

UNIVERSAL MUSIC HOLDINGS LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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UNIVERSAL MUSIC HOLDINGS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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UNIVERSAL MUSIC HOLDINGS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

RM Constant
BJ Muir

COMPANY SECRETARY

A Abioye

REGISTERED OFFICE

364-366 Kensington High Street
London
W14 8NS

AUDITORS

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

UNIVERSAL MUSIC HOLDINGS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2010

The directors present their report and the financial statements of the company for the year ended 31 December 2010

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was to act as a holding and finance company

FUTURE DEVELOPMENTS

Notwithstanding the risks and uncertainties outlined below, the directors do not anticipate any significant change in the activities and results of the company in the foreseeable future

RESULTS AND DIVIDENDS

The company's loss for the financial year was £44,649,000 (2009 - £187,827,000) The retained loss for the year has been transferred to reserves

PRINCIPAL RISKS AND UNCERTAINTIES

The company is faced with the following risks

- impact of interest rate fluctuations from amounts receivable and payable on loans with other group undertakings,
- potential impairment of investments

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

DIRECTORS

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

RM Constant
MN Henny (United States Citizen)
BJ Muir

MN Henny (United States Citizen) resigned as a director on 19 November 2010

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A qualifying third party indemnity provision remains in force as at the date of approving the directors' report, subject to the provisions of s236 CA 2006 Vivendi SA, the ultimate parent undertaking, maintains a Directors & Officers Liability Programme which indemnifies directors' personal liabilities resulting from alleged wrongful acts committed in the line of their employment

POLICY ON THE PAYMENT OF CREDITORS

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

UNIVERSAL MUSIC HOLDINGS LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2010

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' 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). 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 period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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.

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
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

DONATIONS

The company made no political donations in either year.

By order of the board



A Abioye
Company Secretary

31st March 2011

UNIVERSAL MUSIC HOLDINGS LIMITED

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

YEAR ENDED 31 DECEMBER 2010

We have audited the financial statements of Universal Music Holdings Limited for the year ended 31 December 2010 which comprise Profit and Loss Account, the Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended, and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

UNIVERSAL MUSIC HOLDINGS LIMITED

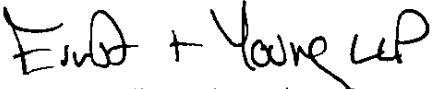
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC HOLDINGS LIMITED *(continued)*

YEAR ENDED 31 DECEMBER 2010

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


Paul Gordon (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP,
London

31 March 2011

Company Registration Number 5344517

UNIVERSAL MUSIC HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
TURNOVER		—	—
Administrative expenses		(22,806)	(344)
Other operating income		23,480	—
OPERATING PROFIT/(LOSS)		674	(344)
Amounts written off investments		(3,160)	(170,559)
Interest payable and similar charges	4	(56,022)	(21,195)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(58,508)	(192,098)
Tax on loss on ordinary activities	5	13,859	4,271
LOSS FOR THE FINANCIAL YEAR		(44,649)	(187,827)

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

The company has no recognised gains or losses other than the results for the year as set out above

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

The notes on pages 8 to 16 form part of these financial statements.

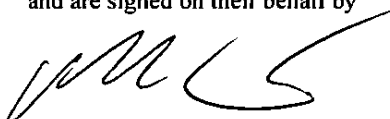
UNIVERSAL MUSIC HOLDINGS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Investments	6	2,566,669	2,537,961
CREDITORS: Amounts falling due within one year	7	(2,616,132)	(2,542,775)
TOTAL ASSETS LESS CURRENT LIABILITIES		(49,463)	(4,814)
CAPITAL AND RESERVES			
Share capital	8	—	—
Share premium account	9	244,000	244,000
Profit and loss account	9	(293,463)	(248,814)
DEFICIT	9	(49,463)	(4,814)

These financial statements were approved by the board of directors and authorised for issue on 31st March 2011 and are signed on their behalf by



RM Constant

Company Registration Number 5344517

The notes on pages 8 to 16 form part of these financial statements.

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

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

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 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 of investees of that group

Investments

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

Pension costs

The company participates in a pension scheme in the UK, ultimately operated by Vivendi S A, 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

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

FRS 17 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 Holdings Limited alone. As a result, the defined benefit membership of the Scheme has been accounted for on a defined contribution basis in these financial basis

Full disclosure relating to the underlying assets and liabilities of the UMGPS can be found in the financial statements of Universal Music Operations Limited for the year ended 31 December 2010

Universal Music Operations Limited charges a monthly service fee to certain other fellow subsidiaries included in which is an element in respect of defined benefit operating and finance costs

On 1 July 2010 the company ceased to be an employer and the employees were transferred to Universal Music Holdings Limited, a UK group undertaking, in terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES *(continued)*

Taxation

The charge for taxation is based on the loss for the period and takes into account taxation deferred because of the 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 have occurred at that date that will result in an obligation to pay more tax in the future or a right to pay less tax in future

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit

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

Continued support from intermediate parent undertaking

The financial statements have been prepared on the going concern basis as the company has received confirmation from Societe d'investissements et de Gestion 104, 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 deficit on net current liabilities at 31 December 2010

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

2. OPERATING PROFIT

During the year the company became the sole employer of the UK group undertakings and the employees were transferred from the relevant fellow subsidiaries, in terms of the Transfer of Undertakings (Protection of Employment) Regulations 2006. The company entered into a service agreement under which it contracted to provide employee services to UK group undertakings as required, on a cost plus 3% basis.

Auditors' remuneration of £6,000 (2009 - £6,000) and certain other administrative costs are borne by other United Kingdom group undertakings. No costs were incurred in respect of non-audit services in either year.

The loss on ordinary activities before taxation is stated after charging an investment impairment of £3,160,000 (2009 - £170,559,000).

3. PARTICULARS OF EMPLOYEES

The aggregate payroll costs of the above were

	2010 £'000	2009 £'000
Wages and salaries	19,474	—
Social security costs	2,127	—
Other pension costs	1,196	—
	<u>22,797</u>	<u>—</u>

The directors received no remuneration in respect of their services to the company (2009 - nil).

On 1st July 2010, the company became an employer and the employees previously employed by fellow UK group companies were transferred to Universal Music Holdings Limited, in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006. The company had 459 employees during the year ended 31 December 2010 (2009 - nil). The directors received no remuneration in respect of their services to the company (2009 - nil).

On 1st July 2010, the company became an employer and the employees previously employed by fellow UK group companies were transferred to Universal Music Holdings Limited, in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006. The company had no employees during the year ended 31 December 2010 (2009 - nil).

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2009 £'000
Interest payable to group undertakings	<u>56,022</u>	<u>21,195</u>

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

5 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(a) Analysis of (credit) / charge in the year

	2010 £'000	2009 £'000
Current tax		
UK Corporation tax on profit/loss for the year	-	-
Adjustments in respect of previous years	-	(309)
Group relief payable for losses surrendered from other group undertakings	(13,859)	(3,962)
Total current tax	<u>(13,859)</u>	<u>(4,271)</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

	2010 £'000	2009 £'000
Loss on ordinary activities before taxation	<u>(58,508)</u>	<u>(192,098)</u>
Loss on ordinary activities at the standard rate of UK Corporation tax of 28% (2009 - 28%)	(16,382)	(53,787)
Expenses not deductible for tax purposes	2,523	49,825
Adjustments in respect of previous periods	-	(309)
Current tax credit for the financial year	<u>(13,859)</u>	<u>(4,271)</u>

(c) Factors that may affect future tax charges

None

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

6. INVESTMENTS

	Total £'000
COST	
At 1 January 2010	2,720,741
Additions	805,565
Disposals	(904,000)
At 31 December 2010	<u>2,622,306</u>
PROVISION FOR IMPAIRMENT	
At 1 January 2010	182,780
Disposals	(130,303)
Impairment charge in the year	3,160
At 31 December 2010	<u>55,637</u>
NET BOOK VALUE	
At 31 December 2010	<u>2,566,669</u>
At 31 December 2009	<u>2,537,961</u>

The directors have considered the remaining carrying value of investments as at 31 December 2010 and are of the opinion that the aggregate value of the company's investments in subsidiary undertakings, including amounts owed by subsidiary undertakings, is not less than the amount at which they are stated in the accounts

During the year the company disposed of its investment in Centenary UK Limited, for £773,697,000, in exchange for new shares in V2 Music Group Limited

During the prior year the company acquired the subsidiary undertakings previously held by its direct subsidiary, Centenary UK Limited. In the current year the consideration for this sale was finalised, resulting in an additional investment of £31,666,000

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

6. INVESTMENTS *(continued)*

Subsidiary Undertakings

The group has the following principal investments in subsidiary undertakings

Name	Ordinary share holdings	Nature of business
A&M Records Limited	100%	Marketing and distribution of recorded music
Decca Music Group Limited	100%	Marketing and distribution of recorded music
Go! Discs Limited	100%	Marketing and distribution of recorded music
Universal Music Group International Limited	100%	Management services company
Universal Music Holdings (UK) Limited	100%	Finance and holding company
Centenary Holdings Limited*	100%	Finance and holding company
Mercury Records Limited	100%	Marketing and distribution of recorded music
Polydor Limited	100%	Marketing and distribution of recorded music
Universal-Island Records Limited	100%	Marketing and distribution of recorded music
Universal-MCA Music(UK)Limited*	100%	Marketing and distribution of recorded music
Universal/MCA Music Limited	100%	Music publishing company
Universal/Island Music Limited	100%	Music publishing company
Universal Music (UK) Holdings Limited*	100%	Finance and holding company
Universal Music Leisure Limited	100%	Finance and holding company
Universal Music Operations Limited	100%	Marketing and distribution of recorded music
Universal Music Publishing MGB Limited	100%	Music publishing
Universal Music Publishing International MGB Limited	100%	Music publishing
Universal Music Publishing MGB Holding UK Limited*	100%	Finance and holding company
Universal Publishing Production Music Limited	100%	Music publishing
V2 Records Limited	100%	Marketing and distribution of recorded music
V2 Music Group Limited*	100%	Marketing and distribution of recorded music
V2 Music (France) SARL	100%	Marketing and distribution of recorded music
Sanctuary Copyrights Limited	100%	Marketing and distribution of recorded music
Sanctuary Records Group Limited	100%	Marketing and distribution of recorded music
Bravado International Group Limited	100%	Merchandising of licensed products
Bravado Retail & Licensing Limited	100%	Merchandising of licensed products
Helter Skelter Agency Limited	100%	Musicians' agent
Trinifold Management Limited	100%	Music industry management services

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

6 INVESTMENTS *(continued)*

Twenty First Artists Limited	100%	Artist services
The Sanctuary Group Limited*	100%	Finance and holding company
Universal Music Publishing Limited	100%	Music publishing company
Centenary Music Holdings Limited		
BV*	100%	Holding company
Universal Music LLC	100%	Holding company
Universal Music KK	100%	Holding company

All above subsidiary undertakings were incorporated in England & Wales other than Centenary Music Holdings Limited BV, incorporated in the Netherlands, and Universal Music LLC and Universal Music KK, both incorporated in Japan

Preference shareholdings

Name	Ordinary share holdings	Nature of business
Backcite Limited*	100%	Finance and holding company
Universal Music Operations Limited	100%	Marketing and distribution of recorded music

Those marked with an asterisk are 100% directly owned All other companies are held through subsidiary undertakings which are 100% owned

UNIVERSAL MUSIC HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

7. CREDITORS: Amounts falling due within one year

	2010 £'000	2009 £'000
Amounts owed to group undertakings	2,615,853	2,541,931
Other creditors	279	844
	<u>2,616,132</u>	<u>2,542,775</u>

Included within loans due to group undertakings are the following loans

- Loan due to UMI Finance SAS, for a principal amount of £100,964,000 (2009 - £100,964,000) The loan is unsecured and repayable on demand Interest accrues on the loan at the 1 year LIBOR rate + 3% and is payable annually
- Loan due to UMG Finance UK Limited, for the principal amount of £148,820,000 (2009 - £148,820,000) The loan is unsecured and matures on 14 December 2016 or repayable on demand Interest accrues on the loan at 1 year LIBOR rate + 3% and is payable annually
- Loan due to Universal Music Operations Limited, for a principal amount of £560,000,000 (2009 - £560,000,000) The loan is unsecured, interest free and repayable on demand
- Loan due to Universal Music Operations Limited, for a principal amount of £136,000,000 (2009 - £136,000,000) The loan is unsecured and repayable on demand Interest accrues on the loan at 1 month LIBOR plus 0.1%
- Loan due to Centenary UK Limited, for a principal amount of £575,000,000 (2009 - £925,000,000) The loan is unsecured and repayable on demand Interest accrues on the loan at 1 month LIBOR plus 3%
- Loan due to V2 Music group Limited, for a principal amount of £350,000,000 (2009 - £nil) The loan is unsecured and repayable on demand Interest accrues on the loan at 1 month LIBOR plus 3%
- Loan due to UMG Finance UK Limited, for the principal amount of £140,000,000 (2009 - £140,000,000) The loan is unsecured and matures on 1 August 2017 or repayable on demand Interest accrues on the loan at 1 year LIBOR + 3% and is payable annually
- Loan due to Universal Music Operations Limited, for the principal amount of £199,968,588 (2009 - £199,968,588) The loan is unsecured and matures on 1 August 2017 or repayable on demand There is no interest payable on this loan

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

8. SHARE CAPITAL

Authorised share capital:

	2010 £'000	2009 £'000
1,000,000,000 Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>

UNIVERSAL MUSIC HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

8. SHARE CAPITAL *(continued)*

Allotted, called up and fully paid:

	2010 No	£'000	2009 No	£'000
Ordinary shares of £1 each	3	-	3	-

9. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share premium account £'000	Profit and loss account £'000	Total share-holders' funds £'000
Balance brought forward at 1 January 2009	244,000	(60,987)	183,013
Loss for the year	-	(187,827)	(187,827)
Balance brought forward at 1 January 2010	244,000	(248,814)	(4,814)
Loss for the year	-	(44,649)	(44,649)
Balance carried forward at 31 December 2010	244,000	(293,463)	(49,463)

10. ULTIMATE PARENT COMPANY

The immediate parent undertaking is PolyGram B V ,a company incorporated in the Netherlands. The ultimate parent undertaking and controlling party is Vivendi SA, 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 SA, incorporated in France. Copies of its annual report in English may be obtained from

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