

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

**Directors' Report and Financial Statements**  
for the eighteen month period ended 31  
December 2000



LD5  
COMPANIES HOUSE

\*LGYHPDXF\*

0368  
04/09/02

# **Universal Music Operations Limited**

## **Directors' Report for the eighteen month period ended 31 December 2000**

The directors present their annual report and the audited financial statements for the eighteen month period ended 31 December 2000.

### **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.

On 20 June 2000, the company's ultimate parent undertaking, Seagram, Vivendi S.A. and Canal Plus S.A., announced that they had entered into a Merger Agreement, dated as of 19 June 2000 which sets for the terms and conditions of the proposed business combination among Seagram, Vivendi and Canal. The merger closed on 8th December 2000. The ultimate parent undertaking is now Vivendi Universal S.A., a company incorporated in France.

### **Business review**

The results of the company for the eighteen month period ended 31 December 2000 are set out on page 6 of the financial statements.

### **Change of accounting reference date and name**

On 19 February 2001, the company changed its accounting reference date from 30 June to 31 December.

### **Results and dividends**

The company's profit after tax for the period was £39,679,000 (eighteen month period ended 30 June 1999: £1,813,000).

The directors do not recommend the payment of a dividend (eighteen month period ended 1999: £7,000,000). The retained profit for the period has been transferred to reserves.

### **Directors and their interests**

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

TC Fisher  
JP Kennedy  
Universal Music UK Ltd  
PD Thompson

JP Kennedy resigned on 1 July 2001 and LC Grainge was appointed on that date.

At no time during the eighteen month period ended 31 December 2000 did any director have any interest which is required to be notified to the company under Section 324 of the Companies Act 1985.

# Universal Music Operations Limited

## Directors' Report for the eighteen month period ended 31 December 2000

(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 £1,023,000 (eighteen month period ended 30 June 1999: £53,964). 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 eighteen month period ended 31 December 2000

(continued)

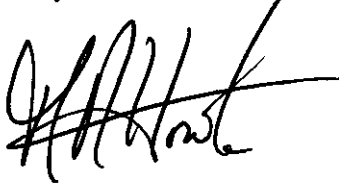
#### Elective resolutions

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



MA Howle  
Secretary

1 Sussex Place  
London  
W6 9XS

3rd September 2002

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

We have audited the financial statements on pages 6 to 20.

## **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 on page 3.

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.

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 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.

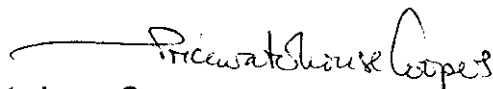
## **Basis of audit opinion**

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 2000 and of its profit for the eighteen month period then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
London

3rd September-2002

## Universal Music Operations Limited

### Profit and loss account for the eighteen month period ended 31 December 2000

	Note	Eighteen month period ended 31 December 2000 £'000	Eighteen month period ended 30 June 1999 £'000
<b>Turnover</b>	3	439,030	349,494
Cost of sales		(285,154)	(246,587)
<b>Gross profit</b>		153,876	102,907
Distribution costs		(29,020)	(23,106)
Administrative expenses		(72,795)	(73,756)
<b>Operating profit</b>	4	52,061	6,045
Interest receivable and similar income	7	5,937	67
Interest payable and similar charges	8	(261)	(4,368)
<b>Profit on ordinary activities before taxation</b>		57,737	1,744
Tax on profit on ordinary activities	9	(18,058)	69
<b>Profit for the financial period</b>		39,679	1,813
Dividends	10	-	(7,000)
<b>Retained profit / (loss) for the financial period</b>	19	39,679	(5,187)

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 been presented.


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

# Universal Music Operations Limited

## Balance sheet as at 31 December 2000

	<i>Note</i>	31 December 2000 £'000	30 June 1999 £'000
<b>Fixed assets</b>			
Tangible assets	11	21,289	14,061
Investments	12	547	23
		21,836	14,084
<b>Current assets</b>			
Stocks	13	1,709	1,107
Debtors: due within one year	14	1,105,026	228,731
Cash at bank and in hand		31,322	3,619
		1,138,057	233,457
<b>Creditors: amounts falling due within one year</b>	15	<b>(1,121,556)</b>	<b>(251,562)</b>
<b>Net current assets/(liabilities)</b>		<b>16,501</b>	<b>(18,105)</b>
<b>Total assets less current liabilities</b>		<b>38,337</b>	<b>(4,021)</b>
<b>Creditors: amounts falling due after one year</b>	16	<b>(398)</b>	<b>-</b>
<b>Provisions for liabilities and charges</b>	17	<b>(2,830)</b>	<b>(549)</b>
<b>Net assets/(liabilities)</b>		<b>35,109</b>	<b>(4,570)</b>
<b>Capital and reserves</b>			
Called up share capital	18	15	15
Profit and loss account	19	35,094	(4,585)
<b>Equity shareholders' deficit</b>	19	<b>35,109</b>	<b>(4,570)</b>

The financial statements on pages 6 to 20 were approved by the board of directors on 3rd September 2002 and were signed on its behalf by:



Director

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 31 December 2000

### 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.

Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of Vivendi Universal S.A, a company incorporated in the European Community, and is therefore exempt under Section 228 of the Companies Act 1985 from the obligation to prepare and deliver group accounts.

#### b) Turnover

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

#### 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:

Freehold land and buildings	-	2%
Plant & Equipment:		
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%
Motor Vehicles	-	25%



# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

### 1 Accounting policies (continued)

#### e) Investments

Investments in subsidiary and associated undertakings are stated at cost less provision for diminution in value where appropriate, to arrive at a net value equating to estimated recoverable amounts.

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

The expected cost of the pension scheme (see note 21) is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the scheme. 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.

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

### 2 Cash flow statement and related party disclosures

As at 31 December 2000, the company was a subsidiary undertaking where 90% or more of the voting rights were controlled within the Vivendi Universal 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 Vivendi Universal group or investees of that group.

### 3 Segmental reporting

Turnover by destination is as follows:

	Eighteen month period ended 31 December 2000 £'000	Eighteen month period ended 30 June 1999 £'000
United Kingdom	432,312	340,933
Europe	4,698	7,932
US	1,537	419
Other	483	210
	<hr/> 439,030	<hr/> 349,494

Turnover by source is exclusively derived in the United Kingdom. Consequently, the profit on ordinary activities before tax and net assets 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 31 December 2000 (continued)

#### 4 Operating profit

	Eighteen month period ended 31 December 2000 £'000	Eighteen month period ended 30 June 1999 £'000 Restated
<b>Operating profit is stated after charging:</b>		
Wages and salaries	31,087	30,938
Social security costs	4,672	4,006
Other pension costs	2,039	578
<b>Staff costs</b>	<b>37,798</b>	<b>35,522</b>
<b>Operating profit is stated after charging/(crediting):</b>		
Depreciation:		
- owned tangible fixed assets	3,783	10,974
- tangible fixed assets held under finance leases	535	-
Exchange losses/(gains)	161	284
Operating lease charges:		
- Plant and machinery	461	346
- Other	2,010	2,340
<b>Auditors' remuneration:</b>		
Audit services	235	372
Non audit services	-	70

#### 5 Directors' emoluments

	Eighteen month period ended 31 December 2000 £'000	Eighteen month period ended 30 June 1999 £'000
Directors' emoluments	1,995	2,437
Compensation for loss of office	-	338

The emoluments of the highest paid director were £1,429,302 (eighteen months ended 30 June 1999: £1,256,900)

Retirement benefits are accruing to two directors (30 June 1999: two) under a defined benefit scheme

One director exercised share options during the eighteen months ended 31 December 2000 (eighteen months ended 30 June 1999: four)

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

### 6 Employee information

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

	Eighteen month period ended 31 December 2000 No.	Eighteen month period ended 30 June 1999 No.
Commercial and administrative	674	694

### 7 Interest receivable and similar income

	Eighteen month period ended 31 December 2000 £'000	Eighteen month period ended 30 June 1999 £'000
Bank interest receivable	-	67
Other interest receivable	5,937	-
	<u>5,937</u>	<u>67</u>

### 8 Interest payable and similar charges

	Eighteen month period ended 31 December 2000 £'000	Eighteen month period ended 30 June 1999 £'000
Interest payable on bank overdraft	38	3,841
Interest payable on other loans	223	527
	<u>261</u>	<u>4,368</u>

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

#### 9 Tax on profit / loss on ordinary activities

	Eighteen month period ended		Eighteen month period ended	
	31 December 2000		30 June 1999	
	£'000	£'000	£'000	£'000
UK corporation tax at 30.0% (1999: 30.83%)		11,601		2,687
Group relief payable		3,500		4,766
Deferred taxation		2,737		(6,407)
Adjustment relating to an earlier year:				
UK corporation tax	(2,687)		(244)	
Deferred taxation	(456)		3	
Group relief	3,363		(874)	
		220		(1,115)
		18,058		(69)

#### 10 Dividends

	Eighteen month period ended	Eighteen month period ended
	31 December 2000	30 June 1999
	£'000	£'000
<b>Equity – Ordinary</b>		
Interim paid: £nil (1999: £747 per £1 share)	-	7,000
	-	7,000

# Universal Music Operations Limited

## Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

### 11 Tangible fixed assets

	Land and Buildings £'000	Plant and Equipment £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>				
At 1 July 1999	8,088	19,937	2,715	30,740
Additions	5,025	6,418	859	12,302
Adjustment	1,921	-	-	1,921
Transfers from group undertakings	-	-	433	433
Transfers to group undertakings	-	-	(181)	(181)
Disposals	(2,080)	(11,141)	(2,107)	(15,328)
<b>At 31 December 2000</b>	<b>12,954</b>	<b>15,214</b>	<b>1,719</b>	<b>29,887</b>
<b>Depreciation</b>				
At 1 July 1999	749	14,423	1,507	16,679
Charge for period	612	2,785	921	4,318
Adjustment	1,921	-	-	1,921
Transfers from group undertakings	-	-	266	266
Transfers to group undertakings	-	-	(134)	(134)
Disposals	(1,764)	(11,064)	(1,624)	(14,452)
<b>At 31 December 2000</b>	<b>1,518</b>	<b>6,144</b>	<b>936</b>	<b>8,598</b>
<b>Net book value</b>				
<b>At 31 December 2000</b>	<b>11,436</b>	<b>9,070</b>	<b>783</b>	<b>21,289</b>
At 1 July 1999	7,339	5,514	1,208	14,061

As at 31 December 2000, the net book value of Plant and Equipment included £828,000 (1 July 1999: £nil) of assets held under finance leases.

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

#### 12 Investments included in fixed assets

	Shares in Subsidiary Undertakings £'000	Limited Partnership £'000	Total £'000
Cost at 1 July 1999	-	23	23
Purchase of investment	524	-	524
<b>Net book value at 31 December 2000</b>	<b>524</b>	<b>23</b>	<b>547</b>

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 31 December 2000 is £nil (1 July 1999: £nil).

On 14 November 2000, 100 ordinary shares of £1 each were acquired in Serious Records Limited (Distribution and licensing of recorded music company, incorporated in United Kingdom). This represents a 50% share.

#### 13 Stocks

	31 December 2000 £'000	30 June 1999 £'000
Finished goods and goods for resale	1,709	1,107

#### 14 Debtors

	31 December 2000 £'000	30 June 1999 £'000
Trade debtors	86,778	50,081
Advances to artists	29,263	32,836
Amounts owed by group undertakings:		
Overseas group undertakings	15,633	15,213
UK group undertakings	956,904	113,210
Other debtors	9,419	10,179
UK corporation tax	3,870	3,614
Prepayments and accrued income	3,159	3,598
	<b>1,105,026</b>	<b>228,731</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 31 December 2000 (continued)

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

	31 December 2000 £'000	30 June 1999 £'000
Trade creditors	71,576	81,505
Amounts due to group undertakings:		
Overseas group undertakings	5,214	1,991
UK group undertakings	989,527	124,281
Taxation and social security:		
Corporation tax	10,149	1,943
Other taxes and social security	6,656	2,661
Other creditors	23,382	22,289
Finance lease creditor	465	-
Accruals and deferred income	14,587	16,892
	<b>1,121,556</b>	<b>251,562</b>

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

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

	2001 £'000	2000 £'000
Finance leases	398	-

#### 17 Provisions for liabilities and charges

Movements in provisions during the year are analysed as follows:

	£'000
Deferred Taxation:	
At 1 July 1999	549
(Released)/charged during the period	2,737
Adjustment relating to prior year	(456)
<b>At 31 December 2000</b>	<b>2,830</b>

	Provided in the financial statements		Full potential (asset)/liability	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Accelerated capital allowances	(373)	(2,547)	(373)	(2,547)
Recording costs	6,123	6,651	6,123	6,651
Other timing differences	(2,920)	(3,555)	(2,920)	(3,555)
	<b>2,830</b>	<b>549</b>	<b>2,830</b>	<b>549</b>



## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

#### 18 Called up share capital

	31 December 2000 £'000	31 December 1999 £'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

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

	Share Capital £'000	Profit And Loss Account £'000	Total Equity Shareholders' Funds/(Deficit) £'000
At 1 July 1999	15	(4,585)	(4,570)
Retained profit for the period	-	39,679	39,679
<b>At 31 December 2000</b>	<b>15</b>	<b>35,094</b>	<b>35,109</b>

#### 20 Financial commitments

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

	31 December 2000		30 June 1999	
	Land and Buildings £'000	Plant & Equipment £'000	Land and Buildings £'000	Plant & Equipment £'000
Operating leases which expire:				
Within one year	-	753	-	565
In the second to fifth years inclusive	-	484	-	363
Over five years	1,219	-	1,490	-
	<b>1,219</b>	<b>1,237</b>	<b>1,490</b>	<b>928</b>

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

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

	31 December 2000 Plant & Equipment £'000	30 June 1999 Plant & Equipment £'000
Gross lease rentals outstanding	951	-
Less: Finance charges outstanding	(88)	-
<b>Net obligations</b>	<b>863</b>	<b>-</b>
Payable as follows :		
Due within 1 year	465	-
Due between 1 and 5 years	398	-
Due in 5 or more years	-	-
Due after one year	398	-
<b>Net obligations</b>	<b>863</b>	<b>-</b>

## 21 Pension commitments

Following the acquisition of 99.5% of the outstanding shares of PolyGram N.V., the company's former parent, by The Seagram Company Ltd. ("Seagram") on 10 December 1998, the company's ultimate parent undertaking became Seagram.

A concession under the sale agreement was that former employees of PolyGram N.V. owned companies would be able to remain in their existing pension scheme for a year after the sale had closed. This scheme was called the Philips Pension fund, and the company's employees therefore 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.

Following the elapse of this twelve month period on 1 December 1999, employees of the former PolyGram N.V. owned companies ceased to participate in the Philips' Pension fund, and were offered an equivalent pension entitlement by Seagram. A final salary and money purchase section were added to the Seagram Distillers plc pension scheme, which mirrored the previous arrangements in the Philips Pension fund. During this second period of participation, which covers the date of this report, the former PolyGram N.V. owned companies continued to contribute 12.8% of participating members' Scheme Salaries.

A second group transaction occurred on 8<sup>th</sup> December 2000, when Seagram, Vivendi S.A. and Canal Plus S.A closed their merger agreement. Following the close of the merger between Seagram, Vivendi S.A. and Canal Plus S.A on 8<sup>th</sup> December 2000, the company's employees continued to participate in the Seagram Distillers plc Pension scheme. During this participation the former PolyGram N.V. owned companies continued to contribute 12.8% of participating members' Scheme Salaries.

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

Following the change of ownership of the company, employees were eligible to join the Vivendi Universal Pension group scheme under mirror terms.

The principal pension scheme in which the employees of this company were entitled to participate during the period of this report was the Seagram Distillers plc pension scheme.

The Seagram Distillers plc group ("the Group") operates a pension scheme ("the 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. In addition, there are unfunded, unapproved arrangements in respect of certain individuals.

The Scheme is a mixed defined benefit and defined contribution scheme and operates on a pre-funded basis. The funding policy is to contribute such variable amounts as will achieve 100% funding level on a projected salary basis. 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 1999, prior to the entry of the company's employees.

The regular pension expense, including cost of life assurance, for the eighteen month period ended 31 December 2000 was £2,039,000. (Eighteen month period ended 30 June 1999 – £ 578,000). 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 full market value.

The assumptions which 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 7.0% per annum, that salary increases would average 4.5% per annum (including an allowance for age related and merit increases) and that present and future pension increases would be 3.0% per annum.

At 6 April 1999 the market value of the assets was £160,493 which was sufficient to cover 137% of the benefits that had accrued to members, 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.

A provision of £ nil (30 June 1999 – provision of £ nil) is included in the financial statements, this being the deficit of the contributions paid over the accumulated pension expense.

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

## Universal Music Operations Limited

### Notes to the financial statements for the eighteen month period ended 31 December 2000 (continued)

#### 22 Ultimate parent company and parent undertaking of larger group of which the company is a member

On 20 June 2000, the company's ultimate parent undertaking, Seagram, Vivendi SA and Canal Plus SA announced that they had entered into a Merger Agreement, dated as of 19 June 2000 which sets forth the terms and conditions of the proposed business combination among Seagram, Vivendi and Canal. The merger closed on 8 December 2000.

The ultimate parent undertaking is now Vivendi Universal 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 Universal SA incorporated in France. Copies of its annual report in English may be obtained from:

Vivendi Universal SA  
42 Avenue de Freidland  
75380 Paris  
Cedex 08  
France

#### 23 Post balance sheet event

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.

The company's ultimate parent undertaking continues to be Vivendi Universal SA, a company incorporated in France.