

**Universal Music Operations Limited**  
**(formerly PolyGram Record Operations Limited)**  
**Registered Number 950138**

**Directors' Report and Financial Statements**  
**for the Eighteen Month Period Ended 30 June**  
**1999**



# Universal Music Operations Limited

## Directors' report for the eighteen month period ended 30 June 1999

The directors present their annual report and the audited financial statements for the eighteen month period ended 30 June 1999.

### Principal activities and future developments

The company's principal activities during the period were to distribute and market gramophone records and music cassettes together with compact discs and videos. The company expects these activities to continue for the foreseeable future.

PolyGram N.V., the company's ultimate parent undertaking, was acquired by The Seagram Company Ltd. ("Seagram") on 10 December 1998. Seagram became the company's ultimate parent undertaking on that date.

On 8 December 2000, Seagram, Vivendi S.A. ("Vivendi") and Canal Plus S.A. ("Canal"), an entity which is approximately 49% owned by Vivendi, completed a merger of the three companies to become Vivendi Universal. As a result of that transaction, Vivendi Universal became the company's ultimate parent undertaking.

### Business review

The results of the company for the eighteen month period ended 30 June 1999 are set out on page 7 of the financial statements.

### Change of accounting reference date and name

On 23 December 1998, the company changed its accounting reference date from 31 December to 30 June.

The company changed its name from PolyGram Record Operations Limited to Universal Music Operations Limited on 29 March 1999.

### Results and dividends

The company's profit for the period was £1,813,000 (year ended 30 June 1997: £16,173,000). An interim dividend of £467 per share amounting to £7,000,000 was paid during the period. The directors do not recommend the payment of a final dividend (year ended 31 December 1997: final dividend of £16,500,000).

This leaves a loss of £5,187,000 (year ended 31 December 1997: loss of £327,000) to be transferred to reserves.

### Directors and their interests

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

NC Ellis	(appointed 31 August 1998; resigned 31 March 1999)
AG Pye	(resigned 5 February 1999)
TC Fisher	
NB Hartley	(resigned 31 August 1998)
JP Kennedy	
Universal Music UK Ltd	
PD Thompson	(appointed 31 March 1999)

At no time during the eighteen month period ended 30 June 1999 did any director have any interest which is required to be notified to the company under S324 of the Companies Act 1985.

# Universal Music Operations Limited

## Directors' report for the eighteen month period ended 30 June 1999 (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.

### Charitable and political donations

During the period the company made charitable donations of £53,964 (year ended 31 December 1997: £32,421). The company made no political donations during the period.

### Employee involvement

During the period, 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.

### Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which 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 accounts 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

# Universal Music Operations Limited

Directors' report for the period ended 30 June 1999 (Continued)

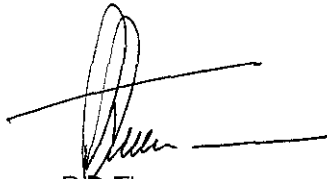
## Elective resolutions

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.

By Order of the Board



P D Thompson  
Director

1 Sussex Place  
London  
W6 9XS

16<sup>th</sup> February 2001

## Auditors' Report To The Members Of Universal Music Operations Limited

We have audited the financial statements on pages 7 to 18.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 3, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

### 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.

**Auditors' Report To The Members Of  
Universal Music Operations Limited** (Continued)

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1999 and of its loss for the eighteen month period then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
London

16 February 2001

## Universal Music Operations Limited

### Profit and loss account for the eighteen month period ended 30 June 1999

	Note	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
Turnover	3	349,494	248,003
Cost of sales		(246,587)	(171,362)
<b>Gross profit</b>		<b>102,907</b>	<b>76,641</b>
Distribution costs		(23,106)	(14,580)
Administrative expenses		(73,756)	(38,609)
<b>Operating profit</b>	4	<b>6,045</b>	<b>23,452</b>
Interest receivable and similar income	7	67	8
Interest payable and similar charges	8	(4,368)	(4,018)
<b>Profit on ordinary activities before taxation</b>		<b>1,744</b>	<b>19,442</b>
Tax on profit on ordinary activities	9	69	(3,269)
<b>Profit for the financial period</b>		<b>1,813</b>	<b>16,173</b>
Dividends	10	(7,000)	(16,500)
<b>Retained loss for the financial period</b>	18	<b>(5,187)</b>	<b>(327)</b>

The company's results were entirely from continuing operations.

The company has no material recognised gains and losses other than the loss reported above and therefore no separate statement of total recognised gains and losses has been presented.

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

# Universal Music Operations Limited

## Balance sheet as at 30 June 1999

	Note	30 June 1999 £'000	31 December 1997 £'000
<b>Fixed assets</b>			
Tangible assets	11	14,061	20,597
Investments	12	23	23
		14,084	20,620
<b>Current assets</b>			
Stocks	13	1,107	1,181
Debtors: due within one year	14	228,731	234,287
Cash at bank and in hand		3,619	13,743
		233,457	249,211
<b>Creditors: amounts falling due within one year</b>	15	(251,562)	(264,713)
<b>Net current liabilities</b>		(18,105)	(15,502)
<b>Total assets less current liabilities</b>		(4,021)	5,118
<b>Provisions for liabilities and charges</b>	16	(549)	(4,501)
<b>Net (liabilities) / assets</b>		(4,570)	617
<b>Capital and reserves</b>			
Called up share capital	17	15	15
Profit and loss account	18	(4,585)	602
<b>Equity shareholders' deficit</b>	18	(4,570)	617

The financial statements on pages 7 to 18 were approved by the board of directors on 16<sup>th</sup> February 2001 and were signed on its behalf by:



P D Thompson  
Director



# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 30 June 1999

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### a) Basis of preparation

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

The financial statements have been prepared on a going concern basis as the company has received confirmation from Seagram, an intermediate parent undertaking to the company, that it will 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 of no less than one year from the date of approval of these financial statements.

#### b) Turnover

Turnover represents the invoiced value of services excluding value added tax.

#### c) Taxation

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

#### d) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. Depreciation is charged on a straight line basis to write off the cost of the assets over their estimated useful lives.

Rates of depreciation are:

Piping and wiring	-	5%
Machinery, equipment and installations in rented premises	-	10% and 20%
Fixtures and fittings	-	10% and 25%
Office machinery	-	15%
Leased equipment	-	2% - 25%

*In previous years, all fixed assets were disclosed within the category Plant and Equipment. The directors have revised the disclosure in the current year as required under the Companies Act 1985.*

#### e) Investments

Investments are stated at cost less amortisation, where appropriate, to arrive at a net value equating to estimated recoverable amounts.

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

### 1 Accounting policies (continued)

#### f) Advance royalties paid

Advances paid to artists in respect of future royalties and other payments made by the company which are recoupable from future artist royalties, are normally written off in the accounting period in which they are incurred. In cases where it is considered with some certainty by the directors that all or part of the unrecouped artist balance will be recouped from royalties arising from future sales, advances are held at a net book value equal to the expected future royalty earnings.

#### g) Stock

Stock and work-in-progress are stated at the lower of cost and estimate net realisable value.

#### h) Leases

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.

#### i) Pensions and other post retirement benefits

During the period, the company was a member of the Philips Pension Fund, a funded mixed benefit scheme. Contributions to this group scheme are based on a common rate throughout the members of the Philips group and are assessed on a triennial basis in accordance with the advice of a qualified actuary using the projected unit method. Pension costs in relation to the defined benefit section of the scheme are charged to the profit and loss account so as to spread the cost over employees' working lives within the group. Actuarial surpluses and deficits are amortised on a straight line basis over the average remaining service lives of the employees. Pension costs in relation to the defined contribution section of the scheme are charged to the profit and loss account as incurred.

#### j) 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.

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

### 2 Cash flow statement and related party disclosures

Until 8 December 2000, the company was a subsidiary undertaking where 90% or more of the voting rights were controlled within The Seagram Company Ltd group and was included in the consolidated financial statements of that group, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Seagram Company Ltd group or investees of that group. (See note 21.)

### 3 Segmental reporting

Turnover represents the invoiced value of goods and services excluding value added tax. Turnover is attributable to one activity, recorded music. Turnover by destination is as follows:

	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
United Kingdom	340,933	244,754
Europe	7,932	2,778
US	419	149
Other	210	322
	<hr/> <b>349,494</b>	<hr/> <b>248,003</b>

Turnover by source is exclusively derived in the United Kingdom. Consequently, the loss on ordinary activities before tax and net liabilities are all attributable to United Kingdom activities. All turnover is derived from the single class of business described in the directors' report.

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

### 4 Operating profit

	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
<b>Operating profit is stated after charging:</b>		
Wages and salaries	30,938	18,489
Social security costs	4,006	1,707
Other pension costs	578	32
<b>Staff costs</b>	<b>35,522</b>	<b>20,228</b>
<b>Operating profit is stated after charging/(crediting):</b>		
Depreciation and other amounts written off tangible fixed assets	10,794	2,877
Exchange losses/(gains)	284	(98)
Operating lease charges:		
- Plant and machinery	346	1,075
- Other	2,340	1,358
<b>Auditors' remuneration:</b>		
Audit services	126	55
Non audit services	70	-

Depreciation and other amounts written off tangible fixed assets include £6,861,000 in respect of the write-down of plant and machinery at the company's distribution centre.

### 5 Directors' emoluments

	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
Directors' emoluments	2,437	1,217
Compensation for loss of office	338	-

The emoluments of the highest paid director were £1,256,900 (year ended 31 December 1997: £651,107).

Retirement benefits are accruing to two directors (31 December 1997: four) under a defined benefit scheme.

Four directors exercised share options during the eighteen month period (year ended 31 December 1997: one).

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

### 6 Employee information

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

	Eighteen month period ended 30 June 1999 No.	Year ended 31 December 1997 No.
Commercial and administrative	694	690

### 7 Interest receivable and similar income

	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
Bank interest receivable	67	8
	67	8

### 8 Interest payable and similar charges

	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
Interest payable on bank overdraft	3,841	2,639
Interest payable on other loans	527	1,379
	4,368	4,018

### 9 Tax on loss on ordinary activities

	Eighteen month period ended 30 June 1999		Year ended 31 December 1997	
	£'000	£'000	£'000	£'000
UK corporation tax at 30.83% (1997: 31.5%)		7,453		3,686
Deferred taxation		(6,407)		2,561
Adjustment relating to an earlier year:				
UK corporation tax	(244)		3,953	
Deferred taxation	3		(7,208)	
Group relief	(874)		277	
		(1,115)		(2,978)
		(69)		3,269

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

#### 10 Dividends

	Eighteen month period ended 30 June 1999 £'000	Year ended 31 December 1997 £'000
<b>Equity – Ordinary</b>		
Interim paid: £467 per £1 share	7,000	-
Final proposed: £nil (1997: £1,100) per £1 share	-	16,500
	<b>7,000</b>	<b>16,500</b>

#### 11 Tangible fixed assets

	Land and Buildings £'000	Plant and Equipment £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>				
At 1 January 1998	4,062	20,949	3,135	28,146
Additions	4,040	1,437	788	6,265
Transfers from group undertakings	-	18	193	211
Transfers to group undertakings	-	-	(156)	(156)
Disposals	(14)	(2,467)	(1,245)	(3,726)
<b>At 30 June 1999</b>	<b>8,088</b>	<b>19,937</b>	<b>2,715</b>	<b>30,740</b>
<b>Depreciation</b>				
At 1 January 1998	238	5,867	1,444	7,549
Charge for period	516	9,318	960	10,794
Transfers to group undertakings	-	(8)	(66)	(74)
Disposals	(5)	(754)	(831)	(1,590)
<b>At 30 June 1999</b>	<b>749</b>	<b>14,423</b>	<b>1,507</b>	<b>16,679</b>
<b>Net book value</b>				
<b>At 30 June 1999</b>	<b>7,339</b>	<b>5,514</b>	<b>1,208</b>	<b>14,061</b>
<b>At 31 December 1997</b>	<b>3,824</b>	<b>15,082</b>	<b>1,691</b>	<b>20,597</b>

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

#### 12 Investments included in fixed assets

	Limited Partnership £'000
<b>Cost</b>	
At 1 January 1998 and 30 June 1999	173
<b>Amounts written off</b>	
At 1 January 1998 and 30 June 1999	(150)
<b>Net book value</b>	
At 1 January and 30 June 1999	23

The company's investment in a Limited Partnership represents a 50% share in Def American, 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 30 June 1999 is £nil (31 December 1997: £nil).

#### 13 Stocks

	30 June 1999 £'000	31 December 1997 £'000
Finished goods and goods for resale	1,107	1,181

#### 14 Debtors

	30 June 1999 £'000	31 December 1997 £'000
Trade debtors	50,081	61,453
Advances to artists	32,836	40,481
Amounts owed by group undertakings:		
Overseas group undertakings	15,213	24,119
UK group undertakings	113,210	88,782
Other debtors	10,179	7,690
UK corporation tax	2,906	3,805
ACT recoverable	708	-
Prepayments and accrued income	3,598	7,957
	<b>228,731</b>	<b>234,287</b>

In accordance with industry practice advances to artists include certain amounts recoverable after one year.

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

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

	30 June 1999 £'000	31 December 1997 £'000
Trade creditors	81,505	73,878
Amounts due to group undertakings:		
Overseas group undertakings	1,991	2,237
UK group undertakings	124,281	110,556
Taxation and social security:		
Corporation tax	1,943	2,143
Other taxes and social security	2,661	24,010
Other creditors	22,289	22,975
Accruals and deferred income	16,892	12,414
Proposed dividend	-	16,500
	<b>251,562</b>	<b>264,713</b>

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

#### 16 Provisions for liabilities and charges

Movements in provisions during the year are analysed as follows:

Deferred Taxation:	£'000
At 1 January 1998	4,501
ACT recoverable	2,452
Credit for the year	(6,407)
Adjustment relating to prior year	3
	<b>549</b>
At 30 June 1999	<b>549</b>

	Provided in the financial statements		Full potential asset(liability)	
	1999 £'000	1997 £'000	1999 £'000	1997 £'000
Capital allowances	(2,547)	928	(2,547)	928
Recording costs	6,651	10,545	6,651	10,545
Other timing differences	(3,555)	(4,520)	(3,555)	(4,520)
ACT recoverable	-	(2,452)	-	(2,452)
	<b>549</b>	<b>4,501</b>	<b>549</b>	<b>4,501</b>



## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

#### 17 Called up share capital

	30 June 1999 £'000	31 December 1997 £'000
<b>Authorised</b>		
15,000 ordinary shares of £1 each	15	15
<b>Allotted, called up and fully paid</b>		
15,000 ordinary shares of £1 each	15	15

#### 18 Reconciliation of movements in shareholders' funds/(deficit)

	Share Capital £'000	Profit And Loss Account £'000	Total Equity Shareholders' Funds/(Deficit) £'000
At 1 January 1998	15	602	617
Profit for the period	-	1,813	1,813
Dividends	-	(7,000)	(7,000)
<b>At 30 June 1999</b>	<b>15</b>	<b>(4,585)</b>	<b>(4,570)</b>

#### 19 Financial commitments

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

	30 June 1999		31 December 1997	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	565	-	490
In the second to fifth years inclusive	-	363	-	359
Over five years	1,490	-	1,358	-
	<b>1,490</b>	<b>928</b>	<b>1,358</b>	<b>849</b>

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 30 June 1999 (continued)

### 20 Pension commitments

Following the acquisition of PolyGram N.V. by Seagram on 10 December 1998, the company's employees continued to participate in the Philips' Pension fund until 30 November 1999. During this participation the former PolyGram N.V. owned companies contributed 12.8% of participating members' Scheme Salaries.

Valuations are carried out on a triennial basis. The most recent valuation was undertaken by the independent actuaries, Bacon & Woodrow as at 31 March 1997 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 8.75% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 4.5 per annum.

The 31 March 1997 valuation showed that the market value of the scheme's assets was £1,645 million and that the actuarial value of those assets represented 113% of the benefits accrued before 31 March 1997, after allowing for expected future increases in earnings.

The long term contribution rates revealed by the valuation were 12.8% for the company, and 6% for employees.

Following the change of ownership of the company, employees were eligible to join the Seagram Distillers PLC Pension Scheme under mirror terms.

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

### 21 Ultimate parent undertaking

Following the sale of Philips Electronics N.V.'s holding in PolyGram N.V. (effective date 10 December 1998) the company's ultimate parent undertaking became The Seagram Company Ltd, incorporated in Canada.

The smallest group to consolidate these financial statements is headed by Centenary Holdings N.V., incorporated in The Netherlands. The consolidated accounts are available to the public and may be obtained from the Company Secretary at Drentestraat 24, 1083 HV, Amsterdam, The Netherlands.

The largest group to consolidate these financial statements is headed by The Seagram Company Ltd. The consolidated accounts are available to the public and may be obtained from the Company Secretary at 1430 Peel Street, Montreal, Quebec, H3A 1S9, Canada.

### 22 Post balance sheet event

On 8 December 2000, Seagram, Vivendi S.A. ("Vivendi") and Canal Plus S.A. ("Canal"), an entity which is approximately 49% owned by Vivendi, completed a merger of the three companies to become Vivendi Universal. As a result of that transaction, Vivendi Universal became the company's ultimate parent undertaking.