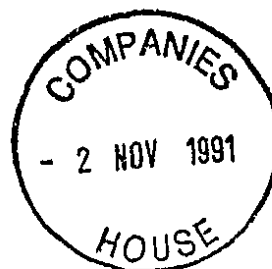


POLYGRAM RECORD OPERATIONS LIMITED



Report and Accounts
31st December 1990

Company Registration Number: 950138

POLYGRAM RECORD OPERATIONS LIMITED

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1990.

Results and dividend

The results for the year are set out on page 4. The trading profit for the year, after taxation amounted to £9,794,000. The directors recommend a final ordinary dividend of £6,500,000 making the total of ordinary dividends £10,000,000 for the year, which leaves a deficit of £206,000 to be transferred to reserves.

Review of the business and future developments

The Company's principal activities during the year were the distribution and marketing of gramophone records and musicassettes 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 7.

Directors and their interests

The directors during the year were:

B. H. Fallows	(Resigned January 22, 1990)
M. L. Oberstein	
A. G. Pye	
P. M. Rezon	(Resigned June 21, 1990)
PolyGram UK Limited	
P.S. Smith	(Appointed March 1, 1990)
J. C. Best	(Appointed January 22, 1990 Resigned June 21, 1990)

On May 22, 1991 N. J. Carrington was appointed to the Board.

At no time during the year ended December 31, 1990 did any director have any interest which is required by Section 324 of the Companies Act 1985 to be notified to the company.

POLYGRAM RECORD OPERATIONS LIMITED

DIRECTORS' REPORT

(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 Donations

During the year the Company made charitable donations of £12,141 (1989, £150,000)

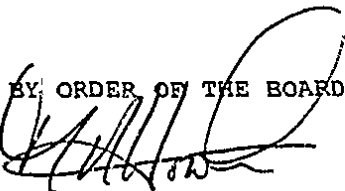
Employee involvement

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

A resolution to reappoint the auditors, Ernst & Young will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD


MICHAEL HOWLE
Secretary


1 Sussex Place
London W6 9XS

June 3, 1991

REPORT OF THE AUDITORS TO THE MEMBERS OF POLYGRAM RECORD
OPERATIONS LIMITED

We have audited the accounts on pages 4 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 December 31, 1990 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young

Chartered Accountants

London

June 3, 1991

POLYGRAM RECORD OPERATIONS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1990

	<u>Notes</u>	<u>1990</u> £'000	<u>1989</u> £'000
Turnover	2	160,458	122,831
Cost of sales		(106,901)	(79,504)
		-----	-----
Gross profit		53,557	43,327
Distribution costs		(12,206)	(9,400)
Administrative expenses		(27,655)	(26,385)
		-----	-----
		(39,861)	(35,785)
		-----	-----
		13,696	7,542
Interest receivable	3	3,938	4,775
Interest payable	3	(1,785)	(1,494)
		-----	-----
Profit on ordinary activities before taxation	3	15,849	10,823
Tax on profit on ordinary activities	6	(6,055)	(5,014)
		-----	-----
Profit on ordinary activities after taxation		9,794	5,809
Dividend	4	(10,000)	(6,300)
		-----	-----
		(206)	(491)
Retained profit brought forward		275	766
		-----	-----
Retained profit carried forward		69	275
		=====	=====

The notes on page 7 to 14 form part of these accounts

POLYGRAM RECORD OPERATIONS LIMITED

BALANCE SHEET AT DECEMBER 31, 1990

	<u>Notes</u>	<u>1990</u> £'000	<u>1989</u> £'000
Fixed assets:			
Tangible assets	7	4,738	2,656
Investments	8	237	103
		-----	-----
		4,975	2,759
Current assets:			
Stocks	9	2,392	1,824
Debtors	10	99,569	123,230
Cash at bank and in hand		11,581	407
		-----	-----
		113,542	125,461
Creditors: amounts falling due within one year	11	(114,833)	(125,980)
		-----	-----
Net current liabilities		(1,291)	(519)
		-----	-----
Total assets less current liabilities		3,684	2,240
Provision for Liabilities:			
Deferred taxation		(3,600)	(1,950)
		-----	-----
		84	290
		=====	=====
Capital and reserves:			
Called up share capital	13	15	15
Profit and loss account		69	275
		-----	-----
		84	290
		=====	=====

A. G. Pye

)

Directors

M. L. Oberstein

)

June 3, 1991

The notes on pages 7 to 14 form part of these accounts.

POLYGRAM RECORD OPERATIONS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1990

	<u>1990</u>	<u>1989</u>
	£'000	£'000
Source of funds:		
Profit on ordinary activities before taxation	15,849	10,823
Adjustment for items not involving the movement of funds:		
Depreciation	911	763
Amounts written off investments	431	1,747
Loss/(profit) on sale of tangible fixed assets	11	(36)
	-----	-----
Total generated from operations	17,202	13,297
Funds from other sources:		
Proceeds from sale of tangible fixed assets	620	320
Transfer of assets to group undertakings	30	3
	-----	-----
	650	323
	-----	-----
	17,852	13,620
Application of funds:		
Taxation paid	(1,220)	(1,000)
Group relief/ACT surrendered	(3,154)	(1,841)
Purchase of tangible fixed assets	(3,654)	(1,532)
Investments purchased	(565)	(1,850)
Dividend paid	(9,800)	-
	-----	-----
	(18,393)	(6,223)
	-----	-----
(Decrease)/increase in working capital	(541)	7,397
	=====	=====
Components of (decrease)/increase in working capital:		
Stocks	568	(576)
Debtors	(23,661)	32,844
Creditors	11,378	(24,586)
	-----	-----
	(11,715)	7,682
Movement in net liquid funds:		
Cash and bank balances	11,174	(285)
	-----	-----
	(541)	7,397
	=====	=====

The notes on pages 7 to 14 form part of these accounts.

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990

1. Accounting policies

These accounts are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings, and in accordance with applicable accounting standards. In addition, events relating to the year ended December 31, 1990, which occurred before the date of approval of the accounts by the board of directors, have been included in the accounts to the extent that this is required by Statement of Standard Accounting Practice No. 17.

Tangible fixed assets

Depreciation is charged on a straight line basis.

Rates of depreciation are:

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 5) 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 holding company. The company has followed the actuarial recommendation that its contributions be suspended from 1 October 1990 until 31 December 1993.

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990

(continued)

1. Accounting Policies (continued)

Investments

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

Non-consolidation

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 S.228 of the Companies Act 1985 from the obligation to prepare and deliver group accounts.

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

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. The geographical area to which turnover relates is as follows:

	<u>1990</u>	<u>1989</u>
	£'000	£'000
United Kingdom	134,186	94,804
Europe	16,982	10,379
USA	6,143	10,204
Other	3,147	7,444
	-----	-----
	160,458	122,831
	=====	=====

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990
(continued)

	<u>1990</u>	<u>1989</u>
	£'000	£'000
Wages and salaries	14,724	11,987
Social security costs	1,353	1,093
Other pension costs	355	435
	<u>16,432</u>	<u>13,515</u>

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990
(continued)

5. Employees
(continued)

	£'000	£'000
Directors remuneration (including pension contributions)	302	253
	===	===
Emoluments of the chairman (excluding pension contributions)	-	8
	===	===
Emoluments (excluding pension contributions) of the highest paid director	97	84
	===	===

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

	<u>1990</u> No.	<u>1989</u> No.
£ Nil - £ 5,000	-	1
£ 15,001 - £20,000	-	1
£ 30,001 - £35,000	1	-
£ 35,001 - £40,000	1	-
£ 50,001 - £55,000	1	1
£ 60,001 - £65,000	1	-
£ 70,001 - £75,000	-	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.

6. Taxation

Corporation tax has been provided at 35% for the period to 31 March 1990 and at 34% for the period to 31 December 1990 (1989:35%)

	<u>1990</u> £'000	<u>1989</u> £'000
Current year:		
Corporation tax	398	2,023
Group relief payable	3,212	1,841
Deferred Tax	2,200	950
	-----	-----
	5,810	4,814
Prior years:		
Corporation tax	177	200
Group relief payable	618	-
Deferred tax	(550)	-
	-----	-----
	245	200
	-----	-----
	6,055	5,014
	=====	=====

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

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990

(continued)

7. Tangible fixed assets

	<u>Plant and equipment</u> £'000
Cost or valuation:	
At January 1, 1990	4,914
Additions	3,654
Transfers to group undertakings	(44)
Disposals	(1,140)

At December 31, 1990	7,384
	=====
Depreciation:	
At January 1, 1990	2,258
Provided during the year	911
Transfers to group undertakings	(14)
Disposals	(509)

At December 31, 1990	2,646
	=====
Net book value:	
At December 31, 1990	4,738
	=====
Net book value:	
At January 1, 1990	2,656
	=====

8. Investments

	<u>Associated Undertaking</u> £'000	<u>Limited Partnership</u> £'000	<u>Total</u> £'000
Cost:			
At January 1, 1990	1,500	350	1,850
Additions	-	565	565
	-----	----	-----
At December 31, 1990	1,500	915	2,415
	-----	----	-----
Amounts written off:			
At January 1, 1990	(1,500)	(247)	(1,747)
During the year	-	(431)	(431)
	-----	----	-----
At December 31, 1990	(1,500)	(678)	(2,178)
	-----	----	-----
Net book value:			
At January 1, 1990	-	103	103
	=====	====	=====
At December 31, 1990	-	237	237
	=====	====	=====

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.

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990
(continued)

8. Investments (continued)

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 1990 is £237,000.

9. Stocks

	<u>1990</u> £'000	<u>1989</u> £'000
Stocks consist of:		
Finished goods	2,392 =====	1,824 =====

10. Debtors

	<u>1990</u> £'000	<u>1989</u> £'000
Trade debtors	72,530	70,641
Group undertakings		
Overseas group undertakings	7,943	12,109
U.K. group undertakings	13,649	37,123
Other debtors	1,378	1,420
Prepayments	3,833	1,937
Associated undertakings	236	-
	-----	-----
	99,569	123,230
	=====	=====

11. Creditors: amounts falling due within one year

	<u>1990</u> £'000	<u>1989</u> £'000
Trade creditors	54,268	61,023
Group undertakings:		
Overseas group undertakings	1,302	3,628
U.K. group undertakings	14,439	23,239
Dividend	6,500	6,300
Associated undertakings	10,208	8,056
Current corporation tax	584	553
Other taxes and social security costs	5,626	1,858
Other creditors	10,847	14,347
Accruals	11,059	6,996
	-----	-----
	114,833	125,980
	=====	=====

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1990

(continued)

12. Deferred taxation

The full potential liability for deferred tax has been provided for the year to December 31, 1990 at the effective rate of corporation tax of 34%. The directors do not consider it reasonable at present to assume that timing differences will not reverse in the foreseeable future.

	<u>1990</u> £'000	<u>1989</u> £'000
Capital allowances in advance of depreciation	(107)	(189)
Other differences in recognising revenue and expense items in other periods for taxation purposes	(1,923)	(1,897)
Recording costs	5,630	4,036
	-----	-----
	3,600	1,950
	=====	=====

13. Share Capital

Authorised

Allotted, called up
and fully paid

	<u>1990</u> No.	<u>1989</u> No.	<u>1990</u> £'000	<u>1989</u> £'000
Ordinary shares of £1 each				
Allotted, called up and fully paid	15,000	15,000	15	15
	=====	=====	=====	=====

14. Financial commitments

At December 31, 1990 the company had annual non-cancellable operating lease payments as set out below:

	<u>1990</u>		<u>1989</u>	
	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
	£'000	£'000	£'000	£'000
Operating leases which expire:				
within one year	-	231	-	255
within two to five years	-	421	-	264
in over five years	1,734	-	1,354	-
	-----	-----	-----	-----
	1,734	652	1,354	519
	=====	=====	=====	=====

POLYGRAM RECORD OPERATIONS LIMITED
NOTES TO THE ACCOUNTS AT DECEMBER 31, 1989
(continued)

14. 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 N.V. Philips' Gloeilampenfabrieken, incorporated in The Netherlands, and the parent undertaking of the smallest such group is PolyGram N.V., incorporated in The Netherlands. Copies of N.V. Philips' Gloeilampenfabrieken's accounts can be obtained from :

N.V. Philips' Gloeilampenfabrieken
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.
Gerit van der Veenlaan 4,
3743 DN BAARN
The Netherlands.