




REPORT AND ACCOUNTS

PolyGram Record
Operations Limited

31 DECEMBER 1992



 **ERNST & YOUNG**

PolyGram Record Operations Limited

Registered No. 950138

DIRECTORS

R Ames
A G Pye
PolyGram UK Limited
N J Carrington
G N Rigg

SECRETARY

M Howle

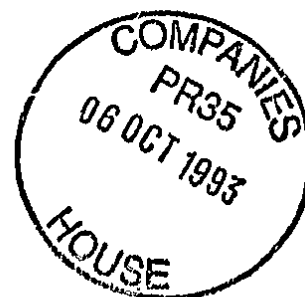
AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

REGISTERED OFFICE

1 Sussex Place
London W6 9XS

ERNST & YOUNG



PolyGram Record Operations Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1992.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5. The profit on ordinary activities, after taxation amounted to £2,400,000 (1992 - £3,480,000). The directors recommend a final ordinary dividend of £2,400,000 (1991 - £3,500,000). No profit or loss has been retained for the period.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company were the distribution and marketing of gramophone records and music cassettes together with compact discs and videos. This situation is expected to continue in the coming year. The directors aim to maintain the management policies which have resulted in the company's growth and success in recent years.

TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the year are set out in note 9.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1992 are those listed on page 2.

M L Oberstein resigned as a director on 31 December 1992 and R Ames was appointed a director on the same date.

At no time during the year did any director have any interest which is required by section 324 of the Companies Act 1985 to be notified to the company.

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 DONATIONS

During the year the company made charitable donations of £28,000.

EMPLOYEE INVOLVEMENT

During the year, 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.

AUDITORS

The Company's auditors Ernst & Young will continue in office pursuant to an elective resolution passed on 29 November 1990.

By order of the board

Secretary

26 JUL 1993

REPORT OF THE AUDITORS
to the members of PolyGram Record Operations Limited

We have audited the accounts on pages 5 to 14 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1992 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
London

26 July 1993

PolyGram Record Operations Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1992

	Notes	1992 £000	1991 £000
TURNOVER	2	182,871	167,913
Cost of sales		(135,736)	(123,428)
GROSS PROFIT		<u>47,135</u>	<u>44,485</u>
Distribution costs		(12,087)	(12,162)
Administrative expenses		(31,285)	(27,326)
		<u>(43,372)</u>	<u>(39,488)</u>
OPERATING PROFIT		<u>3,763</u>	<u>4,997</u>
Interest receivable and similar income	4	2,362	3,648
Interest payable and similar charges	4	(1,928)	(2,260)
		<u>434</u>	<u>1,388</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	4,197	6,385
Tax on profit on ordinary activities	8	(1,797)	(2,905)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>2,400</u>	<u>3,480</u>
Dividend	5	(2,400)	(3,500)
		<u>-</u>	<u>(20)</u>
Retained profit brought forward		49	69
RETAINED PROFIT CARRIED FORWARD		<u>49</u>	<u>49</u>

PolyGram Record Operations Limited

BALANCE SHEET

at 31 December 1992

	Notes	1992 £000	1991 £000
FIXED ASSETS			
Tangible assets	9	4,387	4,709
Investments	10	250	250
		<u>4,637</u>	<u>4,959</u>
CURRENT ASSETS			
Stocks	11	1,977	2,241
Debtors	12	140,519	124,090
Cash at bank and in hand		10,032	9,692
		<u>152,528</u>	<u>136,023</u>
CREDITORS: amounts falling due within one year	13	<u>(151,880)</u>	<u>(136,258)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>648</u>	<u>(235)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,285</u>	<u>4,724</u>
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	14	<u>(5,221)</u>	<u>(4,660)</u>
		<u>64</u>	<u>64</u>
CAPITAL AND RESERVES			
Called up share capital	15	15	15
Profit and loss account		49	49
		<u>64</u>	<u>64</u>



Director

26 JUL 1993

NOTES TO THE ACCOUNTS

at 31 December 1992

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Tangible fixed assets

Depreciation is charged on a straight line basis as follows:

Land	-	Nil
Buildings	-	2%
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%

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company is a member of a funded group scheme and its contributions to the fund are based on a common rate throughout the group. Pensions are provided under a defined benefit scheme. Charges are made to the profit and loss account (note 7) in general, at a regular ongoing cost which, together with the benefits, are reviewed on the basis of triennial independent actuarial valuations of the fund. The latest actuarial valuation was carried out on 31 March 1990. Details of this valuation appear in the accounts of PolyGram (UK) Holdings Plc, the ultimate United Kingdom parent undertaking. The company has followed the actuarial recommendation that its contributions be suspended from 1 October 1990 until 31 December 1995.

Investments

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

Non-consolidation of subsidiaries

Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of PolyGram N.V., 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.

NOTES TO THE ACCOUNTS

at 31 December 1992

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks and work-in-progress are stated at the lower of cost and estimated net realisable value. Cost represents actual cost and consists, in the case of own manufactured products, of direct material and labour costs together with the relevant proportion of factory fixed and variable overheads. Net realisable value is the estimated selling price less estimated costs to disposal.

Foreign currencies

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

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that taxation will be payable.

2. TURNOVER

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:

	1992	1991
	£000	£000
United Kingdom	138,567	130,454
Europe	42,913	35,590
USA	1,004	1,505
Other	387	364
	<u>182,871</u>	<u>167,913</u>

Turnover by source is exclusively derived in the United Kingdom. Consequently profit on ordinary activities before tax and net assets are all attributable to United Kingdom activities.

PolyGram Record Operations Limited

NOTES TO THE ACCOUNTS

at 31 December 1992

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	1992	1991
	£000	£000
Auditors' remuneration	85	81
Depreciation of tangible fixed assets	1,142	1,189
Exchange losses	259	117
Operating lease rentals – plant and machinery	1,404	1,086
– other	2,009	1,960
Amounts written off investments	–	189

Fees paid to the auditors for non-audit services were £62,000.

4. INTEREST

	1992	1991
	£000	£000
Interest receivable:		
Group undertakings	(2,292)	(3,431)
Others	(70)	(217)
	<u>(2,362)</u>	<u>(3,648)</u>
Interest payable:		
Group undertakings	150	–
Other	1,778	2,260
	<u>1,928</u>	<u>2,260</u>

5. DIVIDENDS

	1992	1991
	£000	£000
Ordinary – final proposed	<u>2,400</u>	<u>3,500</u>

6. DIRECTORS' REMUNERATION

	1992	1991
	£000	£000
Directors' remuneration (including pension contributions)	<u>473</u>	<u>415</u>
Emoluments of the chairman (excluding pension contributions) who was also the highest paid director	<u>190</u>	<u>175</u>

PolyGram Record Operations Limited

NOTES TO THE ACCOUNTS

at 31 December 1992

6. DIRECTORS' REMUNERATION (continued)

The number of directors whose emoluments (excluding pension contributions) fell within the following ranges were:

	1992 No.	1991 No.
£nil - £5,000	2	1
£45,001 - £50,000	-	1
£55,001 - £60,000	1	-
£70,001 - £75,000	-	1
£90,001 - £95,000	1	-
£105,001 - £110,000	-	1
£135,001 - £140,000	1	-
£170,001 - £175,000	-	1
£190,001 - £195,000	1	-

Management charges from a fellow subsidiary of the ultimate parent undertaking contain a charge for managerial services including that of a director which is not separately identifiable.

7. STAFF COSTS

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

	1992 £000	1991 £000
Wages and salaries	16,594	15,964
Social security costs	1,610	1,506
Other pension costs	104	117
	<u>18,308</u>	<u>17,587</u>

The average weekly number of employees including directors during the year was as follows:

	1992 No.	1991 No.
Commercial and administrative	<u>806</u>	<u>851</u>

The pension cost for the company was £104,000 after deduction of £541,000 being the benefit gained from the contributions holiday, which is being recognised in full over the period to 31 December 1993.

PolyGram Record Operations Limited

NOTES TO THE ACCOUNTS

at 31 December 1992

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Corporation tax has been provided at 33% for the year ended 31 December 1992 (1991 - 34% to 31 March and 33% to 31 December).

	1992 £000	1991 £000
Current year:		
Group relief payable	1,236	1,280
Deferred tax	564	1,060
	<u>1,800</u>	<u>2,340</u>
Prior years:		
Corporation tax	-	565
Group relief payable	-	-
Deferred tax	(3)	-
	<u>(3)</u>	<u>565</u>
	<u>1,797</u>	<u>2,905</u>

The tax charge is disproportionate to the result for the year due to the permanent disallowances and provisions against investments.

9. TANGIBLE FIXED ASSETS

	Plant and equipment £000
Cost:	
At 1 January 1992	7,873
Additions	1,069
Transfers to group undertakings	13
Disposals	(819)
At 31 December 1992	<u>8,136</u>
Depreciation:	
At 1 January 1992	3,164
Provided during the year	1,142
Transfers to group undertakings	13
Disposals	(570)
At 31 December 1992	<u>3,749</u>
Net book value:	
At 31 December 1992	<u>4,387</u>
At 1 January 1992	<u>4,709</u>

PolyGram Record Operations Limited

NOTES TO THE ACCOUNTS

at 31 December 1992

9. TANGIBLE FIXED ASSETS (continued)

The historical cost and depreciation thereon of assets purchased under finance leases, which are included in the above totals is as follows:

Cost	84
Depreciation	(45)
Net book value	<u>39</u>

10. INVESTMENTS

	<i>Associated undertaking</i>	<i>Limited partnership</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 January 1992	1,500	1,117	2,617
Disposals	—	(739)	(739)
At 31 December 1992	<u>1,500</u>	<u>378</u>	<u>1,878</u>
Amounts written off:			
At 1 January 1992	(1,500)	(867)	(2,367)
Disposals	—	739	739
At 31 December 1992	<u>(1,500)</u>	<u>(128)</u>	<u>(1,628)</u>
Net book value:			
At 31 December 1992	<u>—</u>	<u>250</u>	<u>250</u>
At 1 January 1992	<u>—</u>	<u>250</u>	<u>250</u>

The company's investment in an associated undertaking is in 49% of the ordinary shares of Big Life Records Limited, a company involved in the distribution and licensing of recorded music and incorporated in the United Kingdom.

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 1992 is £944,000 (1991 – £250,000).

11. STOCKS

	<i>1992</i>	<i>1991</i>
	<i>£000</i>	<i>£000</i>
Finished goods	<u>1,977</u>	<u>2,241</u>

PolyGram Record Operations Limited

NOTES TO THE ACCOUNTS

at 31 December 1992

12. DEBTORS

	1992 £000	1991 £000
Trade debtors	87,769	69,786
Group undertakings:		
Overseas group undertakings	11,478	15,834
UK group undertakings	35,636	30,284
Other debtors	1,429	1,886
Prepayments	3,067	5,160
Current corporation tax	1,140	1,140
	<u>140,519</u>	<u>124,090</u>

In accordance with industry practice advances to artists include certain amounts with a life in excess of one year.

13. CREDITORS: amounts falling due within one year

	1992 £000	1991 £000
Trade creditors	81,473	61,361
Group undertakings:		
Overseas group undertakings	2,057	1,659
UK group undertakings	29,521	32,857
Proposed dividends	2,400	3,500
Associated undertakings	2,053	8,479
Other taxes and social security costs	1,191	1,434
Other creditors	19,327	13,698
Accruals	13,858	13,270
	<u>151,880</u>	<u>136,258</u>

14. DEFERRED TAXATION

The full potential liability for deferred tax has been provided for the year to 31 December 1992 at the effective rate of corporation tax of 33% (1991 - 33%). The directors do not consider it reasonable at present to assume that timing differences will not reverse in the foreseeable future.

	1992 £000	1991 £000
Capital allowances in advance of depreciation	(312)	59
Other differences in recognising revenue and expense items in other periods for taxation purposes	(3,464)	(1,997)
Recording costs	8,997	6,598
	<u>5,221</u>	<u>4,660</u>

PolyGram Record Operations Limited

NOTES TO THE ACCOUNTS

at 31 December 1992

15. SHARE CAPITAL

	1992	Authorised 1991	Allotted, called up and fully paid 1992	1991
	No.	No.	£	£
Ordinary shares of £1 each	15,000	15,000	15,000	15,000

16. FINANCIAL COMMITMENTS

At 31 December 1992 the company had annual non-cancellable operating leases as set out below:

	1992		1991
Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:			
within one year	263	—	165
within two to five years	979	—	600
in over five years	—	2,133	—
	1,242	2,133	765

17. PARENT UNDERTAKING

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is Philips Electronics N.V., incorporated in The Netherlands, and the parent undertaking of the smallest such group is PolyGram N.V., incorporated in The Netherlands. Copies of Philips Electronics N.V.'s accounts can be obtained from:

Philips Electronics N.V.
Corporate Finance Securities
Groenewoudseweg 1
5621 BA EINDHOVEN
The Netherlands

and copies of PolyGram N.V.'s accounts can be obtained from:

PolyGram N.V.
Gerrit van der Veenlaan 4
3743 DN BAARN
The Netherlands