V2 Records International Limited

(Registered Number: 03201180)

Directors' Report and Financial Statements for the year ended 31 December 2008

V2 Records International Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activity

The company's principal activity during the year was the licensing and sale of phonographic recordings to territories where there is no V2 affiliate and International tour support. This is a change from the prior year where the principal activity was distribution.

Business review

The result and position of the company as at and for the year ended 31 December 2008 are set out in the profit and loss account and balance sheet on pages 5 and 6 respectively. The results and position of the company were in line with directors' expectations. Turnover increased to £8,235,000 (2007: £541,000) and operating loss decreased by 82% compared to the prior year due the increased activity.

Results and dividends

The company's loss after taxation for the year was £142,000 (2007: £1,049,000). The directors do not recommend the payment of a dividend (2007: £nil).

Principal risks and uncertainties

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

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

Directors

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

A D Harlow
RM Constant
BJ Muir

Directors' qualifying third party indemnity provisions

A qualifying third party indemnity provision remains in force as at the date of approving the directors' report, subject to the provisions of s236 CA 2007. Vivendi SA, the ultimate parent undertaking, maintains a Directors & Officers Liability Programme which indemnifies directors' personal liabilities resulting from alleged wrongful acts committed in the line of their employment.

Elective resolutions

On 29 November 1990, an elective resolution under Section 379A of the Companies Act 1985 was passed in respect of dispensing with the following provisions:

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

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

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2008 and that applicable accounting standards have been followed.

V2 Records International Limited

Directors' report

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.

At the date of approving this report, so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors confirm that they have taken all necessary steps, as directors, to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information.

By order of the Board

A Abioye
Company Secretary

364-366 Kensington High Street
London
W14 8NS

31 March 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF V2 RECORDS INTERNATIONAL LIMITED

We have audited the company's financial statements for the year ended 31 December 2008 which comprise of the Profit and Loss Account, the Balance Sheet and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

31 March 2009

V2 Records International Limited

Profit and loss account for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £'000	9 months ended 31 December 2007 £'000
Turnover	*2*	8,235	541
Cost of sales		(5,418)	(425)
Gross profit		2,817	116
Administrative expenses		(3,008)	(1,199)
Operating loss	*3*	(191)	(1,083)
Loss on ordinary activities before taxation		(191)	(1,083)
Tax on profit on ordinary activities	*6*	49	34
Loss on ordinary activities after taxation and retained loss for the year	*10*	(142)	(1,049)

The results are derived entirely from continuing operations.

The company has no recognised gains and losses in either period other than those as reported above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period as stated above and their historical cost equivalents.

V2 Records International Limited

Balance Sheet as at 31 December 2008

	Note	31 December 2008	31 December 2007
		£'000	£'000
Current assets			
Debtors	7	**4,134**	5,243
Inventory		**351**	-
		4,485	5,243
Creditors: amounts falling due within one year	8	**(12,872)**	(13,488)
Net current liabilities		**(8,387)**	(8,245)
Total assets less current liabilities and net liabilities		**(8,387)**	(8,245)
Capital and reserves			
Called-up share capital	9	**-**	-
Profit and loss account	10	**(8,387)**	(8,245)
Equity shareholders' deficit	10	**(8,387)**	(8,245)

The financial statements on pages 5 to 12 were approved and authorised for issue by the board of directors on 31 March 2009 and were signed on behalf of the board by:

B J Muir
Director

1 Accounting policies

a) Basis of preparation

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

As the immediate parent undertaking is incorporated within the European Union and the results of the company are included within the publicly available consolidated financial statements of Vivendi S.A., the company has taken advantage of the exemption under section 228 of the Companies Act 1985 from preparing consolidated financial statements. As such, these financial statements give information about the company as an individual undertaking and not about its group.

Cash flow statement and related party disclosures
The company is a wholly owned subsidiary of Vivendi S.A. who control 90% or more of the voting rights and is included in the consolidated financial statements of the group, which are publicly available. Consequently, the company has taken advantage of the exemption in Financial Reporting Standard ("FRS") 1 from preparing a cash flow statement and the exemption of FRS 8 from disclosing transactions with entities that are part of the Vivendi S.A. group or investees of that group.

Continued support from intermediate parent undertaking
The financial statements have been prepared on the going concern basis as the company has received confirmation from Universal Music Group Inc., the company's intermediate parent undertaking, of its intention to continue to provide financial and other support to the extent necessary to enable the company to continue to pay its liabilities as and when they become due for a period not less than one year from the date of approval of these financial statements. Having regard to this intention, the directors believe it is appropriate to prepare these financial statements on a going concern basis, notwithstanding the net liabilities at 31 December 2008.

b) Turnover

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

c) Royalties and advances

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

Advances to unproven artists are expensed. Advances to other artists are written down to the estimated amount that will be recoverable from future royalty payments to the artist. Net advances to artists are classified as falling due within one year, although elements may not be recovered until more than one year.

d) 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.

Notes to the financial statements for the year ended 31 December 2008

1 Accounting Policies (continued)

e) Deferred taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise, calculated at a rate at which it is estimated that taxation will be payable.

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 reduce from previous year. 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.

f) Foreign currencies

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

g) Interest bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. Interest bearing debt is increased by the finance cost in respect of the reporting period and reduced by any settlement made. Interest is charged and earned on a fixed element of the debt at an arms length rate.

2 Turnover

Turnover is derived from one continuing activity, the provision of services to fellow group companies. An analysis of turnover by geographical market is given below:

	Year ended 31 December 2008 £'000	9 months ended 31 December 2007 £'000
United Kingdom	90	541
Europe	3,425	-
United States of America	290	-
Rest of world	4,430	-
Total turnover	8,235	541

3 Operating loss

Operating loss was stated after charging £978,000 (2007: £2,000) foreign exchange gains. The auditors received £2,000 remuneration for audit services during the year (2007: £2,000), and no remuneration for other services during the year (2007: £nil).

4 Directors' emoluments

The directors received no remuneration in respect of their services to the company (2007: £nil).

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the period was:

	Year ended 31 December 2008 Number	9 months ended 31 December 2007 Number
Marketing and promotion	5	4
Administration	2	4
	7	8

Staff costs, during the year, including directors' remuneration, amounted to:

	Year ended 31 December 2008 £'000	9 months ended 31 December 2007 £'000
Wages and salaries	561	346
Social security costs	36	50
Pension costs	7	3
Staff costs	604	399

6 Tax on loss on ordinary activities

a) Analysis of tax credit in the period	Year ended 31 December 2008 £'000	9 months ended 31 December 2007 £'000
Current tax		
Group relief payable for losses surrendered from other group companies for the year	(50)	-
Foreign taxes	1	(34)
Adjustments in respect of previous periods		-
Total current tax (see (b) below)	**(49)**	(34)
Total tax credit on loss on ordinary activities	**(49)**	(34)

b) Factors affecting tax credit for the year	Year ended 31 December 2008 £'000	9 months ended 31 December 2007 £'000
Loss on ordinary activities before tax	**(191)**	(1,083)
Loss on ordinary activities multiplied by standard rate in the UK of 28% (2007: 30%)	**(53)**	(325)
Effects of:		
Expenses not deductible for tax purposes	5	-
Foreign tax suffered in the period	1	-
Impact of group relief claimed / surrendered for no compensation		(34)
Impact of Tax losses not utilised in the period		325
Impact of change in tax rate	(3)	-
Current tax credit on loss on ordinary activities	**(50)**	(34)

c) Factors that may affect future tax charges:

The company has total unutilised tax losses carried forward estimated at £7,224,000 (2007 £7,224,000) which may reduce future tax charges.

d) Deferred taxation

Deferred tax assets of £2,031,000 (2007: £2,323,000) have not been provided in respect of other timing differences as there is insufficient certainty as to the availability of future taxable profits.

7 Debtors

	31 December 2008 £'000	31 December 2007 £'000
Amounts owed by UK group undertakings	**1,124**	5,230
Trade Debtors	**3,010**	13
	4,134	5,243

Amounts due from group undertakings are unsecured and repayable on demand. Interest accrues on these amounts excluding group relief at rates between 1 month LIBOR and 1 month LIBOR plus 1%.

8 Creditors: amounts falling due within one year

	31 December 2008 £'000	31 December 2007 £'000
Trade creditors	**3,273**	793
Amounts due to UK group undertakings	**6,087**	8,613
Amounts due to overseas group undertakings	**2,207**	2,730
Accruals and deferred income	**1,305**	1,319
Other creditors	**-**	33
	12,872	13,488

Amounts due to group undertakings are unsecured and repayable on demand. Interest accrues on UK amounts excluding group relief at rates between 1 month LIBOR and 1 month LIBOR plus 1%.

9 Called-up share capital

	31 December 2008 £	31 December 2007 £
Authorised:		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called-up and fully paid:		
2 ordinary shares of £1 each	**2**	2

10 Reconciliation of movements in equity shareholders' deficit

	Share capital £'000	Profit and loss reserve £'000	Total equity shareholders' deficit £'000
At 1 January 2008	7	(2,713)	(2,706)
Loss for the year		(217)	(217)
Actuarial gain relating to pension liability		447	447
Movement on deferred tax relating to pension liability		(125)	(125)
At 31 December 2008	**7**	**(2,608)**	**(2,601)**

	Share capital £'000	Profit and loss reserve £'000	Total equity shareholders' deficit £'000
At 1 January 2008	7	(2,713)	(2,706)
Loss for the year		(217)	(217)
Actuarial gain relating to pension liability		447	447
Movement on deferred tax relating to pension liability		(125)	(125)
At 31 December 2008	**7**	**(2,608)**	**(2,601)**

	Share capital £'000	Profit and loss reserve £'000	Total equity shareholders' deficit £'000
At 1 January 2008	-	(8,245)	(8,245)
Loss for the year		(142)	(142)
At 31 December 2008	**-**	**(8,387)**	**(8,245)**

11 Ultimate parent undertaking

The immediate parent undertaking is Universal Music Leisure Limited. The ultimate parent undertaking is Vivendi S.A., a company incorporated in France.

The smallest and largest group in which the results of the company will be consolidated will be that headed by Vivendi S.A. incorporated in France. Copies of its annual report in English may be obtained from:

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42 Avenue de Friedland
75380 Paris
Cedex 08
France