

**Universal Music Operations Limited**  
**(Registered Number: 950138)**

**Directors' Report and Financial Statements**  
**for the year ended 31 December 2002**



# **Universal Music Operations Limited**

## **Directors' Report for the year ended 31 December 2002**

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

### **Principal activity**

The company's principal activity during the year was to distribute and market gramophone records and music cassettes together with compact discs and videos. The company expects this activity to continue for the forthcoming year.

### **Business review**

The results of the company for the year ended 31 December 2002 are set out on page 5 of the financial statements. These are in line with the expectations of the directors.

### **Results and dividends**

The company's profit after tax for the year was £40,175,000 (year ended 31 December 2001: £26,635,000).

The directors recommended an interim preference dividend of £2,442,485 (year ended 31 December 2001: £nil) paid on 28 June 2002 and a final preference dividend of £3,340,485 (year ended 31 December 2001: £nil) paid on 30 December 2002. The directors do not recommend the payment of a dividend on the ordinary shares in issue (year ended 31 December 2001: £nil). The retained profit for the year has been transferred to reserves.

### **Directors and their interests**

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

TC Fisher	
Universal Music UK Ltd	
PD Thompson	
LC Grainge	
MJ Swatton	(appointed 1 May 2002)
RM Constant	(appointed 23 December 2002)
MN Henny	(appointed 23 December 2002)
G Castell	(appointed 6 March 2003)
DT Bryant	(appointed 1 August 2003)

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

No director exercised share options during the year ended 31 December 2002 (year ended 31 December 2001: nil).

# **Universal Music Operations Limited**

## **Directors' Report for the year ended 31 December 2002** (continued)

### **Disabled employees**

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

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

### **Employee involvement**

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

### **Charitable and political donations**

During the year the company made charitable donations of £4,073,373 (year ended 31 December 2001: £20,000). The company made no political donations in either period.

### **Elective resolutions**

An elective resolution under Section 379A of the Companies Act 1985 has been in place since 29 November 1990, dispensing with the following provisions:

- the laying of the annual report and financial statements before the company in general meeting;
- the holding of an annual general meeting; and
- the requirement to reappoint annually the registered auditors of the company in general meeting.

The provisions of this elective resolution will apply for subsequent years until the election is revoked.

# **Universal Music Operations Limited**

**Directors' Report for the year ended 31 December 2002** (continued)

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 7 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Auditors**

After completing the 31 December 2001 audit, Deloitte & Touche resigned as auditors on 21 July 2003 and the directors appointed PricewaterhouseCoopers LLP.

By Order of the Board



PD Thompson  
Director

1 Sussex Place  
London  
W6 9XS

31 March 2004

## **Universal Music Operations Limited**

### **Independent auditors' report to the members of Universal Music Operations Limited**

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

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
31 March 2004

# Universal Music Operations Limited

## Profit and loss account for the year ended 31 December 2002

	<i>Note</i>	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Turnover	2	294,804	310,174
Cost of sales		(195,962)	(212,417)
<b>Gross profit</b>		<b>98,842</b>	<b>97,757</b>
Distribution costs		(19,487)	(20,502)
Administrative expenses		(58,068)	(52,327)
<b>Operating profit</b>		<b>21,287</b>	<b>24,928</b>
Interest receivable and similar income	6	18,207	12,347
Amounts written off investments	3	(2,950)	(23)
Interest payable and similar charges	7	(190)	(584)
<b>Profit on ordinary activities before taxation</b>	3	<b>36,354</b>	<b>36,668</b>
Tax credit / (charge) on profit on ordinary activities	8	3,821	(10,033)
<b>Profit for the financial year</b>		<b>40,175</b>	<b>26,635</b>
Dividends	9	(5,783)	-
<b>Profit on ordinary activities after taxation and retained profit for the financial year</b>	18	<b>34,392</b>	<b>26,635</b>

The company's results were entirely from continuing operations.

The company has no material recognised gains and losses other than the profit reported above and therefore no separate statement of total recognised gains and losses has not been presented.

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

# Universal Music Operations Limited

## Balance sheet as at 31 December 2002

	Note	31 December 2002 £'000	31 December 2001 £'000
<b>Fixed assets</b>			
Tangible assets	10	21,130	20,510
Investments	11	1,624	4,574
		<b>22,754</b>	<b>25,084</b>
<b>Current assets</b>			
Stocks	12	1,109	2,244
Debtors	13	694,511	512,278
Cash at bank and in hand		17,373	22,462
		<b>712,993</b>	<b>536,984</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(500,264)</b>	<b>(498,350)</b>
<b>Net current assets</b>		<b>212,729</b>	<b>38,634</b>
<b>Total assets less current liabilities</b>		<b>235,483</b>	<b>63,718</b>
<b>Creditors: amounts falling due after one year</b>	15	<b>(719)</b>	<b>(649)</b>
<b>Provisions for liabilities and charges</b>	16	<b>(2,628)</b>	<b>(1,325)</b>
<b>Net assets</b>		<b>232,136</b>	<b>61,744</b>
<b>Capital and reserves</b>			
Called-up share capital	17	17	15
Share premium account	18	135,998	-
Profit and loss account	18	96,121	61,729
<b>Total shareholders' funds</b>	18	<b>232,136</b>	<b>61,744</b>
<b>Analysis of shareholders' funds</b>			
Equity shareholders' funds		<b>96,136</b>	<b>61,744</b>
Non-equity shareholders' funds	17	<b>136,000</b>	<b>-</b>
<b>Total shareholders' funds</b>	18	<b>232,136</b>	<b>61,744</b>

The financial statements on pages 5 to 21 were approved by the board of directors on 31 March 2004 and were signed on its behalf by:



PD Thompson  
Director

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 1 Accounting policies

#### a) Basis of preparation

These financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

##### *Cashflow statement and related party disclosures*

The company is a subsidiary of Vivendi Universal S.A. and is included in the consolidated financial statements of the group, which are publicly available. Consequently, the company has taken advantage of the exemption in FRS 1 from preparing a cash flow statement and the exemption of FRS 8 from disclosing transactions with entities that are part of the Vivendi Universal S.A group or investees of that group.

As the immediate parent undertaking is incorporated within the European Union, the company has taken advantage of the exemption under Section 228 of the Companies Act 1985 from preparing consolidated financial statements.

In preparing the financial statements, the company has implemented Financial Reporting Standard 19 'Deferred Taxation'. This has resulted in a change in accounting policy in relation to deferred taxation. Further details are given below.

#### b) Tangible fixed assets

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

Rates of depreciation are:

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

#### c) Investments

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

#### d) Turnover

Turnover represents the invoiced value of services excluding value added tax. Turnover is attributable to one activity, recorded music.



# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 1 Accounting policies (continued)

#### e) Royalties and advances

United Kingdom royalty income is credited to the profit and loss account on a receipts basis. Royalties payable are charged against the relevant income of the same period. Overseas royalty income, which is all collected on behalf of the company by other group undertakings, is credited to the profit and loss account in the period overseas sales are reported to the company.

Advances to unproven artists are written down in full and income is recognised only in the period advances are actually recouped. Advances to other artists are written down to the estimated amount that will be recoverable from future royalty receipts. Net advances to artists are classified within debtors although advances may be recoverable after more than one year.

#### f) Stock

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

#### g) Lease commitments

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

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

#### h) Deferred taxation – change in accounting policy

In preparing the financial statements, the company has implemented Financial Reporting Standard 19 'Deferred Taxation'. This has resulted in a change in accounting policy in relation to deferred taxation. However the adoption of FRS 19 has not required any revisions to the profit for the current year, the profit for the previous year, nor the net assets as at 31 December 2001.

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and loss and its results as stated in the financial statements. No deferred tax is recognised on permanent differences.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on tax rates and law that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 1 Accounting policies (continued)

#### i) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. All differences are taken to the profit and loss account.

#### j) Pension and other retirement benefits

The company contributes to a group pension Scheme operated by Vivendi Universal S.A. Contributions and pension costs are based on pension costs across the group as a whole. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employee's services. The effects of variations from regular costs are spread over the expected remaining working lifetime of members of the Scheme after making suitable allowances for future withdrawals.

### 2 Turnover

Turnover by destination is as follows:

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
United Kingdom	264,851	275,896
Europe	14,814	17,229
United States of America	8,537	9,525
Other	6,602	7,524
	<hr/> 294,804	<hr/> 310,174

Turnover by source is exclusively derived in the United Kingdom.

## Universal Music Operations Limited

### Notes to the financial statements for the year ended 31 December 2002 (continued)

#### 3 Profit on ordinary activities before taxation

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation on tangible fixed assets:		
owned	3,583	2,554
leased	1,154	696
Profit on disposal of tangible fixed assets	(182)	(109)
Exchange losses	57	762
Operating lease charges:		
plant and machinery	1,108	496
other	-	1,118
Amounts written off investments	2,950	23
<b>Auditors' remuneration:</b>		
Audit services – current auditors	250	277

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £150,000 (year ended 31 December 2001: £158,000).

Amounts payable to the auditors by the company in respect of non-audit services were £nil (year ended 31 December 2001: £nil).

#### Amounts written off investments

For the year ended 31 December 2002 an impairment was booked against the carrying value of investment in Fiction Records Limited.

#### 4 Directors' emoluments

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Emoluments	1,629	3,266
Company contributions to defined benefit schemes	58	102
Company contributions to money purchase benefit schemes	1	-
	<b>1,688</b>	<b>3,368</b>

The emoluments of the highest paid director excluding pensions contributions were £797,182 (year ended 31 December 2001: £2,042,499).

Retirement benefits are accruing to five directors (year ended 31 December 2001: three) under a defined benefit scheme. The accumulated retirement benefits accruing to the highest paid director were £165,018 (year ended 31 December 2001: £139,676).

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 4 Directors' emoluments (continued)

Retirement benefits are accruing to one director (year period ended 31 December 2001: nil) under a money purchase benefit scheme.

The gains on exercise of share options were £nil (year period ended 31 December 2001: £nil) and the amounts receivable to the directors under long term incentive schemes were £nil (year ended 31 December 2001: £nil).

### 5 Employee information

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

	Year ended 31 December 2002 No.	Year ended 31 December 2001 No.
Commercial and administrative	751	702

Their aggregate remuneration comprised:

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Wages and salaries	28,224	25,734
Social security costs	2,722	2,592
Other pension costs	948	1,310
<b>Staff costs</b>	<b>31,894</b>	<b>29,636</b>

### 6 Interest receivable and similar income

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Interest receivable from banks and other interest receivable	313	332
Interest receivable from group companies	17,894	12,015
	<b>18,207</b>	<b>12,347</b>

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 7 Interest payable and similar charges

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Interest payable on finance leases	97	99
Interest payable on bank overdraft & other interest payable	93	63
Interest payable on other loans to group companies	-	422
	<b>190</b>	<b>584</b>

### 8 Tax on profit on ordinary activities

#### (a) Analysis of (credit)/charge in period

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
<b>Current tax</b>		
UK corporation tax at 30% (31 December 2001: 30%)	10,790	13,183
Adjustments in respect of previous periods		
UK corporation taxation	(285)	(4,816)
Group relief	(15,738)	3,171
Foreign taxation suffered at source	760	-
Double taxation relief claim	(651)	-
<b>Total current taxation (see (b) below)</b>	<b>(5,124)</b>	<b>11,538</b>
Deferred taxation for the period	(331)	(3,793)
Adjustments in respect of previous periods	1,634	2,288
<b>Deferred taxation charge / (credit) (see Note 16)</b>	<b>1,303</b>	<b>(1,505)</b>
<b>Total taxation charge/(credit)</b>	<b>(3,821)</b>	<b>10,033</b>

Adjustments in respect of previous periods primarily relate to write off of prior year group relief, due to a group management decision to not pay for these losses.

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 8 Tax on profit on ordinary activities (continued)

#### (b) Factors affecting tax (credit)/charge for the period

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
<b>Profit on ordinary activities before tax</b>	<b>36,354</b>	<b>36,668</b>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (year ended 31 December 2001: 30%)	10,906	11,000
<b>Effects of:</b>		
Expenses not deductible for tax purposes	403	496
Appropriations deductible for tax purposes		
- Preference dividends recharacterised as interest costs	(1,735)	-
Adjustments to tax charge in respect of prior periods		
UK corporation taxation	(285)	(4,816)
Group relief	(15,738)	3,171
<i>Movement in timing differences</i>	<b>331</b>	<b>3,793</b>
Higher tax rates on overseas earnings	109	-
Amounts written off investments not deductible for tax purposes	885	7
Losses surrendered and utilised for no consideration	-	(2,113)
<b>Total current tax (credit)/charge</b>	<b>(5,124)</b>	<b>11,538</b>

### 9 Dividends

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
<b>Non-equity: Preference</b>		
Interim preference dividend paid £1,195 per £1 share	2,443	-
Final preference dividend paid £1,633 per £1 share	3,340	-
	<b>5,783</b>	<b>-</b>

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 10 Tangible fixed assets

	Land and Buildings £'000	Plant and Equipment £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>				
At 1 January 2002	13,164	16,956	1,701	31,821
Additions	1,405	3,426	610	5,441
Transfers from group undertakings	-	-	90	90
Transfers to group undertakings	-	-	(118)	(118)
Disposals	-	(108)	(505)	(613)
<b>At 31 December 2002</b>	<b>14,569</b>	<b>20,274</b>	<b>1,778</b>	<b>36,621</b>
<b>Depreciation</b>				
At 1 January 2002	2,141	8,342	828	11,311
Charge for year	738	3,624	375	4,737
Transfers from group undertakings	-	-	48	48
Transfers to group undertakings	-	-	(56)	(56)
Disposals	-	(108)	(441)	(549)
<b>At 31 December 2002</b>	<b>2,879</b>	<b>11,858</b>	<b>754</b>	<b>15,491</b>
<b>Net book value</b>				
<b>At 31 December 2002</b>	<b>11,690</b>	<b>8,416</b>	<b>1,024</b>	<b>21,130</b>
At 31 December 2001	11,023	8,614	873	20,510

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
<b>The net book value of land and buildings comprises:</b>		
Freehold	9,282	9,589
Short leaseholds	2,408	1,434
	<b>11,690</b>	<b>11,023</b>

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
<b>Assets held under finance leases and capitalised in plant and machinery</b>		
Cost	1,688	2,703
Aggregate depreciation	(662)	(1,523)
<b>Net book value</b>	<b>1,026</b>	<b>1,180</b>

## Universal Music Operations Limited

### Notes to the financial statements for the year ended 31 December 2002 (continued)

#### 11 Fixed asset investments

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
<b>Cost</b>			
At 1 January 2002	4,574	23	4,597
<b>At 31 December 2002</b>	<b>4,574</b>	<b>23</b>	<b>4,597</b>
<b>Provision for impairment:</b>			
At 1 January 2002	-	(23)	(23)
Charge for the year (see note 3)	(2,950)	-	(2,950)
<b>At 31 December 2002</b>	<b>(2,950)</b>	<b>(23)</b>	<b>(2,973)</b>
<b>Net book value</b>			
At 31 December 2002	1,624	-	1,624
At 31 December 2001	4,574	-	4,574

The company's investment in a Limited Partnership represents a 50% share in Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom. The aggregate investment in associated undertakings and in the limited partnership under equity accounting at 31 December 2002 is £nil (31 December 2001: £nil).

#### Subsidiary undertakings

The group has the following investments in subsidiary undertakings:

Name	Country of registration	Ordinary share holdings	Nature of business
Attitude Records Limited	England and Wales	100%	Licensing and distributing of recorded music
Fiction Records Limited	England and Wales	100%	Licensing and distributing of recorded music
Serious Records Limited	England and Wales	50%	Licensing and distributing of recorded music

All companies are directly owned. The company acquired the remaining 50% interest in Serious Records Limited on 1 August 2003 and subsequently now owns 100% of its issued share capital.

#### 12 Stocks

	31 December 2002 £'000	31 December 2001 £'000
Finished goods and goods for resale	1,109	2,244

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.



## Universal Music Operations Limited

### Notes to the financial statements for the year ended 31 December 2002 (continued)

#### 13 Debtors

	31 December 2002 £'000	31 December 2001 £'000
Trade debtors	168,396	147,072
Amounts due from group undertakings:		
Overseas group undertakings	122,875	12,120
UK group undertakings	392,986	334,031
UK corporation tax	2,412	3,412
Other debtors	4,779	12,591
Prepayments and accrued income	3,063	3,052
	<b>694,511</b>	<b>512,278</b>

Included within trade debtors are advances to artists of £24,975,000 (31 December 2001: £24,679,000). Amounts owed by group undertakings are unsecured and repayable on demand.

Included within amounts due from United Kingdom group undertakings is an amount of £203,558,000 (31 December 2001: £200,249,000) in respect of an intercompany loan with a fellow group undertaking, Universal Music Leisure Limited. Interest accrues on the loan at the rate of 6% (year ended 31 December 2001: 6%). The loan is unsecured and repayable on demand. All other amounts due from group undertakings are unsecured, interest free and repayable on demand.

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

	31 December 2002 £'000	31 December 2001 £'000
Obligations under finance leases	426	594
Trade creditors	109,444	93,327
Amounts owed to group undertakings:		
UK group undertakings	305,101	329,801
Corporation tax	27,913	18,059
Other taxation and social security	19,400	11,908
Other creditors	9,408	14,819
Accruals and deferred income	28,572	29,842
	<b>500,264</b>	<b>498,350</b>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 15 Creditors: amounts falling due after one year

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Finance leases (see note 19)	719	649

### 16 Provisions for liabilities and charges

#### Deferred tax liability:

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Liability at the start of period	(1,325)	(2,830)
(Charge)/Credit for the year (see note 8(a))	(1,303)	1,505
<b>Liability at the end of the period</b>	<b>(2,628)</b>	<b>(1,325)</b>

#### The following deferred tax liabilities have been provided:

	Year ended 31 December 2002			Year ended 31 December 2001		
	Provided £000	Not Provided £000	Total £000	Provided £000	Not Provided £000	Total £000
Accelerated capital allowances	(379)	-	(379)	(422)	-	(422)
Other short term timing differences	(2,249)	-	(2,249)	(903)	-	(903)
	<b>(2,628)</b>	<b>-</b>	<b>(2,628)</b>	<b>(1,325)</b>	<b>-</b>	<b>(1,325)</b>

# Universal Music Operations Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 17 Called-up share capital

	31 December 2002 £'000	31 December 2001 £'000
<b>Authorised:</b>		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	-
	<b>17</b>	<b>15</b>
<b>Allotted, called-up and fully paid:</b>		
15,000 ordinary shares of £1 each	15	15
2,045 4.82% non-redeemable preference shares of £1 each	2	-
	<b>17</b>	<b>15</b>

The non-equity shareholders' funds relate entirely to the 4.8% non-redeemable preference shares. On 12 February 2002 the company issued 2,045 fixed rate non-redeemable preference shares of £1 each to Centenary UK Limited, a fellow group undertaking, for £136,000,000. The shares carry the right to preferential dividends at the rate of 4.82% of the amount paid up (including the premium). The shares carry the following rights and obligations:

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

## Universal Music Operations Limited

### Notes to the financial statements for the year ended 31 December 2002 (continued)

#### 18 Reconciliation of movements in shareholders' funds

	Share Capital £'000	Share Premium £'000	Profit and Loss account £'000	Total shareholders' funds £'000
At 1 January 2001	15	-	35,094	35,109
Retained profit for the year	-	-	26,635	26,635
At 1 January 2002	15	-	61,729	61,744
Issue of preference share capital (note 17)	2	135,998	-	136,000
Retained profit for the year	-	-	34,392	34,392
<b>At 31 December 2002</b>	<b>17</b>	<b>135,998</b>	<b>96,121</b>	<b>232,136</b>

#### 19 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	31 December 2002		31 December 2001	
	Land and Buildings	Other	Land and Buildings Restated	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	-	28	-	326
In the second to fifth years inclusive	159	21	-	28
Over five years	1,469	-	1,628	-
	<b>1,628</b>	<b>49</b>	<b>1,628</b>	<b>354</b>

Future commitments under non-cancellable finance leases are as follows:

	31 December 2002 Plant & Equipment £'000	31 December 2001 Plant & Equipment £'000
Gross lease rentals outstanding	1,342	1,396
Less: Finance charges outstanding	(197)	(153)
<b>Net obligations</b>	<b>1,145</b>	<b>1,243</b>
Due between one and two years	303	360
Due between two and five years	416	289
After five years	-	-
On demand or within one year	426	594
<b>Net obligations</b>	<b>1,145</b>	<b>1,243</b>

## **Universal Music Operations Limited**

### **Notes to the financial statements for the year ended 31 December 2002 (continued)**

#### **20 Pension scheme arrangements**

Vivendi Universal S.A ("the group") operates the Vivendi Universal Pension Scheme ("the Scheme"), formerly known as the Seagram Distillers plc pension Scheme in the United Kingdom designed to provide retirement benefits for the majority of its employees. The Scheme is independent of the group and is trustee administered. The Scheme has been approved by the Inland Revenue for taxation purposes.

The Scheme is a mixed defined benefit and defined contribution Scheme and operates on a pre-funded basis. The defined benefit membership of the Scheme is split into two separate sections: the Seagram Wines and Spirits Group (SWSG) section and the Universal section.

The Scheme is a multi-employer Scheme, and hence the actuarial valuation relates to the Scheme as a whole, not solely to Universal Music Operations Limited.

Valuations are carried out on a triennial basis. The most recent valuation was undertaken by the independent actuaries, William M. Mercer as at 6 April 2001.

The pension cost for the Scheme has been assessed using the projected unit basis, with surpluses or deficits experienced being spread over the average remaining working lives of the members, at a constant percentage of payroll costs. Assets were valued based on their market value.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return of investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6.5% per annum (7.0% at 2001), that salary increases would average 4.0% pa (4.0% at 2001) (including an allowance for age related and merit increases) and that present and future pension increases would be 2.5% per annum (2.5% at 2001).

At 6 April 2001 the market value of the assets for the Universal Final Salary section was £40,930,000 which was sufficient to cover 136% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following the results of this valuation, the Trustees agreed to remove the pensionable salary offset for active members on 1 January 2002. This had the effect of reducing the asset coverage to 129% of accrued benefits at 6 April 2001.

The long term contribution rates revealed by the valuation were 9.3% for the company, and 6% for employees. In view of the surplus in the section, the company contributions were suspended from 1 January 2002 until 31 July 2002 and resumed from 1 August 2002 at a rate of 12.8%.

For the year ended 31 December 2002 the total pension cost for the company was £948,000 (year ended 31 December 2001: £1,310,000). At 31 December 2002 there were no accrued or prepaid pension costs (31 December 2001: £nil).

The company has no significant exposure to any other post-retirement benefits obligations.

## **Universal Music Operations Limited**

### **Notes to the financial statements for the year ended 31 December 2002 (continued)**

#### **20 Pension scheme arrangements (continued)**

##### **FRS 17 Disclosures**

The Group has not yet adopted FRS17, however it has complied with the disclosure requirements of the transitional provisions of the standard. The FRS 17 disclosures are as follows:

Vivendi Universal S.A ("the group") operates the Vivendi Universal Pension Scheme ("the Scheme"), formerly known as the Seagram Distillers plc pension Scheme in the United Kingdom. The Scheme is a mixed defined benefit and defined contribution Scheme. The contributions paid by the Company are accounted as if the Scheme were a defined contribution Scheme, as the company is unable to identify its share of the underlying assets and liabilities in the Scheme.

An FRS 17 valuation of the Scheme was undertaken on 31 December 2002 and a deficit of (£52.0) million was identified.

#### **21 Ultimate controlling party**

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

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

## **Universal Music Operations Limited**

### **Notes to the financial statements for the year ended 31 December 2002 (continued)**

#### **20 Pension scheme arrangements (continued)**

##### **FRS 17 Disclosures**

The Group has not yet adopted FRS17, however it has complied with the disclosure requirements of the transitional provisions of the standard. The FRS 17 disclosures are as follows:

Vivendi Universal S.A ("the group") operates the Vivendi Universal Pension Scheme ("the Scheme"), formerly known as the Seagram Distillers plc pension Scheme in the United Kingdom. The Scheme is a mixed defined benefit and defined contribution Scheme. The contributions paid by the Company are accounted as if the Scheme were a defined contribution Scheme, as the company is unable to identify its share of the underlying assets and liabilities in the Scheme.

An FRS 17 valuation of the Scheme was undertaken on 31 December 2002 and a deficit of (£52.0) million was identified.

#### **21 Ultimate controlling party**

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