developments.

### DIRECTORS

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

DS Joseph  
RM Constant  
AM Barker  
DRJ Sharpe

RM Constant resigned as a director on 28 July 2017.

### 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 section 236 of the Companies Act 2006. Vivendi SA, headed by Bolloré Group, 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:

	2017 £	2016 £
Charitable donations	380,278	310,469

# UNIVERSAL MUSIC OPERATIONS LIMITED

## DIRECTORS' REPORT (continued)

YEAR ENDED 31 DECEMBER 2017

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### DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual 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 (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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; and
- 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.

### AUDITOR

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.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP were appointed as the company's auditor during the financial period. Pursuant to Section 487 of the Companies Act 2006, they will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

By order of the board



A Abioye

Company Secretary

Date: 18 May 2018

Company Registration Number: 00950138

# **UNIVERSAL MUSIC OPERATIONS LIMITED**

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

**YEAR ENDED 31 DECEMBER 2017**

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### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with requirements of the Companies Act 2006.

We have audited the financial statements of Universal Music Operations Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.



# **UNIVERSAL MUSIC OPERATIONS LIMITED**

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

**YEAR ENDED 31 DECEMBER 2017**

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### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

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 which 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.

# UNIVERSAL MUSIC OPERATIONS LIMITED

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

**YEAR ENDED 31 DECEMBER 2017**

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### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

#### Opinions on other matters 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

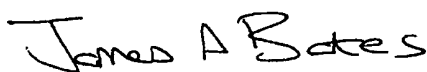
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors report.

#### Matters on which we are required to report by exception

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.

We have nothing to report in respect of these matters.



James Bates, FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP, Statutory Auditor

London, United Kingdom

.....  
Company Registration Number: 00950138

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
<b>TURNOVER</b>	<b>4</b>	<b>344,326</b>	<b>316,443</b>
Cost of sales		<u>(237,456)</u>	<u>(221,252)</u>
<b>GROSS PROFIT</b>		<b>106,870</b>	<b>95,191</b>
Distribution costs		(8,164)	(4,683)
Administrative expenses		<u>(88,107)</u>	<u>(89,544)</u>
<b>OPERATING PROFIT</b>	<b>5</b>	<b>10,599</b>	<b>964</b>
Income from participating interests	<b>8</b>	<b>4,500</b>	<b>7,000</b>
Interest receivable and similar income	<b>9</b>	<b>5,068</b>	<b>19,957</b>
Interest payable and similar charges	<b>10</b>	<u>(40,731)</u>	<u>(44,634)</u>
<b>LOSS BEFORE TAXATION</b>		<b>(20,564)</b>	<b>(16,713)</b>
Tax on loss	<b>11</b>	<u>4,464</u>	<u>2,990</u>
<b>LOSS FOR THE FINANCIAL YEAR</b>		<b>(16,100)</b>	<b>(13,723)</b>
<b>Other comprehensive loss</b>			
Remeasurement of defined pension scheme		(13,100)	(4,800)
Tax on other comprehensive loss		<u>2,227</u>	<u>816</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR</b>		<u><b>(26,973)</b></u>	<u><b>(17,707)</b></u>

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

The notes on pages 12 to 32 form part of these financial statements

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

	Note	2017 £'000	2016 £'000
<b>FIXED ASSETS</b>			
Property, plant & equipment	12	19,305	637
Investments	13	16,141	400
Defined benefit pension asset	20	-	4,680
		<u>35,446</u>	<u>5,717</u>
<b>CURRENT ASSETS</b>			
Inventories	14	2,663	2,936
Debtors: Amounts falling due within one year	15	2,010,139	1,576,752
		<u>2,012,802</u>	<u>1,579,688</u>
<b>CREDITORS: Amounts falling due within one year</b>	16	<u>(1,948,133)</u>	<u>(1,465,967)</u>
<b>NET CURRENT ASSETS</b>		<u>64,669</u>	<u>113,721</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>100,115</u>	<u>119,438</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	17	(1,650)	-
<b>PROVISIONS FOR LIABILITIES</b>			
Provisions for liabilities and charges	19	<u>(26,902)</u>	<u>(22,562)</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		<u>71,563</u>	<u>96,876</u>
Defined benefit pension scheme liability	20	<u>(1,660)</u>	<u>-</u>
<b>NET ASSETS</b>		<u>69,903</u>	<u>96,876</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	26	15	15
Profit and loss account		<u>69,888</u>	<u>96,861</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>69,903</u>	<u>96,876</u>

These accounts were approved by the board of directors and authorised for issue on 18 May 2018 and are signed on their behalf by:



DRJ Sharpe  
Director

Company Registration Number : 00950138

The notes on pages 12 to 32 form part of these financial statements

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**YEAR ENDED 31 DECEMBER 2017**

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	Note	Share capital £'000	Profit & Loss Account £'000	Total shareholders' funds £'000
Balance brought forward at 1 January 2016		15	114,568	114,583
<b>Total comprehensive loss for the year</b>				
Loss for the year		-	(13,723)	(13,723)
Other comprehensive loss	20	-	(3,984)	(3,984)
		<hr/>	<hr/>	<hr/>
Balance at 1 January 2017		15	96,861	96,876
<b>Total comprehensive loss for the year</b>				
Loss for the year		-	(16,100)	(16,100)
Other comprehensive loss	20	-	(10,873)	(10,873)
		<hr/>	<hr/>	<hr/>
<b>Balance carried forward at 31 December 2017</b>		<b>15</b>	<b>69,888</b>	<b>69,903</b>
		<hr/>	<hr/>	<hr/>

The notes on pages 12 to 32 form part of these financial statements

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2017

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#### 1. GENERAL INFORMATION

Universal Music Operations Limited is a private company limited by shares and incorporated in the UK under the Companies Act 2006 registered in England and Wales. The registered office is 364-366 Kensington High Street, London, W14 8NS.

The principal activities of the company and the nature of its operations are set out in the strategic report pages 2 and 3.

#### 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 meets the definition of a qualifying entity under FRS 102 and has therefore 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 the end of the financial year;
- from disclosing related party transactions with wholly owned group undertakings;
- from disclosing key management personnel compensation; and
- from certain financial instrument disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instruments*.

This information is included in the consolidated financial statements of the company's 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 financial statements 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 financial statements. 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, and for at least 12 months from the date the financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**3. ACCOUNTING POLICIES (continued)**

**Turnover**

Turnover comprises the value of sales of physical goods, digital products, royalty income and services rendered during the year. It is stated net of VAT, discounts and returns.

Turnover from sales of goods is recognised when products are despatched, at which point the significant risks and rewards are considered to be transferred to the customer. Turnover relating to digital products and royalty income is recognised when the products are sold, or if it cannot be reliably estimated, on a receipts basis. Turnover relating to services rendered is recognised once the services have been performed. Royalties payable are charged against the relevant income of the same period.

**Income from participating interest**

Income from participating interest is recognised when distributions are received.

**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

Assets under construction are not depreciated until construction is completed and the asset is in use.

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.

**Financial instruments**

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**3. ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

***Financial assets and liabilities***

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions of being 'basic' financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

***Investments***

Investments in subsidiaries are carried at cost less impairment.

***Equity instruments***

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

***Fair value measurement***

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.



**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**3. ACCOUNTING POLICIES (continued)**

**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 inventories and deferred tax assets)**

*Impairment of assets*

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

*Non-financial assets*

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss previously recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

*Financial assets*

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**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, contributions to the defined benefit section are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Scheme. The defined benefit 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, 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.

**Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

**Leases**

***The company as lessee***

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

**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 the statement of comprehensive income as they accrue. Foreign currency gains and losses are reported on a net basis.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**3. ACCOUNTING POLICIES (continued)**

**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 it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**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.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**3. ACCOUNTING POLICIES (continued)**

**Critical accounting judgements and key sources of estimation uncertainty**

The directors may make judgements in the application of the accounting policies above that have a significant impact on the amounts recognised, and may make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying the company's accounting policies**

The following are critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in which the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The directors have concluded there are no critical judgements to disclose.

**Key source of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Artist royalty provisions***

The company holds a provision for artist royalty audits as disclosed in note 19. The value of the provision is an estimate and the actual costs and timing of cash flows are dependent on future events. Any differences between expectations and the actual future liability are accounted for in the period when such determination is made.

***Dilapidation provisions***

The company holds a provision for dilapidations as disclosed in note 19. The value of the provision is an estimate and the actual costs and timing of cash flows are dependent on future events. Any differences between expectations and the actual future liability are accounted for in the period when such determination is made.

***Defined benefit pension valuation***

The company participates in a defined benefit pension scheme as disclosed in note 20. A pension valuation has been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions and judgments have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality.

***Artist advance provisions***

The company makes provisions against artist advances based on an assessment of the likelihood of recovering the balance through future artist royalties, which involves an element of estimation. The actual artist royalties may differ from these estimates.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**4. TURNOVER**

<b>Turnover by activity is as follows:</b>	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Product Sales	188,804	169,024
Royalties	155,522	147,419
	<u>344,326</u>	<u>316,443</u>

**Turnover by destination is as follows:**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	242,102	238,988
Rest of Europe	39,357	29,853
United States of America	40,747	31,418
Rest of World	22,120	16,184
	<u>344,326</u>	<u>316,443</u>

**5. OPERATING PROFIT**

**Operating profit is stated after charging/(crediting):**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation of owned fixed assets	603	660
Auditor's remuneration	205	167
Non audit fees	40	42
Cost of inventories recognised as an expense	13,669	11,897
Impairment of inventories	2,453	1,874
<b>Operating lease costs:</b>		
- Land and buildings	7,292	5,615
Net (gain)/loss on foreign currency translation	(408)	1,010
	<u></u>	<u></u>

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £117,000 (2016 - £176,750). Non audit fees of £40,000 (2016 - £42,000) were incurred relating to interim review reporting.

**6. PARTICULARS OF EMPLOYEES**

The company had no employees during the year ended 31 December 2017 (2016 - none).

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**7. DIRECTORS' REMUNERATION**

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

	2017 £'000	2016 £'000
Remuneration receivable	5,425	7,065
Value of company pension contributions to money purchase schemes	14	17
	<u>5,439</u>	<u>7,082</u>

Retirement benefits are accruing to two directors (2016 - two) under the Universal defined contribution section of the Universal Music Group Pension Scheme (UMGPS) and the Group Personal Pension (GPP) arrangement.

Two directors (2016 - five) were not members of any retirement benefit schemes.

The directors emoluments of two directors (2016 - 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 (2016 - 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.

**Remuneration of highest paid director:**

	2017 £'000	2016 £'000
Total remuneration (excluding pension contributions)	<u>4,113</u>	<u>5,819</u>

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £Nil (2016 - £Nil) together with a lump sum amounting to £Nil (2016 - £Nil).

None of the directors, including the highest paid director received share options under the group's long term incentive grant scheme (2016 - None). The amounts receivable by the directors under long term incentive schemes were £Nil (2016 - £Nil).

**8. INCOME FROM PARTICIPATING INTERESTS**

	2017 £'000	2016 £'000
Income from participating interests	<u>4,500</u>	<u>7,000</u>

**9. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2017 £'000	2016 £'000
Interest receivable from group undertakings	4,512	18,468
Other similar income receivable	556	1,489
	<u>5,068</u>	<u>19,957</u>

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**10. INTEREST PAYABLE AND SIMILAR CHARGES**

	2017 £'000	2016 £'000
Interest on pension obligation	3,400	4,000
Expected return on pension scheme assets	(3,800)	(4,400)
Interest payable to group undertakings	41,131	45,034
	<u>40,731</u>	<u>44,634</u>

**11. TAX ON LOSS**

**(a) Analysis of tax credit in the year**

	2017 £'000	2016 £'000
<b>Current tax:</b>		
<b>UK Taxation</b>		
In respect of the year		
Withholding tax	313	217
Adjustments in respect of previous years	678	(184)
Group relief receivable for losses surrendered to other group undertakings	(4,858)	(5,073)
Double taxation relief	(313)	(217)
Foreign tax on current income for the year	313	217
Total current tax	<u>(3,867)</u>	<u>(5,040)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(597)	2,050
Total deferred tax	<u>(597)</u>	<u>2,050</u>
Tax on loss on ordinary activities	<u>(4,464)</u>	<u>(2,990)</u>

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

**11. TAX ON LOSS (continued)**

**(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 19.25% (2016 - 20.00%).

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.

	2017 £'000	2016 £'000
Loss before taxation	<u>(20,564)</u>	<u>(16,713)</u>
Loss at the standard rate of UK Corporation tax of 19.25% (2016 - 20.00%)	(3,959)	(3,343)
Expenses not deductible for tax purposes	(1,355)	(1,384)
Adjustments in respect of previous periods	678	(184)
Double tax relief	(313)	(217)
Foreign tax suffered in the period	313	217
Impact of statutory rate change	(4)	55
Effect of movements in pension provision	176	1,866
Current tax credit for the financial year	<u>(4,464)</u>	<u>(2,990)</u>

**12. PROPERTY, PLANT & EQUIPMENT**

	Leasehold Improvements £'000	Plant & Machinery £'000	Assets under construction £'000	Total £'000
<b>COST</b>				
At 1 January 2017	9,521	3,755	-	13,276
Additions	-	130	19,141	19,271
<b>At 31 December 2017</b>	<u>9,521</u>	<u>3,885</u>	<u>19,141</u>	<u>32,547</u>
<b>DEPRECIATION</b>				
At 1 January 2017	9,021	3,618	-	12,639
Charge for the period	500	103	-	603
<b>At 31 December 2017</b>	<u>9,521</u>	<u>3,721</u>	<u>-</u>	<u>13,242</u>
<b>NET BOOK VALUE</b>				
<b>At 31 December 2017</b>	<u>-</u>	<u>164</u>	<u>19,141</u>	<u>19,305</u>
At 31 December 2016	<u>500</u>	<u>137</u>	<u>-</u>	<u>637</u>



**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

**13. INVESTMENTS**

	Shares in subsidiaries £'000	Def American Limited Partnership £'000	Total £'000
<b>COST</b>			
At 1 January 2017	17,582	23	17,605
Additions	15,741	-	15,741
<b>At 31 December 2017</b>	<b>33,323</b>	<b>23</b>	<b>33,346</b>
<b>PROVISION FOR IMPAIRMENT</b>			
At 1 January 2017 and at 31 December 2017	17,182	23	17,205
<b>NET BOOK VALUE</b>			
At 31 December 2017	16,141	-	16,141
At 31 December 2016	400	-	400

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

During the year the company acquired controlling stakes in the following subsidiaries for the additional consideration of £15,741,000:

- All Around The World Limited
- RG2016 Limited
- Stiff Records Limited
- ZTT Records Limited

At 31 December 2017, £2,475,000 of the consideration was deferred and is due to be paid in three equal instalments over the next three years.

**Subsidiary Undertakings**

The subsidiaries of Universal Music Operations Limited as at 31 December 2017 are set out below. All of the subsidiaries were registered in England & Wales and have a registered office address of 364 - 366 Kensington High Street, London W14 8NS.

Name	Shareholding type	%	Principal activity
Fiction Records Limited	Ordinary	100%	Dormant
Serious Records Ltd	Ordinary	100%	Dormant
Wolf Tone Limited	Ordinary	50.1%	Marketing and distribution of recorded music
Composed Technology International Limited	Ordinary	100%	Music streaming service
Naughty Records Limited	Ordinary	51%	Marketing and distribution of recorded music
The Wild Card Label Limited	Ordinary	51%	Dormant
Vice Versa Limited	Ordinary	100%	Dormant
Closer Recordings Limited	Ordinary	51%	Marketing and distribution of recorded music
RG2016 Limited	Ordinary	100%	Marketing and distribution of recorded music
Stiff Records Limited	Ordinary	100%	Marketing and distribution of recorded music
ZTT Records Limited	Ordinary	100%	Marketing and distribution of recorded music

**UNIVERSAL MUSIC OPERATIONS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**YEAR ENDED 31 DECEMBER 2017**

**14. INVENTORIES**

	2017 £'000	2016 £'000
Finished goods	2,663	2,936

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

**15. DEBTORS: Amounts due within one year**

	2017 £'000	2016 £'000
Trade debtors	22,366	23,851
Amounts owed by group undertakings	1,889,150	1,474,908
Corporation Tax	496	-
VAT recoverable	281	3,475
Other debtors	23,915	17,679
Prepayments	3,192	29,371
Accrued Income	69,645	26,339
Deferred taxation (note 18)	1,094	1,129
	<u>2,010,139</u>	<u>1,576,752</u>

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

- £560,000,000 (2016 - £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 2017 £11,855,000 (2016 - £14,766,681) included within other debtors relating to discounted advances due in more than 1 year.

**16. CREDITORS: Amounts falling due within one year**

	2017 £'000	2016 £'000
Bank loans and overdrafts	6,466	10,668
Trade creditors	136,433	127,508
Amounts owed to group undertakings	1,730,067	1,251,146
Other taxation and social security	3,242	2,927
Other creditors	15,068	9,227
Accruals	51,473	58,950
Deferred income	5,384	5,541
	<u>1,948,133</u>	<u>1,465,967</u>

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### YEAR ENDED 31 DECEMBER 2017

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

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

- £76,984,802 (2016 - £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.

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%.

#### 17. CREDITORS: Amounts falling due after more than one year

	2017 £'000	2016 £'000
Deferred consideration	1,650	-

#### 18. DEFERRED TAXATION

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

	2017 £'000	2016 £'000
Balance brought forward	(1,129)	(1,313)
Balance brought forward deferred tax on pension liability	(2,520)	(1,470)
Exclude deferred tax asset included in defined benefit pension scheme liability note	(340)	2,520
Charge to deferred taxation on defined benefit pension scheme movement in the year	2,860	(1,050)
Deferred taxation on ordinary activities account movement arising during the year	35	184
Balance carried forward	(1,094)	(1,129)

Deferred taxation consists of the tax effect of timing differences in respect of:

	2017 £'000	2016 £'000
Excess of depreciation over taxation allowances	(716)	(754)
Other timing differences	(378)	(375)
	(1,094)	(1,129)

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

	2017 £'000	2016 £'000
Included in debtors (note 15)	1,094	1,129
Included in defined benefit pension scheme liability (note 20)	340	(2,520)

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**19. PROVISIONS FOR LIABILITIES AND CHARGES**

	Artist Royalties £'000	Other Provisions £'000	Total £'000
At 1 January 2017	17,562	5,000	22,562
Statement of comprehensive income movement arising during the year	2,437	1,903	4,340
<b>At 31 December 2017</b>	<b>19,999</b>	<b>6,903</b>	<b>26,902</b>

Provision is made against the outcome of artist royalty audits ongoing at the reporting date, and against additional artist royalty obligations anticipated by management at the reporting 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, until such time as a formal audit notification is received, the liability is not expected to crystallise within 12 months of the reporting date and is therefore classified as a non current provision.

Other provisions includes property dilapidations, restructuring provisions and other employee related provisions. At present the timing of when these liabilities will crystallise is not certain.

**20. 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.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### YEAR ENDED 31 DECEMBER 2017

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#### 20. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

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 Scheme completed two significant exercises during 2017 as noted below:

- An enhanced transfer value exercise that reduced the assets and liabilities with the difference being recognised in the pensions charge for 2017.
- An insured buy-in whereby the majority of the liabilities for remaining members were fully secured. This resulted in an asset loss equal to the excess of the purchase price over the liability measured on the accounting basis which has been recognised in the charge to other comprehensive income in 2017.

The results of the 5 April 2015 valuation have been updated to 31 December 2017 for FRS 102 purposes. Over the reporting year 2017, the valuation update showed that the surplus decreased from £7.2 million to a deficit of £2 million. The updated valuation at 31 December 2017 showed the market value of the assets in the defined benefit section was £113.6 million and that the liabilities were £115.6 million.

The company's total contributions amounted to £8,100,000 for the year ended 31 December 2017 (2016: £7,800,000).

#### Movements in the present value of defined benefit obligation:

	2017 £'000	2016 £'000
Defined benefit obligation at end of prior year	145,600	110,200
Costs (excluding interest):		
Loss on settlements	3,800	-
Interest expense	3,400	4,000
Cash flows:		
Benefit payment from plan assets	(2,200)	(5,300)
Settlement payments from plan assets	(38,500)	-
Remeasurements:		
Effect of changes in assumptions	3,500	34,800
Effect of experience adjustments	-	1,900
Defined benefit obligation at end of year	<u>115,600</u>	<u>145,600</u>

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**20. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)**

**Movements in the present value of fair value of plan assets:**

	2017 £'000	2016 £'000
Fair value of plan assets at end of prior year	152,800	114,400
Interest income	3,800	4,400
Cash flows:		
Total employer contribution	8,100	7,800
Benefit payments from plan assets	(2,200)	(5,300)
Settlement payments from plan assets	(38,500)	-
Administrative expenses paid from plan assets	(800)	(400)
Remeasurements		
Return on plan assets (excluding interest income)	(9,600)	31,900
Fair value of plan assets at end of year	<u>113,600</u>	<u>152,800</u>

**Amounts recognised in the statement of financial position:**

	2017 £'000	2016 £'000
Defined benefit obligation	115,600	145,600
Fair value of plan assets	(113,600)	(152,800)
Net defined benefit liability/(asset)	<u>2,000</u>	<u>(7,200)</u>
Closing deferred tax balance	(340)	2,520
Net defined benefit liability/(asset) after taxation	<u>1,660</u>	<u>(4,680)</u>

**Defined benefit obligation:**

	2017 £'000	2016 £'000
Defined benefit obligation by participant status		
Actives	20,000	21,500
Vested deferred	54,300	89,400
Retirees	41,300	34,700
<b>Total</b>	<u>115,600</u>	<u>145,600</u>

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2017

### 20. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

Amounts recognised in profit and loss in respect to defined benefit plans:

	2017 £'000	2016 £'000
Costs (excluding interest):		
Loss on settlements	3,800	-
<b>Total costs (excluding interest)</b>	<b>3,800</b>	<b>-</b>
Current service costs:		
Interest expense on DBO	3,400	4,000
Interest income on plan assets	(3,800)	(4,400)
<b>Total net interest cost</b>	<b>(400)</b>	<b>(400)</b>
Administrative expenses and/or taxes (not reserved within DBO)	800	400
<b>Cost relating to defined benefit plans included in statement of comprehensive income</b>	<b>4,200</b>	<b>-</b>
Remeasurements (recognised in other comprehensive loss):		
Effect of change in assumptions	3,500	34,800
Effect of experience adjustments	-	1,900
Return on plan assets (excluding interest income)	9,600	(31,900)
<b>Total remeasurements included in other comprehensive loss</b>	<b>13,100</b>	<b>4,800</b>
Total taxation included in statement of total comprehensive income	(2,227)	(816)
<b>Total cost related benefit plans recognised in the total statement of comprehensive income</b>	<b>10,873</b>	<b>3,984</b>

Analysis of the scheme assets at the reporting date:

	2017 £'000	2016 £'000
Fair value of plan assets:		
Cash and cash equivalents	700	7,000
Debt instruments	-	123,600
Other	112,900	22,200
<b>Total</b>	<b>113,600</b>	<b>152,800</b>
Actual return on plan assets	(5,800)	36,300

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2017

### 20. PENSIONS AND OTHER POST RETIREMENT BENEFITS (continued)

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

	2017 %	2016 %
Discount rate:	2.50	2.62
Salary increase rate	3.50	3.50
Deferred pension increase rate	2.50	2.50
Pensions-in-payment increase rate	3.50	3.50
Price inflation rate	3.50	3.50

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

	2017 %	2016 %
Discount rate:	2.62	3.75
Salary increase rate	3.50	3.75
Deferred pension increase rate	2.50	2.75
Pensions-in-payment increase rate	3.50	3.50
Price inflation 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
4,100	4,300	4,400	4,600	4,700	26,300

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 amount per annum, plus the cost of administration expenses and death in service insurance premiums. The company's share of this amounted to £8,100,000 in 2017 (2016 - £7,800,000). The company expects to contribute £2,300,000 in 2018.



**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**21. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 2017 the company had annual commitments under non-cancellable operating leases as set out below.

	<b>Land and buildings</b>	
	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases which expire:		
Within 1 year	<b>2,657</b>	3,357
Between 1 and 5 years	<b>3,916</b>	5,037
After 5 years	<b>184,748</b>	801
	<b>191,321</b>	<b>9,195</b>

On 26 June 2017 the company signed new lease agreements in respect of a new property in Kings Cross, London. The leases run for a period of 15 years, with payments commencing on 26 March 2019. This has caused the increase in operating lease commitments above.

**22. RELATED PARTY TRANSACTIONS**

The company has intercompany balances or transactions with the following related parties, which are not wholly owned group companies:

Amounts due from Naughty Records Limited of £2,015,000 (2016 - £1,447,000). The company provides administrative services and during the year collected and remitted revenue of £477,000 (2016 - £316,000) to Naughty Records Limited. For those administrative services the company charged a distribution fee of £19,000 (2016 - £30,000).

Amounts due from Closer Recordings Limited of £554,000 (2016 - nil). The company provides administrative services and during the year collected and remitted revenue of £6,000 (2016 - nil) to Closer Recordings Limited. For those administrative services the company charged a distribution fee of £1,000 (2016 - nil).

Following are intercompany balances with related parties, which had no transactions in the current or prior year:

Amounts due from Mother Records Limited of £355,000 (2016 - £355,000).

Amounts due from Future Records Limited of £5,324,000 (2016 - £5,422,000); and

Amounts due from Global Talent Music Recordings Limited of £265,000 (2016 - £1,221,000).

**23. ARTIST ADVANCE COMMITMENTS**

At 31 December 2017 the company had contractual commitments in respect of artist advances of £34,864,324 (2016 - £35,299,000), of which £9,426,062 (2016 - £20,336,000) relate to the next financial year.

**24. CAPITAL COMMITMENTS**

At 31 December 2017 the company had contractual commitments in respect of capital of £26,100,000 (2016 - £Nil). The contractual commitments relate to a new property in Kings Cross, London as disclosed in note 21.

**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**YEAR ENDED 31 DECEMBER 2017**

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**25. POST BALANCE SHEET EVENT**

Subsequent to the reporting date an agreement has been signed which transfers to the company the economic interest in the assets of Caroline Music International Limited and Tanglade Limited, fellow Universal Music Group Companies. The agreement is affective from 1 January 2018. The impact of this will be to increase overall trading performance in the company in future years.

**26. SHARE CAPITAL AND RESERVES**

Allotted, called up and fully paid:

	2017 No	£'000	2016 No	£'000
Ordinary shares of £1 each	<u>15,000</u>	<u>15</u>	<u>15,000</u>	<u>15</u>

The company has one class of ordinary shares which have attached to them full voting, dividend and capital distribution (including on winding up) rights.

The profit and loss reserve reflects cumulative profits or losses, net of dividends and other adjustments.

**27. ULTIMATE PARENT COMPANY**

The immediate parent undertaking is Universal Music Leisure Limited. The ultimate parent undertaking and controlling party as at 31 December 2017 was Bolloré Group.

The smallest group in which the results of the company are consolidated is that headed by Vivendi SA, a company incorporated in France. Copies of its annual report in English may be obtained from its registered office at:

42 Avenue de Friedland  
75380 Paris  
Cedex 08  
France

The largest group in which the results of the company are consolidated is that headed by Bolloré Group, a company incorporated in France. Copies of its annual report in English may be obtained from its registered office at:

Tour Bolloré  
31-32 quai de Dion Bouton  
92 811 Puteaux  
France