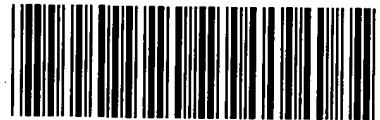


COMPANY REGISTRATION NUMBER 950138

**UNIVERSAL MUSIC OPERATIONS LIMITED  
DIRECTORS' REPORT AND FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

TUESDAY



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# **UNIVERSAL MUSIC OPERATIONS LIMITED**

## **FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2014**

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# UNIVERSAL MUSIC OPERATIONS LIMITED

## OFFICERS AND PROFESSIONAL ADVISERS

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### THE BOARD OF DIRECTORS

DS Joseph  
MJ Swatton  
RM Constant  
AM Barker  
DRJ Sharpe  
SG Miron  
K Brown

### COMPANY SECRETARY

A Abioye

### REGISTERED OFFICE

364-366 Kensington High Street  
London  
W14 8NS

### AUDITOR

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

# UNIVERSAL MUSIC OPERATIONS LIMITED

## STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2014

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The directors present their strategic report for the company for the period ended 31 December 2014.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was to market and distribute recorded music and videos.

The result and position of the company as at and for the year ended 31 December 2014 are set out in the profit and loss account, statement of total recognised gains and losses and balance sheet on pages 7, 8 and 9 respectively. The result and position of the company were in line with directors' expectations.

The company had a 3% increase in revenues due to a strong release schedule and increased levels of license income. The market in physical and download to own declined in the year but the growth in subscription looks promising.

Margins improved due to higher level of license income, leading to a six fold increase in operating profit.

### RESULTS AND DIVIDENDS

The company's loss for the financial year was £5,858,000 (2013 - loss £14,457,000). The retained loss for the year has been transferred to reserves.

### 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 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 in the subscription services market can replace the decline in the physical and download 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.

By Order of the board



DRJ Sharpe  
Director

23 JUN 2015

# UNIVERSAL MUSIC OPERATIONS LIMITED

## DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2014

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The directors present their report and the financial statements of the company for the year ended 31 December 2014.

### DIRECTORS

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

DS Joseph  
MJ Swatton  
Universal Music UK Limited  
RM Constant  
AM Barker  
DRJ Sharpe  
SG Miron  
K Brown

Universal Music UK Limited resigned as a director on 24 September 2014.

### 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.

### DONATIONS

The company made no charitable or political donations in either year.

### 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## DIRECTORS' REPORT *(continued)*

**YEAR ENDED 31 DECEMBER 2014**

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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
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

By order of the board

  
A Abioye  
Company Secretary

Company Registration Number: 950138

**23 JUN 2015**

# **UNIVERSAL MUSIC OPERATIONS LIMITED**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL MUSIC OPERATIONS LIMITED**

**YEAR ENDED 31 DECEMBER 2014**

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We have audited the financial statements of Universal Music Operations Limited for the year ended 31 December 2014, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. 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 AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 4, 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. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2014 and of its loss for the year then ended;
- 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# UNIVERSAL MUSIC OPERATIONS LIMITED

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

YEAR ENDED 31 DECEMBER 2014

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### 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.

*Ernst & Young LLP*

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

*23/6/15*

Company Registration Number: 950138



**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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	Note	2014 £'000	2013 £'000
<b>TURNOVER</b>	<b>2</b>	322,875	314,366
Cost of sales		(216,493)	(241,527)
<b>GROSS PROFIT</b>		106,382	72,839
Distribution costs		(4,525)	(3,152)
Administrative expenses		(81,983)	(66,207)
<b>OPERATING PROFIT</b>	<b>3</b>	19,874	3,480
Income from participating interests	<b>6</b>	6,485	4,052
Interest receivable and similar income	<b>7</b>	13,612	14,007
Amounts written off investments	<b>8</b>	(4,204)	(400)
Interest payable and similar charges	<b>9</b>	(41,641)	(42,678)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(5,874)	(21,539)
Tax on loss on ordinary activities	<b>10</b>	16	7,082
<b>LOSS FOR THE FINANCIAL YEAR</b>		(5,858)	(14,457)

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

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 10 to 27 form part of these financial statements.

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**UNIVERSAL MUSIC OPERATIONS LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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	<b>2014</b>	2013
	<b>£'000</b>	£'000
Loss for the financial year attributable to the shareholders	(5,858)	(14,457)
Actuarial gain/(loss) in respect of defined benefit pension scheme	(3,200)	(8,300)
Movement on deferred tax in respect of actuarial gain/(loss) on defined benefit pension scheme	<u>640</u>	<u>1,785</u>
Total gains and losses recognised since the last financial statements	<u>(8,418)</u>	<u>(20,972)</u>

**The notes on pages 10 to 27 form part of these financial statements.**

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# UNIVERSAL MUSIC OPERATIONS LIMITED

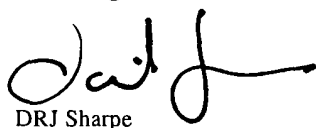
## BALANCE SHEET

AS AT 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
<b>FIXED ASSETS</b>			
Tangible assets	11	2,035	3,571
Investments	12	800	5,004
		<u>2,835</u>	<u>8,575</u>
<b>CURRENT ASSETS</b>			
Stocks	13	1,665	1,780
Debtors	14	1,919,751	1,765,002
		<u>1,921,416</u>	<u>1,766,782</u>
<b>CREDITORS: Amounts falling due within one year</b>	15	<u>(1,629,429)</u>	<u>(1,473,332)</u>
<b>NET CURRENT ASSETS</b>		<u>291,987</u>	<u>293,450</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		294,822	302,025
<b>CREDITORS: Amounts falling due after more than one year</b>	16	(136,000)	(136,000)
<b>PROVISIONS FOR LIABILITIES</b>			
Deferred taxation	17	(34)	(1,245)
Provisions for liabilities and charges	18	(21,560)	(15,915)
		<u>137,228</u>	<u>148,865</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		137,228	148,865
Defined benefit pension scheme liability	19	-	(3,219)
		<u>137,228</u>	<u>145,646</u>
<b>NET ASSETS</b>		<u>137,228</u>	<u>145,646</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	22	15	15
Profit and loss account	23	137,213	145,631
		<u>137,228</u>	<u>145,646</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	23	<u>137,228</u>	<u>145,646</u>

These accounts were approved by the board of directors and authorised for issue on and are signed on their behalf by:

23 JUN 2015

  
DRJ Sharpe

The notes on pages 10 to 27 form part of these financial statements.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 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.

The Company's business activities, together with the factors likely to affect its future developments, its financial exposures and its risk exposures are described above.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future. Accordingly, they continue to adapt the going concern basis in preparing the financial statements.

#### **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.

#### **Revenue recognition**

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.

Digital and 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. Royalties payable are charged against the relevant income of the same period.

#### **Fixed assets**

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

#### **Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Improvements	- over the life of the lease
Plant & Machinery	- 2% - 25% straight line
Motor Vehicles	- 25% straight line

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Investments**

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

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 1. ACCOUNTING POLICIES *(continued)*

#### Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

#### Finance lease agreements

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 in accordance with the above depreciation policies 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 on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

#### Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on a straight line basis over the period of the lease.

#### Pension costs and other post-retirement benefits

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.

In respect of employees of the Company, Company contributions 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. The defined contribution section of the Scheme closed to future accrual from 31 March 2011.

With effect from 1 April 2011 defined contribution accrual is under a contract based Group Personal Pension ("GPP") arrangement operated by Standard Life. In respect of employees of the Company, Company contributions to the GPP are charged to the profit and loss account as they become payable.

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 Operations Ltd alone.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 1. ACCOUNTING POLICIES *(continued)*

#### **Taxation**

The charge/credit for taxation is based on the profit/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**

Monetary 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 recorded in the profit and loss account.

#### **Advances**

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. Long term advances to artists, where the effect of the time value of money is material, are discounted.

#### **Classification of shares as debt or equity**

Preference shares that provided for the contractual right to deliver cash to another entity are classified as a financial instrument. The corresponding dividends are charged to the profit and loss account.

The company's 4.82% non redeemable preference shares have been accounted for as such a financial instrument.

#### **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.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 2. TURNOVER

Turnover by destination is as follows:

	2014 £'000	2013 £'000
United Kingdom	234,625	219,758
Rest of Europe	33,027	38,424
United States of America	36,597	35,479
Rest of World	18,626	20,705
	<u>322,875</u>	<u>314,366</u>

Turnover by source is exclusively derived in the United Kingdom.

### 3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2014 £'000	2013 £'000
Depreciation of owned fixed assets	1,402	1,678
Depreciation of assets held under finance lease agreements	-	34
Loss on disposal of fixed assets	3	7
Auditor's remuneration - audit of the financial statements	209	209
Operating lease costs:		
- Land and buildings	4,555	4,374
Net profit on foreign currency translation	<u>(289)</u>	<u>(652)</u>

The company also incurred costs in respect of audit services on behalf of other group entities amounting to £269,000 (2013 - £115,000).

### 4. PARTICULARS OF EMPLOYEES

The company had no employees during the year 2014 (2013 - nil).

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2014

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#### 5. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were:

	2014 £'000	2013 £'000
Remuneration receivable	3,633	3,068
Value of company pension contributions to money purchase schemes	53	111
	<u>3,686</u>	<u>3,179</u>

The directors' emoluments above were paid and ultimately borne by the principal.

Retirement benefits are accruing to three directors (2013 : four) under the Universal defined contribution section of the Universal Music Group Pension Scheme (UMGPS) and the Group Personal Pension (GPP) arrangement.

Four directors (2013: four) were not members of any retirement benefit schemes.

The emoluments of two directors (2013 : two) were paid and borne by other fellow group undertakings and they received no remuneration in respect of their services to the company.

#### Remuneration of highest paid director:

	2014 £'000	2013 £'000
Total remuneration (excluding pension contributions)	2,460	2,113
Value of company pension contributions to money purchase schemes	-	46
	<u>2,460</u>	<u>2,159</u>

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £Nil (2013 - £Nil) together with a lump sum amounting to £Nil (2013 - £40,000).

None of the directors, including the highest paid director received share options under the group's long term incentive grant scheme (2013 : five). The amounts receivable to the directors under long term incentive schemes were £Nil (2013 : £Nil).

#### 6. INCOME FROM PARTICIPATING INTERESTS

	2014 £'000	2013 £'000
Income from participating interests	<u>6,485</u>	<u>4,052</u>

#### 7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £'000	2013 £'000
Bank interest receivable	184	-
Interest receivable from group undertakings	13,428	12,207
Other similar income receivable	-	1,800
	<u>13,612</u>	<u>14,007</u>

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# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 8. AMOUNTS WRITTEN OFF INVESTMENTS

	2014 £'000	2013 £'000
Amount written off investments	4,204	400

### 9. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Interest on pension obligation	3,900	3,300
Expected return on pension scheme assets	(4,000)	(3,500)
Other finance charges	1,067	2,622
Interest payable to group undertakings	40,674	40,256
	<u>41,641</u>	<u>42,678</u>

### 10. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

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

	2014 £'000	2013 £'000
Current tax:		
<b>UK Taxation</b>		
In respect of the year:		
UK Corporation tax based on the results for the year at 21.50% (2013 - 23.25%)	150	-
Adjustments in respect of previous years	-	(1,834)
	150	(1,834)
Group relief payable for losses surrendered from other group undertakings	(477)	(5,945)
	(327)	(7,779)
Double taxation relief	(150)	-
	(477)	(7,779)
<b>Foreign tax</b>		
Current tax on income for the year	150	145
Total current tax	(327)	(7,634)
Deferred tax:		
Origination and reversal of timing differences	311	552
Tax on loss on ordinary activities	(16)	(7,082)

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# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2014

#### 10. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES *(continued)*

##### (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 21.50% (2013 - 23.25%).

The Finance Act 2013 enacted reductions in the UK corporate tax rate to 21% from April 2014 and 20% from April 2015. Deferred tax assets and liabilities are measured at the rate that is expected to apply to the accounting period when the asset is realised or the liability is settled, based on the above rates.

	2014 £'000	2013 £'000
Loss on ordinary activities before taxation	<u>(5,874)</u>	<u>(21,539)</u>
Loss on ordinary activities at the standard rate of UK Corporation tax of 21.50% (2013: 23.25%)	(1,263)	(5,008)
Expenses not deductible for tax purposes	1,298	(1,828)
Adjustments in respect of previous periods	-	(1,834)
Foreign tax suffered in the period	-	145
Movement in timing differences	(311)	1,066
Impact of statutory rate change	<u>(51)</u>	<u>(175)</u>
Current tax credit for the financial year	<u>(327)</u>	<u>(7,634)</u>

#### 11. TANGIBLE FIXED ASSETS

	Leasehold Improvements £'000	Plant & Machinery £'000	Motor Vehicles £'000	Total £'000
<b>COST</b>				
At 1 January 2014	14,238	4,397	65	18,700
Additions	96	328	-	424
Disposals	<u>(2,969)</u>	<u>(870)</u>	<u>(65)</u>	<u>(3,904)</u>
<b>At 31 December 2014</b>	<u>11,365</u>	<u>3,855</u>	<u>-</u>	<u>15,220</u>
<b>DEPRECIATION</b>				
At 1 January 2014	11,303	3,772	54	15,129
Charge for the year	1,161	241	-	1,402
On disposals	<u>(2,966)</u>	<u>(326)</u>	<u>(54)</u>	<u>(3,346)</u>
<b>At 31 December 2014</b>	<u>9,498</u>	<u>3,687</u>	<u>-</u>	<u>13,185</u>
<b>NET BOOK VALUE</b>				
<b>At 31 December 2014</b>	<u>1,867</u>	<u>168</u>	<u>-</u>	<u>2,035</u>
At 31 December 2013	<u>2,935</u>	<u>625</u>	<u>11</u>	<u>3,571</u>
			2014 £'000	2013 £'000
<b>The net book amount of Leasehold improvements comprises:</b>				
Short leaseholds			<u>1,867</u>	<u>2,935</u>

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 11. TANGIBLE FIXED ASSETS *(continued)*

### 12. INVESTMENTS

	Shares in subsidiary undertakings £'000	Def American Limited Partnership £'000	Total £'000
<b>COST</b>			
At 1 January 2014 and 31 December 2014	<u>17,582</u>	<u>23</u>	<u>17,605</u>
<b>PROVISION FOR IMPAIRMENT</b>			
At 1 January 2014	12,578	23	12,601
Written off in year	<u>4,204</u>	<u>-</u>	<u>4,204</u>
At 31 December 2014	<u>16,782</u>	<u>23</u>	<u>16,805</u>
<b>NET BOOK VALUE</b>			
At 31 December 2014	<u>800</u>	<u>-</u>	<u>800</u>
At 31 December 2013	<u>5,004</u>	<u>-</u>	<u>5,004</u>

The company's investment in a Limited Partnership represents a 50% share of Def American Limited, which is involved in licensing and distributing recorded music in the United Kingdom.

### Subsidiary Undertakings

The principal subsidiaries of Universal Music Operations Limited, all incorporated in England and Wales as at 31 December 2014 were as follows:

Name	Ordinary share holdings	Nature of business
Fiction Records Limited	100%	Dormant company
Serious Records Limited	100%	Dormant company
Wolftone Limited	50.1%	Marketing and distribution of recorded music
All Around The World Limited	50%	Marketing and distribution of recorded music
Now that's what I call music LLP	50%	Marketing and distribution of recorded music
Future Records Ltd	50%	Marketing and distribution of recorded music
Global Talent Music Recordings Ltd	50%	Marketing and distribution of recorded music

### 13. STOCKS

	2014 £'000	2013 £'000
Finished goods	<u>1,665</u>	<u>1,780</u>

The difference between the purchase price or production cost of stock and their replacement cost is not material.

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# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 14. DEBTORS

	2014 £'000	2013 £'000
Trade debtors	41,202	39,294
Amounts owed by group undertakings	1,781,461	1,643,850
VAT recoverable	–	1,883
Other debtors	37,286	43,339
Prepayments and accrued income	59,802	36,636
	<u>1,919,751</u>	<u>1,765,002</u>

Included within amounts owed by group undertakings are the following interest-bearing amounts:

- £207,673,000 (2013 - £207,673,000) in respect of an intercompany balance with Universal Music (UK) Holdings Limited. Interest accrues on the loan at the 1 month LIBOR plus 1%.
- £136,000,000 (2013 - £136,000,000) in respect of an intercompany loan with a fellow group undertaking, Universal Music Holdings Limited. This balance was held with Centenary UK Limited in the prior year. Interest accrues on the loan at the 1 month LIBOR plus 1.1%
- £560,000,000 (2013 - £560,000,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at the 1 month LIBOR plus 0.1% and is repayable on demand.
- £199,969,000 (2013 - £199,969,000) in respect of an intercompany loan due from a fellow group undertaking, Universal Music Holdings Limited. Interest accrues on the loan at the 1 month LIBOR plus 0.1% and is repayable on demand.

All other amounts owed by UK group undertakings are unsecured and repayable on demand. Interest accrues on these amounts at 1 month LIBOR plus 0.1%.

At 31 December 2014 £20,853,747 (2013 - £18,286,000) included within Other Debtors related to discounted advances due in more than 1 year.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 15. CREDITORS: Amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans and overdrafts	24,344	11,239
Trade creditors	137,454	132,436
Amounts owed to group undertakings	1,394,563	1,257,619
Corporation tax	1,000	1,000
Other taxation and social security	-	2,752
VAT	1,482	-
Other creditors	15,016	16,855
Accruals and deferred income	55,570	51,431
	<u>1,629,429</u>	<u>1,473,332</u>

Included within amounts owed to group undertakings are the following interest-bearing amounts:

- £8,924,012 (2013 - £8,924,012) in respect of an intercompany balance with a fellow group undertaking, Universal Music Group Treasury S.A. The interest rate on the loan is 1 year LIBOR plus 3%. The loan is unsecured and repayable on demand.
- £525,000,000 (2013 - £525,000,000) in respect of an intercompany balance with Universal Music Leisure Limited. Interest accrues on the loan at 6%.

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

### 16. CREDITORS: Amounts falling due after more than one year

	2014 £'000	2013 £'000
Shares classed as financial liabilities	<u>136,000</u>	<u>136,000</u>

### 17. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was:

	2014 £'000	2013 £'000
Provision brought forward	1,245	2,293
Balance brought forward deferred tax on pension liability	(883)	(698)
Exclude Deferred Tax Asset included in defined benefit pension scheme liability note	-	883
STRGL movement arising in the year	(640)	(1,785)
Profit and loss account movement arising during the year	311	552
Rounding	1	-
Provision carried forward	<u>34</u>	<u>1,245</u>

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 17. DEFERRED TAXATION *(continued)*

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2014 £'000	2013 £'000
Excess of depreciation over taxation allowances	(1,006)	(1,006)
Other timing differences	1,040	2,251
	<u>34</u>	<u>1,245</u>

The deferred tax is included in the balance sheet is as follows:

	2014 £'000	2013 £'000
Included in deferred tax (note 18)	30	(1,245)
Included in defined benefit pension scheme liability (note 19)	0	883
Provision for deferred tax	30	(362)

### 18. PROVISIONS FOR LIABILITIES AND CHARGES

	Artist royalties £'000	Other provisions £'000	Total £'000
Balance brought forward	12,010	3,905	15,915
Profit and Loss Account movement arising during the year	1,848	3,797	5,645
Balance carried forward	<u>13,858</u>	<u>7,702</u>	<u>21,560</u>

Provision is made against the outcome of artist royalty audits ongoing at the balance sheet date, and against additional artist royalty obligations anticipated by management at the balance sheet date, resulting from a past event likely to give rise to the transfer of economic benefit.

The directors anticipate that these liabilities will crystallise in the foreseeable future.

The other provisions amount represents provisions for dilapidations on properties.

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 19. PENSIONS AND OTHER POST RETIREMENT BENEFITS

Vivendi S.A. operates the UMGPS, formerly known as the Vivendi Universal Pension Scheme, in the United Kingdom. It is designed to provide retirement benefits for certain employees. This is the most significant scheme operated by Vivendi S.A. in the UK and the principal company of the Scheme is Universal Music Operations Limited. The Scheme is independent of the group and is trustee administered. The Scheme has been approved by HM Revenue & Customs for taxation purposes.

The Scheme is a mixed defined benefit and defined contribution scheme.

Prior to 13 November 2008, each defined benefit member of the Scheme was subject to one of two different benefit structures. Members with a Universal benefit structure consisted of current and former Universal Music employees and former Vivendi Universal Entertainment ("VUE") employees. Members with a Seagram Wines and Spirits Group ("SWSG") benefit structure consisted of former SWSG employees. The underlying assets and liabilities of the Scheme allocated to the Universal Music members were accounted for within Universal Music Operations Limited and the underlying assets and liabilities of the Scheme allocated to the SWSG and VUE members were accounted for within Centenary Holdings Limited ("CHL"). Both companies are fellow group undertakings.

On 13 November 2008 the pensioner members of the Scheme transferred to the Vivendi 2008 Pensioners' Scheme ("VPS"), which is accounted for in its entirety within CHL. The underlying liabilities allocated to these members and related assets were transferred at the same point in time and the transfer was accounted for as a settlement within UMGPS. Consequently, from 13 November 2008 Universal Music Operations Ltd no longer holds any liability in respect of the transferring pensioner members.

Following the transfer of pensioner members the underlying assets and liabilities of the Scheme allocated to the Universal Music members at 13 November 2008 remain accounted for within Universal Music Operations Limited.

FRS 17 requires that a pension 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 Operations Ltd alone.

Formal actuarial valuations are carried out on an at least a triennial basis and updated at each reporting year end. A full formal actuarial valuation was carried out as at 5 April 2012 by Mercer Limited as independent, professionally qualified actuaries to the Scheme. A revised schedule of contributions was subsequently agreed with effect from May 2013. As such, the total contributions to the defined benefit section of the UMGPS over 2014 were £7,600,000.

The results of the 5 April 2012 valuation have been updated to 31 December 2014 for FRS 17 purposes. Over the reporting year 2014, the valuation update showed that the deficit fell from £4.0 million to £0.0 million. The updated valuation at 31 December 2014 showed the market value of the assets in the defined benefit section was £109.9 million and that the liabilities were £106.1 million. Consequently, the market value of the assets at 31 December 2014 were sufficient to cover 95% of the benefits that had accrued to defined benefit members, after allowing for expected future increases in earnings where appropriate and future revaluations during deferment.

The Company's total contributions amounted to £7,600,000 for the year ended 31 December 2014 (2013: £7,500,000).

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 19. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The amounts recognised in the profit and loss account are as follows:

	2014 £'000	2013 £'000
Amounts included in other finance cost:		
Expected return on scheme assets	(4,000)	(3,500)
Interest on scheme liabilities	3,900	3,300
Current Service Cost	400	500
	<u>300</u>	<u>300</u>
Other finance cost	300	300
	<u>300</u>	<u>300</u>
Total charge to the profit and loss account	<u>300</u>	<u>300</u>

Other finance income is included in the profit and loss account within interest receivable and similar income.

The amounts recognised in the statement of total recognised gains and losses are as follows:

	2014 £'000	2013 £'000
Actual return on scheme assets	20,800	1,200
Less: expected return on pension scheme assets	(4,000)	(3,500)
	<u>16,800</u>	<u>(2,300)</u>
Other actuarial gains	(16,200)	(6,000)
Effect of Asset Limitation 2	(3,800)	-
	<u>(3,200)</u>	<u>(8,300)</u>
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	<u>(3,200)</u>	<u>(8,300)</u>

At 31 December 2014 the cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £22,100,000 (2013 - £22,100,000).

The amounts recognised in the balance sheet are as follows:

	2014 £'000	2013 £'000
Present value of funded obligations	(106,100)	(86,701)
Fair value of scheme assets	109,900	82,600
	<u>3,800</u>	<u>(4,101)</u>
Deficit restriction	(3,800)	-
	<u>-</u>	<u>(4,101)</u>
Deficit in the scheme after restriction	-	(4,101)
Related deferred tax asset	-	882
	<u>-</u>	<u>882</u>
Net pension liability	<u>-</u>	<u>(3,219)</u>

The fair value of scheme assets consists of bonds of £87,040,000 (2013 - £48,073,000) and £22,860,000 other assets (2013 - £34,527,000).

The term "deficit restriction" in the above table can also be referred to as the "effect of asset limitation" as per the actuarial valuation report.



# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 19. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Changes in the present value of the defined benefit obligation scheme are as follows:

	2014	2013
	£'000	£'000
Opening defined benefit obligation	86,700	78,000
Interest on scheme liabilities	3,900	3,300
Actuarial loss	16,200	6,000
Benefits paid	(700)	(600)
Closing defined benefit obligation	<u>106,100</u>	<u>86,700</u>

Changes in the fair value of scheme assets are as follows:

	2014	2013
	£'000	£'000
Opening fair value of scheme assets	82,600	75,000
Expected return on scheme assets	4,000	3,500
Contributions by employer	7,600	7,500
Actuarial gain/(loss)	16,800	(2,300)
Benefits paid	(700)	(600)
Expenses paid	(400)	(500)
Closing fair value of scheme assets	<u>109,900</u>	<u>82,600</u>

The principal actuarial assumptions as at the balance sheet date were:

	2014	2013
	%	%
Discount rate	3.75	4.50
Expected return on scheme assets: Others	4.50	4.50
Rate of increase in salaries	5.00	5.00
Rate of increase in deferred pensions	3.50	3.50
Rate of inflation rpi	3.50	3.50
Rate of inflation cpi	2.75	3.00
Expected return on scheme assets: Bonds	4.50	4.50

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 19. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

#### History of experience gains and losses

	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Present value of defined benefit obligation	(106,100)	(86,701)	(78,001)	(76,100)
Fair value of scheme assets	109,900	82,600	75,000	60,600
Deficit in scheme	3,800	(4,101)	(3,001)	(15,500)
Experience adjustments arising on plan liabilities	(1,900)	-	(1,000)	12,200
Experience adjustments arising on plan assets	16,800	1,200	(5,700)	(600)

The assumed life expectations on retirement at age 65 for those retiring today (member age 65) and those retiring in 20 years (member age 45 today) are 24.2 (2013 - 24.4) and 26.3 (2013 - 26.2) respectively.

The total pension contributions made by the company were £7,600,000 in 2014 (2013 - £7,500,000). The company charged a service fee amounting to £nil in 2014 (2013 - £nil) to fellow subsidiaries in respect of defined benefit contributions.

With effect from 1 December 2006, the defined benefit section of the scheme closed to future accrual. Past service benefits remain linked to the final salary for active members of the scheme who accrued defined benefits up to or after 1 October 2005. The participating employers to the scheme agreed to contribute a minimum of £6,700,000 per annum, plus the cost of administration expenses and death in service insurance premiums. The company's share of this amounted to £7,600,000 in 2014 (2013 £7,500,000). The company expects to contribute £7,100,000 to its pension plan in 2015.

### 20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2014 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2014 £'000	2013 £'000
Operating leases which expire:		
Within 1 year	-	80
Within 2 to 5 years	3,718	3,247
After more than 5 years	936	811
	<u>4,654</u>	<u>4,138</u>

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 21. RELATED PARTY TRANSACTIONS

During the year, Universal Music Operations Limited operated a joint venture with All Around The World Limited, a company which is 50% owned. At 31 December 2014, Universal Music Operations Limited were owed by this related party £263,000 (2013: £599,000). Universal Music Operations Limited also has 50% shareholdings in Future Records Limited which owed the company £5,169,000 (2013 : £5,549,000) and Global Talent Music Recordings Limited which the company owe £440,000 (2013 : £1,594,000 debtor) as at 31 December 2014. Universal Music Operations Limited also have a 25% shareholding in Mother Records Limited who owed the company £165,000 as at 31 December 2014 (2013: £165,000). During the year Universal Music Operations Limited entered into a joint venture with Naughty Records Limited which is 51% owned by the company and as at 31st December 2014 owed the company £426,220.

Purchases from All Around The World Limited during the year 2014 were £336,000. Purchases from Future Records Ltd during the year 2014 were £380,000. Purchases from Global Talent Music Recordings Limited during the year 2014 were £2,034,000 (2013 : £900,000). Purchases from Mother Records Limited during the year 2014 were £nil (2013 : £6,000). Sales to Naughty Records Limited during the the year 2014 were £426,220.

### 22. SHARE CAPITAL

#### Allotted and called up:

	2014		2013	
	No	£'000	No	£'000
Ordinary shares of £1 each	15,000	15	15,000	15
4.82% non-redeemable preference shares of £1 each	2,045	2	2,045	2
	<u>17,045</u>	<u>17</u>	<u>17,045</u>	<u>17</u>
			<b>2014</b>	<b>2013</b>
<b>Amounts presented in equity:</b>			<b>£'000</b>	<b>£'000</b>
15,000 Ordinary shares of £1 each			<u>15</u>	<u>15</u>
<b>Amounts presented in liabilities:</b>				
2,045 4.82% non-redeemable preference shares of £1 each			<u>2</u>	<u>2</u>

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 22. SHARE CAPITAL *(continued)*

The preference shares, classified as financial liabilities on the balance sheet, carry the right to preferential dividends at the rate of 4.82% per annum of the amount paid up (including the premium). The shares carry the following rights and obligations:

- 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.
- The shares carry the right to receive notice of or to attend or vote at General Meetings of the company. Whenever the holders of the 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.
- The shares carry the right to two preferential dividends on 30 June and 31 December per annum at the rate of 4.82% per annum of the amount paid up (including the premium), or any amount which falls to be treated as paid up, on each preference shares. Holders of preference shares are not entitled to any further right of participation in the profits of the company

On 20 March 2008 the holder of all of the issued fixed-rate, non-redeemable preference shares irrevocably waived any and all rights in respect of any accrued preferential dividends.

The non-redeemable preference shares valued at £2,045 and the related share premium of £135,998,000 are therefore considered in total as £136,000,045 of non-equity.

### 23. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £'000	Profit and loss account £'000	Total share- holders' funds £'000
Balance brought forward at 1 January 2013	15	166,604	166,619
Loss for the year	–	(14,457)	(14,457)
Actuarial (loss)/gain in respect of defined benefit pension scheme	–	(6,516)	(6,516)
Balance brought forward at 1 January 2014	15	145,631	145,646
Loss for the year	–	(5,858)	(5,858)
Actuarial (loss)/gain in respect of defined benefit pension scheme	–	(2,560)	(2,560)
Balance carried forward at 31 December 2014	<u>15</u>	<u>137,213</u>	<u>137,228</u>

The actuarial gain/(loss) in respect of the defined benefit pension scheme for the year ended 31 December 2014 is net of tax of £640,000 (2013 - £1,785,000).

# UNIVERSAL MUSIC OPERATIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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### 24. ULTIMATE PARENT COMPANY

The immediate parent undertaking is Universal Music Leisure Limited. 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:

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