RIAA Ex. O-137-DP

nt
Gorillaz
Trace Adkins
Jermaine Dupri
Sean Paul
Kanye West
Robbie Williams
KT Tunstall
Rolling Stones
Coldplay
Daniel Powter
Kelly Clarkson
ys
Keith Urban
s
Natasha Bedingfield
Paul McCartney

EMI

EMI Group plc
Annual Report 2006

Contents

03 Chairman's statement
06 Operating and Financial Review
32 Social responsibility
36 Board of Directors
38 Directors' report
40 Corporate governance
44 Remuneration report

Group financial statements
57 Group auditor's report
58 Group consolidated income statement
60 Group consolidated balance sheet
61 Group consolidated statement of recognised income and expense
62 Group consolidated cash flow statement and note
63 Group accounting policies
66 Notes to the Group financial statements

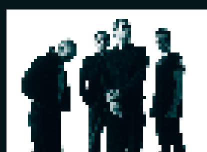
Company financial statements
91 Company auditor's report
92 Company accounting policies
93 Company balance sheet and Notes to the Company financial statements

Additional information
99 Group five year summary
100 Investor information

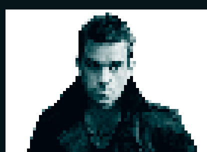
The cover of this report features some of the year's most successful artists and songwriters from EMI Music and EMI Music Publishing.

EMI Music

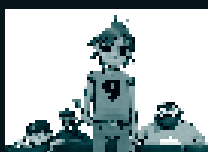
EMI Music is the recorded music division of EMI, and has a diverse roster of artists from across the world as well as an outstanding catalogue of recordings covering all music genres. Below are EMI Music's top-selling artists and albums of the year.*



Coldplay
X&Y
9.9m



Robbie Williams
Intensive Care
6.2m

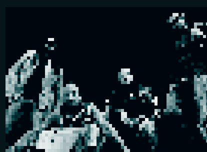


Gorillaz
Demon Days
5.9m

KT Tunstall
Eye To The Telescope
2.6m

Keith Urban
Be Here
2.5m

The Rolling Stones
A Bigger Bang
2.4m



Korn
See You On The Other Side
1.8m

Depeche Mode
Playing The Angel
1.6m

Trace Adkins
Songs About Me
1.5m

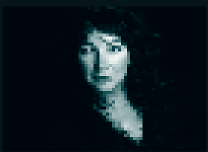
RBD
Rebelde
1.5m

Paul McCartney
Chaos And Creation In The Backyard
1.3m

Dierks Bentley
Modern Day Drifter
1.3m

Radja
Langkah Baru
1.2m

Raphael
Caravane
1.1m

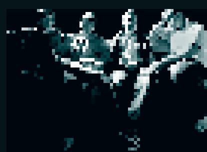


Kate Bush
Aerial
1.1m

* All sales figures shown are for the 12 months ended 31 March 2006. Three EMI Music artists each had two albums selling more than one million copies. In addition to their records shown above, Coldplay had *A Rush Of Blood To The Head* (1.2m), RBD had *Nuestro Amor* (1.1m) and Robbie Williams had *Greatest Hits* (1.1m).

EMI Music Publishing

EMI Music Publishing represents songwriters and their work, and owns the copyright to the best-performing catalogue of songs in the world. Below are some of EMI Music Publishing's most successful writers and songs of the year.



Arctic Monkeys
I Bet You Look Good On The Dancefloor

Natasha Bedingfield
Unwritten

Black Eyed Peas*
Don't Phunk With My Heart

James Blunt
You're Beautiful

Kelly Clarkson
Because Of You

Jermaine Dupri
We Belong Together (Mariah Carey)

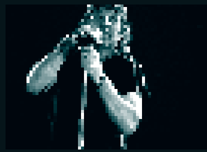
Alicia Keys
Unbreakable

Sean Paul
Temperature

Pink
Stupid Girls

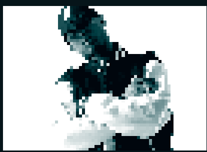
Daniel Powter
Bad Day

Eros Ramazzotti
I Belong To You

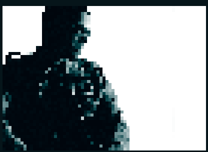


Vasco Rossi
Buono O Cattivi

Kanye West
Gold Digger



Pharrell Williams
Hollaback Girl (Gwen Stefani)



Daddy Yankee
Rompe

* EMI Music Publishing represents Black Eyed Peas band members Fergie and George Pajon.

The world's leading independent music group

Investing over 20% of revenues in musicians and music in more than 50 different countries every year

The number one music publisher globally

The world's biggest-selling album in 2005, both digital and physical, with Coldplay's *X&Y*

And in 2003, with Norah Jones's *Come Away With Me*

Leading the way in digital, with hundreds of new business partnerships around the world

Digital revenues more than doubled in the last 12 months to £112 million

20 million-plus selling albums in 2005 from 6 different countries

3 albums over 5 million units each, from Coldplay, Gorillaz and Robbie Williams

Publisher of the year for the past 12 years

Over 6 months at number one on the Billboard European album chart in 2005

32 Grammy Awards in 2006

Eric Nicoli
Chairman, EMI Group

EMI has had an excellent year.

I am pleased to report that both our recorded music and music publishing divisions outperformed the rest of the industry delivering growth in Group revenues of 3.9% (2.1% at constant currency) and a strong improvement in Group underlying profit before tax of almost 13%. Group digital revenues of £112.1m represent a 139% increase on the previous year's level and account for 5.4% of total Group revenues.

EMI Music enjoyed considerable creative success gaining market share on a global basis and in almost every region of the world including the US market. At constant currency, the division reported revenue growth of some 1.9% with digital sales almost tripling in value. This strong performance reflects EMI Music's continuing commitment to creative excellence with successful releases from a broad range of artists which included 20 album releases selling more than 1m units in the year. Topping the list was Coldplay's *X&Y* which sold nearly 10m units making it the world's biggest selling album of 2005 in both physical and digital format.

EMI Music Publishing remained the world's leading music publisher delivering constant currency revenue growth of approximately 2.6%. Digital revenues were an important contributor to this division's growth and accounted for almost 5% of total revenues in the year.

I believe these results provide further evidence of the validity of our strategy and the effectiveness of our management approach. Whilst we are operating in a marketplace clearly in transition, it is heading in a positive direction and presents us with exciting growth opportunities in the future.

Our strategic approach over the last five years has involved refocusing EMI on the needs and desires of the modern consumer; aligning our interests more closely with our artists in what is a rapidly changing distribution landscape; investing in our people, skills and technological capabilities; and ultimately setting as our guiding principle the selection and development of and investment in unique long-term artists and musical content.

Our well planned programme of transformational change has resulted in the removal of more than £150m of fixed costs with a further £30m planned and ensures we operate effectively and efficiently in the new, dynamic digital consumer-driven environment. These cost savings have been achieved whilst continuing our investment in artist development in both divisions and building our technological and management capability. Our systems development programme is well advanced, our management skill set has strengthened and broadened considerably while our creative performance has flourished. This strategy has allowed EMI to remain agile, flexible, progressive and at the forefront of adapting business practices.

Our unflinching commitment to creative excellence has produced an encouraging blend of established and emerging global and local stars and impressive global reach.

The top-selling artists at EMI Music in the year reflect our A&R strategy in practice, with superstars like Coldplay, Robbie Williams, Gorillaz, the Rolling Stones and Keith Urban topping the charts around the world, while a number of our breaking acts enjoyed tremendous success on their home ground including Dem Franchize Boyz, Trace Adkins and Dierks Bentley in the US, Radja in Indonesia, Raphael and Diam's in France, RBD in Latin America and, Magic Numbers, KT Tunstall and Corinne Bailey Rae in the UK.

We believe that our on-going commitment to investing in local repertoire not only provides greater consumer choice but presents significant business opportunities. Local repertoire features highly on our top 20 best-selling albums with Radja, Raphael and RBD selling over 1m units each. Indeed, RBD's sales, over four releases, totalled more than 3m units in this financial year.

As well as our international credentials, we strive for musical diversity. Our recent performance demonstrates an impressive breadth of style and repertoire which includes pop, rock, urban, Latin, country and jazz music. We also continue to excel in classical and Christian music.

In addition to the successes among our active roster of artists, our rich and deep back catalogue – which includes The Beatles, the Rolling Stones, Queen, Pink Floyd, the Beach Boys and Frank Sinatra – continues to provide a recurring revenue stream through intelligent marketing and innovative re-presentations.

Creative excellence is also the principal driver of EMI Music Publishing's success. This division is the home to many of the world's best songwriters including Guy Chambers, Cathy Dennis, Eminem, Alicia Keys, Kanye West and Usher and some notable additions during the year such as Arctic Monkeys, James Blunt and Kelly Clarkson. This fantastic artist roster – coupled with our management's highly regarded ability to gain exposure for, and usage of, these songs – has allowed our publishing business to prosper, diversify and create new revenue streams. All of this has helped the division establish a strong platform from which to grow faster as the market recovery continues.

Looking ahead, we continue to believe that the increasing demand for digital music will return the global market to growth in the near future.

We have been, and intend to remain, at the cutting edge of the rapidly advancing digital marketplace by partnering with a host of digital content distributors and facilitating the development of a broad range of business models. With online downloading now well established and growing fast, and the arrival of exciting new offerings such as subscription, legal peer to peer and wireless, our vision of having the ability to present our content to all music fans, everywhere in the world, all of the time is now a reality.

Coldplay

Legitimate digital sales now represent a meaningful proportion of our business and they are growing at an exciting rate. Indeed for the industry, this growth in digital revenue has almost offset the decline in physical sales during the year. Of course, we must continue to take steps to discourage theft of our intellectual property and our efforts in that direction will not diminish. With a combination of education, technology and, where necessary, legal process, we are confident that piracy can be contained and that we can motivate the vast majority of consumers to enjoy legal content.

Of course, our achievements during the year were only possible because of the extraordinary dedication and commitment of all of my colleagues across the EMI world. People are the lifeblood of any business and at EMI we are well served by a world class Board and senior management team which has delivered creative and commercial success in extraordinarily challenging market conditions in recent years. We also have immensely accomplished staff across the Group covering the full range of functional skills and disciplines necessary to compete effectively in our rapidly changing world.

And just as we take pride in our people, we take our social and environmental responsibilities seriously and we work hard to contribute to the health and development of the communities in which we operate. Our independent music education charity, the EMI Music Sound Foundation, has continued its support for music students, teachers and schools. To date, it has awarded in excess of £2.5m in grants and we look forward to its tenth anniversary next year. In addition, we were pleased to be able to lend our support to the remarkable Live 8 concerts of last summer, where a number of our artists also performed, and to a number of other important charitable causes.

Our results show that EMI is thriving in its own right and, I believe, that we have created a strong platform from which to pursue the possible acquisition of Warner Music Group Corp. (Warner Music).

As was announced on 3 May 2006, we made an approach to Warner Music on 1 May 2006 in connection with a proposed offer to acquire all of the outstanding shares of Warner Music for US$28.50 per share, in a combination of cash and EMI shares. Subsequently, on 2 May 2006, Warner Music informed EMI that it did not wish to enter into discussions regarding this proposal.

We continue to believe that an acquisition of Warner Music would be very attractive to the shareholders of both companies. The industrial logic of a combination is compelling and the available synergies would unlock significant additional value.

EMI shareholders can be assured that we will only pursue a transaction with Warner Music if it delivers meaningful earnings accretion and value enhancement for them.

Overall, we have enjoyed a year of strong performance and solid achievement and we look forward with confidence to making further progress and participating fully in the music market's recovery.

Eric Nicoli
Chairman
22 May 2006

This Operating and Financial Review has been prepared for, and only for, the members of the Company, as a body, and no other persons. It should not be relied upon by any other party for any purpose.

This Operating and Financial Review contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. These and other factors could adversely affect the outcome and financial effects of the plans and events described. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward-looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of such variables. No assurances can be given that the forward-looking statements in this Operating and Financial Review will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation and will not be updated during the year.

The Operating and Financial Review discusses the following areas:

1. Description of operations p 6
2. Long-term strategy and business objectives p 9
3. Results for the year ended 31 March 2006 p 10
4. Key performance indicators p 10
5. Performance review for the year ended 31 March 2006 p 11
6. Financial review for the year ended 31 March 2006 p 18
7. Future outlook p 22
8. Risks and uncertainties p 23
9. Resources p 27
10. Environmental matters p 28
11. Social and community issues p 28
12. Critical accounting policies and use of estimates p 28

1. Description of operations

EMI Group is composed of two divisions:
– recorded music, EMI Music; and,
– music publishing, EMI Music Publishing.

EMI Music

EMI Music is one of the largest music businesses in the world. We have one of the world's most extensive catalogues of recordings, with over 3m individual tracks. Of these tracks, approximately 600,000 are currently in active release on nearly 60,000 albums. Our record labels include Angel, Astralwerks, Blue Note, Capitol, Capitol Nashville, EMI, EMI Classics, EMI CMG, EMI Televisa Music, Mute, Narada, Parlophone and Virgin and are home to a diverse roster of some 1,300 artists who encompass a wide range of musical genres from classical, jazz, country and Christian music to alternative, rock, pop, rap/urban and dance music. For the year ended 31 March 2006, EMI Music generated revenue of £1,660.3m and operating profit before exceptional items and amortisation (EBITA) of £145.1m.

EMI Music identifies potentially successful recording artists, signs them under recording contracts, collaborates with them to produce recordings of their work, markets the finished recordings to consumers and radio, and sells the releases into the retail trade in a variety of formats, primarily CDs, but increasingly in various digital formats. We strive to achieve a balance across genres, between new releases and catalogue, across distribution channels and amongst repertoire sources.

Although the primary sources of global popular repertoire have historically been the United Kingdom and the United States, we are also focused on developing local repertoire that appeals to consumers' tastes in each of our local territories. We continually invest in local repertoire in most of our territories and, where there is opportunity, seek to transfer repertoire from one region to another.

Gorillaz

We also focus on exploiting our existing recorded music catalogue. This catalogue is a dynamic asset that continues to generate a significant volume of re-releases with strong consumer appeal. For example, The Beatles album, *1*, has sold over 27m units worldwide. We have a solid platform of sales from existing, so-called 'evergreen' albums (that is, albums which sell consistently well over many years) which do not require significant incremental marketing expenditure. 'Evergreen' and other catalogue albums generate approximately 30% to 35% of EMI Music unit sales.

EMI Music also compiles successful recordings from our catalogue and current roster into new compilation releases. Compilations provide opportunities for new creative products, which can become brands themselves. Compilations range from 'greatest hits' albums of major artists to concept collections, such as *Best Air Guitar Album in the World… Ever!,* and the *Capital Gold* series, to compilations of current hits, such as the *Now That's What I Call Music!* series.

EMI Music's headquarters are in west London and also house the Continental European regional office. In addition, EMI Music operates through a network of offices throughout the world. The majority of these offices are held through lease arrangements. We recently announced our plans to enter into sale and leaseback arrangements for certain of our freehold properties, namely the Capitol Tower in Los Angeles and two office buildings in Tokyo owned by our joint-venture company with Toshiba. In the UK, we own and operate two recording studios – Abbey Road and Olympic Studios.

In December 2005, we sold our former manufacturing plant in Gotemba, Japan to a consortium led by Memory-Tech Corporation. This deal completed the outsourcing of all of EMI Music's worldwide manufacturing operations apart from a small facility in Canada. We carry out our own distribution activities in a number of territories, notably the UK, Ireland, US, Hong Kong, Thailand and Singapore. In other territories, such as Japan, Australia, New Zealand, South Korea, Malaysia, Taiwan and Scandinavia, we have entered into distribution joint-venture arrangements with other music companies. In certain territories, such as Latin America, Indonesia, India, Philippines, Benelux, France, Germany, Italy, Spain and Portugal, distribution services are carried out on our behalf by third parties.

EMI Music Publishing

Our other principal division is EMI Music Publishing, which is the world's largest music publisher in terms of revenues. Our roster of active songwriters is responsible for many of the hit songs of today, and the songs they create are added to our valuable catalogue comprising over 1m copyrights in musical compositions which we own, control or administer. For the year ended 31 March 2006, EMI Music Publishing generated revenue of £419.6m and EBITA of £105.4m.

Music publishing is the business of acquiring, protecting, administering and exploiting rights in musical compositions. It is a business based on the songs themselves as distinct from the recordings, films, commercials or other media in which they are used. Music publishers earn their revenue from licensing the right to use their songs.

Our publishing catalogues include SBK (CBS Songs, MGM and United Artists), Filmtrax (Columbia Pictures and Television), Screen Gems, Virgin, Jobete (Motown) and a substantial part of the Windswept Pacific catalogue.

EMI Music Publishing acquires copyrights or a share of the copyrights in musical compositions, or enters into agreements to administer copyrights or a share of copyrights, and exploits the compositions by licensing them for inclusion on records, film, television and other media, seeking new uses for the compositions, and administering and collecting the proceeds generated. In return for providing these services, we are entitled to a percentage of the royalty income, which varies from contract to contract. EMI Music Publishing is constantly refining its collection of songs with a view to having the finest songs on offer to those who use musical compositions.

EMI Music Publishing derives its revenues from:

- mechanical royalties, primarily from the sale of music in CD format, but also from DVDs, audio cassettes, online downloads and items such as music boxes and player pianos (45% of EMI Music Publishing revenue in the year);
- performance royalties paid for the performance of a song on radio or television broadcasts, webcasts, cabarets, live concerts, sporting events, shops and restaurants (27% of EMI Music Publishing revenue in the year);
- synchronisation royalties, derived from the use of songs in visual works such as television programmes, films, advertisements, computer games or karaoke (17% of EMI Music Publishing revenue in the year); and,
- other uses, which include ring tones, ring tunes, ring backs, stage productions, sheet music, merchandise and music from our background library (11% of EMI Music Publishing revenue in the year).

EMI Music Publishing has its worldwide headquarters in New York. In addition, it operates through regional and local offices, most of which are held on leasehold arrangements, in key markets throughout the world.

2. Long-term strategy and business objectives

EMI Group's strategy is to create shareholder value by developing the best musical content at both our recorded music business, EMI Music, and our music publishing business, EMI Music Publishing, and to exploit fully this valuable content on a global basis through all economically attractive channels.

Our investment in artists and repertoire (A&R) is fundamental to our ability to create new, exciting music. At the core of our A&R strategy is the identification and development of artists and songwriters with the potential to enjoy long-term commercial success across multiple releases and revenue streams. Focusing on long-term career artists has favourable economics, driving increased sales and profitability. By replicating this process across geographies and musical genres, we have assembled in EMI Music and EMI Music Publishing exceptional portfolios of music content which exhibit strength, breadth and depth.

EMI's overriding goal is to maximise the value of these content assets and a key element of this is successful marketing and promotion. Our presence in over 50 countries enables us to exploit the valuable local opportunities as well as giving us a powerful global network. At EMI Music, specialised local marketing teams work alongside our dedicated international marketing team to share best practice and also to promote local A&R successes into global superstars. Ultimately we seek to maximise revenues at a local and a global level.

EMI Music Publishing is creative in proactively marketing its songs for increased and new uses. The business has dedicated teams that develop and maintain relationships with, for instance, advertising agencies, film and television producers and video-game makers. This has resulted in a broadening of EMI Music Publishing's client base and increased revenue generation.

Digital technology is multiplying the ways in which we can monetise our music assets and our key strategic priority is to continue to position the business to capitalise fully on the expanded revenue and profit opportunity that this brings. We are making our music content available on all economically attractive platforms, formats and services to ensure the widest consumer reach and we currently have relationships with almost 400 digital partners for products and services ranging from a la carte audio and video downloads to ring tones, ring tunes, subscription and legalised peer to peer services.

One of our priorities is to establish the optimal infrastructure to operate most successfully in the digital world. We are making a significant investment in new technology to equip us for the new landscape, including the development of global marketing tools and royalty and payment systems. At EMI Music Publishing, we are driving the industry's efforts to implement appropriate payment and collection structures for the new digital revenue streams. Most recently, EMI Music Publishing signed a heads of agreement with the UK and German collection societies to establish a pan-European licensing and collection mechanism for mobile and online digital rights.

In summary, EMI's strategy is to create, develop and realise fully the value of high quality music content. In combination with an on-going focus on costs and cash generation, EMI's management believes that this strategy should deliver improved financial performance and growing shareholder returns.

3. Results for the year ended 31 March 2006

- Group revenue increased by 3.9% on a reported basis and by 2.1% at constant currency, with both EMI Music and EMI Music Publishing outperforming the global recorded music industry.
- This strong performance reflects creative excellence across both divisions and, in particular, the ability to successfully develop new artists.
- Group digital revenue more than doubled in the year, increasing by £65.2m to £112.1m.
- Group operating margin increased by almost a full percentage point to 12.0% from 11.2%. This improvement was driven by higher revenues, a greater proportion of revenues from digital, and the delivery of previously announced cost savings.
- Underlying profit before tax increased by 12.9% to £159.3m from £141.1m.
- Underlying diluted earnings per share increased by 19.8% to 15.7p from 13.1p.
- The full-year dividend is maintained at 8.0p per share.

Financial summary

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
Revenue	**2,079.9**	2,001.2
EBITDA (i)	**275.8**	250.2
Underlying Group profit from operations (EBITA) (ii)	**250.5**	225.1
Underlying PBT (iii)	**159.3**	141.1
Total profit before taxation	**118.1**	98.8
Underlying diluted earnings per share (iv)	**15.7p**	13.1p
Basic earnings per share	**10.9p**	9.6p
Dividend per share	**8.0p**	8.0p
Return on sales (v)	**12.0%**	11.2%
Interest cover (vi)	**3.0x**	2.9x

(i) EBITDA is Group profit from operations before depreciation and operating exceptional items and amortisation.
(ii) Underlying Group profit from operations (EBITA) is before operating exceptional items and amortisation.
(iii) Underlying profit before taxation (PBT) is before exceptional items and amortisation.
(iv) Underlying diluted earnings per share is before exceptional items and amortisation.
(v) Return on sales is defined as Group profit from operations before operating exceptional items and amortisation as a percentage of Group revenue.
(vi) Interest cover is defined as the number of times EBITDA is greater than Group net finance charges.

Exceptional items include operating exceptional items and finance exceptional items. Operating exceptional items include impairment of goodwill and music copyrights and intangibles, gains (losses) on disposal of property, plant and equipment and remeasurement of listed investments. Finance exceptional items include remeasurement of financial assets and liabilities to be included within finance charges and exceptional refinancing costs.

4. Key performance indicators

The Board and management of EMI use a number of key performance indicators to assess the on-going performance of the business, of which the principal ones are disclosed in the table on the right. We believe it is important to look at performance on both a Group and divisional basis. Given the changing nature of the industry in which we operate, we believe it is most instructive to assess EMI's performance relative to the overall industry performance where possible. At this early stage of the digital market's development, we believe that there is no single measure on which one can assess the Group's digital business performance.

	2006	2005
Group		
Earnings per share (diluted, underlying EPS)(i)	15.7p	13.1p
Operating free cash conversion(ii)	93.8%	112.5%
EMI Music		
EMI Music market share(iii)	13.1%	12.9%
EMI Music operating margin(iv)	8.7%	7.8%
EMI Music Publishing		
EMI Music Publishing revenue growth(v)	2.6%	4.9%
EMI Music Publishing operating margin(vi)	25.1%	24.9%

Notes

(i) Earnings per share (diluted, underlying EPS)

Definition: Underlying Earnings (£m)/Diluted Shares (m).
Calculation: Underlying Earnings is profit from continuing operations after taxation, adjusted for exceptional items, amortisation, finance exceptional items, minority interests and convertible bond interest. Diluted Shares is the weighted average number of Ordinary Shares in issue, adjusted for dilutive share options and convertible bond options.
Purpose: To assess the progression of underlying profit generation within the Group.
Source: Internal Company data and audited Financial statements.

(ii) Operating free cash conversion

Definition: Operating Free Cashflow (£m) / Underlying EBITA (£m).
Calculation: Operating Free Cashflow is calculated by taking underlying Group Profit from operations (EBITA), adding back depreciation and other non-cash movements and deducting net capital expenditure and net working capital movements. This is divided by underlying Group EBITA to reach a cash conversion percentage.
Purpose: To assess the ability of the Group to convert operating profits into cash.
Source: Internal Company data and audited Financial statements.

(iii) EMI Music market share

Definition: EMI Music global market share (%).
Calculation: EMI Music revenue divided by recorded music industry sales.
Purpose: To assess how EMI Music is performing in its particular market.
Source: EMI internal estimates based on official data received from the global recording industry association, the IFPI. Official IFPI data is used as it is the most reliable independently calculated estimate. EMI measures its revenues for market share purposes following the guidelines used by the IFPI to measure the recorded music market in order to ensure comparability.

(iv) EMI Music operating margin (EBITA % margin)

Definition: EMI Music EBITA after corporate costs (£m) / EMI Music revenue (£m).
Calculation: EMI Music EBITA is stated after the deduction of Group central costs (allocated on a share of revenue basis) but before exceptional items and amortisation. This is then divided by EMI Music revenue to obtain an operating margin percentage.
Purpose: To assess the progression of underlying profitability within EMI Music.
Source: Internal Company data and audited Financial statements.

(v) EMI Music Publishing revenue growth

Definition: Constant currency revenue growth (%).
Calculation: Revenue growth is presented at constant currency. The effect of currency fluctuations is eliminated by translating local currency data into Sterling at the same rate in both years.
Purpose: To assess EMI Music Publishing revenue progression, in the absence of third-party market share data.
Source: Internal Company data and audited Financial statements.

(vi) EMI Music Publishing operating margin (EBITA % margin)

Definition: EMI Music Publishing EBITA after corporate costs (£m)/EMI Music Publishing revenue (£m).
Calculation: EMI Music Publishing EBITA is stated after the deduction of Group central costs (allocated on a share of revenue basis) but before exceptional items and amortisation. This is then divided by EMI Music Publishing revenue to obtain an operating margin percentage.
Purpose: To assess the progression of underlying profitability within EMI Music Publishing.
Source: Internal Company data and audited Financial statements.

5. Performance review for the year ended 31 March 2006

Recorded music industry

Our two divisions continue to operate in a marketplace that is undergoing significant change, primarily driven by the rapid development of digital music. The industry's digital sales more than doubled in value over the year, with both mobile and fixed line platforms enjoying rapid growth. This strong digital growth significantly mitigated the 5.3% decline in physical sales, resulting in an overall industry decline of 0.9% for the period.

The digital environment is proving to be extremely dynamic with new entrants, new services and new devices and functionality appearing all the time. Globally, according to IFPI statistics for 2005, there were 335 legal digital music services, up from 50 just two years previously.

In this past year alone, we have seen the first legal peer to peer agreement signed, iTunes expand to over 20 countries, the launch of portable subscription services, such as Napster To Go and Yahoo Music Unlimited, and the introduction of a la carte music video services. Consumers are now able to access up to 2m tracks and 165,000 albums in a legitimate digital environment.

The industry has also continued to make progress in combating both physical and digital piracy. Notable legal victories against illegal peer to peer sites Grokster (US), KaZaa (Australia), Kuro (Taiwan) and Soribada (South Korea) have improved the business landscape for legitimate music sales.

Robbie Williams

EMI Music

EMI Music's strong performance for the year demonstrates both its creative excellence as well as its position at the forefront of the rapidly evolving digital landscape. The division's revenues increased by 1.9% at constant currency, significantly outperforming the global recorded music industry. Within this EMI Music's digital revenues grew to £92.4m, increasing by 169% at constant currency.

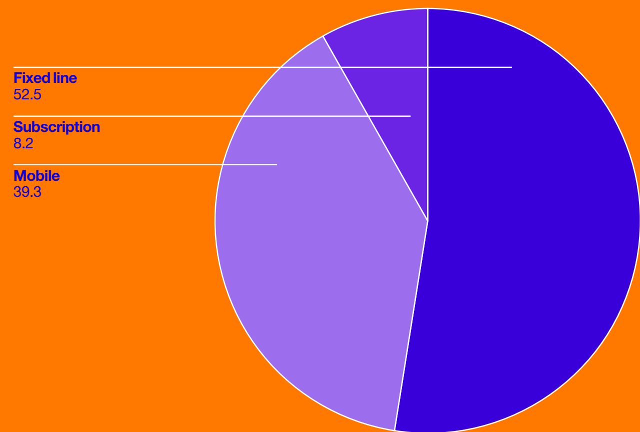
Operating profit (EBITA) grew by 15.6% to £145.1m, resulting in a substantial improvement in the operating margin to 8.7%. This improved profitability was driven by the flow through of profits from the growth in revenues, an increased proportion of revenues from digital sales and delivery of the remaining £15m of cost savings announced in March 2004.

EMI Music's distinctive approach to the development of its roster focuses on making consistent investments in artists with long-term career potential and is designed to maximise both local and global sales. This has shown clear results in the year, with the division's sales coming from a broad range of artists including releases from established superstars Coldplay, Gorillaz, the Rolling Stones, Keith Urban and Robbie Williams, breaking acts Corinne Bailey Rae, Dem Franchize Boyz and KT Tunstall, and local artists RBD (EMI Mexico), Radja (EMI Indonesia) and Raphael (EMI France).

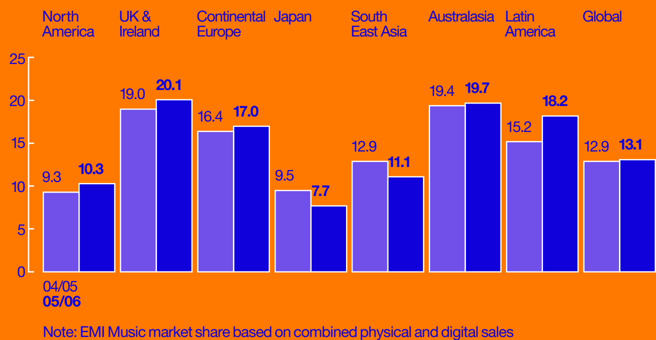
EMI Music is focused on creating the most attractive music content for consumers and making it available where they want it, when they want it and in the format they want it. In this way, we aim to maximise demand for our artists' works and, importantly, our financial return. The creation of new products, formats, distribution channels and partnerships is now a routine part of our business and our energies are focused on harnessing these new possibilities to capture all available revenue streams. Over the year we secured over 220 new partnerships, further strengthening our digital footprint across both online and mobile platforms, bringing our total digital partnerships to almost 400 and making our music now available in 56 countries. EMI Music has reached pioneering digital deals around the world, for example, in Europe with GNAB for peer to peer services, in China with Sohu for digital music and in the US with Sprint for over the air mobile downloads.

In addition to establishing the right relationships on the right terms, we are at the forefront of the industry in exploiting the new product, format and windowing possibilities that digital enables. For example, our innovative approach to content bundling and windowing meant that Coldplay's *X&Y* was the first-ever album available on iTunes as a pre-order and US downloads included video interviews, a digital booklet and two bonus tracks. In fact, *X&Y* went on to become the best-selling full digital album download on iTunes, as well as the highest-selling album, worldwide, in 2005. This initiative gives just a flavour of the way that EMI Music is actively exploiting the new opportunities that digital brings.

EMI Music digital revenue by type
2005/2006 (%)



EMI market share by region
Value (%)



Note: EMI Music market share based on combined physical and digital sales

EMI Music geographic review

North America

During the year, the North American market declined by 1.5%, with strong growth in digital sales substantially offsetting declines in physical sales.

Against this backdrop, our North American business showed strong sales growth, gaining significant market share. Releases from Keith Urban, Dierks Bentley, Trace Adkins, and Korn, in combination with the effective marketing and promotion of international releases from Coldplay, Gorillaz and the Rolling Stones, drove this performance. Virgin's Dem Franchize Boyz was established as one of the most exciting new urban bands in the US, with the release of their debut album *On Top of Our Game*. So far, sales of ring tunes of tracks from this album have topped 2m, fuelling purchases of the album itself which has been certified as a gold release in the US.

EMI Music's digital sales in North America almost tripled over the year. Our revenues from mobile products grew at the fastest rate, increasing by a factor of nine times, as the likes of Verizon and Sprint launched new mobile music services. Online downloads continued to represent the largest digital segment, accounting for almost 70% of our digital sales in the region. The proliferation of new digital products and services continues at a fast pace with, for example, iTunes introducing online music video downloads during the year. EMI Music has consistently been an innovator of new products and services, most recently becoming the first major music company to trial advertiser-funded music video content for consumers' mobiles.

We continue to focus on further strengthening our US business and during the year appointed Jason Flom as Chairman and CEO of Virgin Records. Jason has 26 years of experience in the music industry and, as founder of Lava Records, he discovered, signed and developed multi platinum selling artists such as Kid Rock, matchbox twenty and The Corrs. With his exceptional A&R and business leadership skills, we believe that Jason is well placed to improve further upon Virgin's performance to date.

UK & Ireland
In the UK market, physical sales declined by an estimated 4.9%, with digital sales increasing by 170% to give a total industry decline of 3.0% over the financial year. Weakness in compilation sales, particularly over the key Christmas period, accounted for the decline in industry sales.

The strength and depth of our UK artist roster was again demonstrated this year, with our business delivering an increase in revenues and gaining significant market share in the UK and Ireland. New album releases from international superstars delivered strong performances. Coldplay's *X&Y* sold almost 10m units across both physical and digital formats and was the biggest-selling album across the global industry in 2005. Albums from Gorillaz and Robbie Williams sold in excess of 5m units each worldwide. A number of new UK artists also broke through to success during the year, including KT Tunstall, Corinne Bailey Rae and The Magic Numbers. KT Tunstall's debut album *Eye to the Telescope* met with critical and commercial success, earning her the title of 'Best British Female Solo Artist' at the industry's Brit Awards and selling 2.6m units during the financial year alone. Corinne Bailey Rae's self-titled debut album was released in February and entered the UK album chart at number 1.

Our digital sales in the UK grew by 170% over the year with fixed-line downloads tripling over the period. In exploring the new opportunities which digital delivery brings for capturing new revenue streams, EMI Music will participate in a unique 18-month partnership between T-Mobile and Robbie Williams. T-Mobile was able to offer their consumers exclusive content as well as making certain content available to them earlier than its general release. For EMI, the partnership proved to be an effective and innovative platform from which to launch the album.

Continental Europe
Market conditions in Continental Europe were mixed over the year, with total industry sales declining by 3.7%. Trends varied across the region, with France, Spain and Italy showing an improving environment versus the prior year. Germany remained a challenging market. The industry's digital sales virtually tripled in value over the year.

EMI Music had another highly successful year, gaining significant market share across the region with particularly strong performances from EMI Music France, Spain and Germany. These share gains came from a broad range of established and new artists including Raphael, Souchon, Diam's, Camille, Wir Sind Helden, Bebe and Amaral, in combination with effective marketing and promotion of our international repertoire.

We have seen enormous growth in our digital revenues in Continental Europe during the year, with sales increasing by 245%. Mobile revenues represent a larger portion of digital sales in Continental Europe compared to the US and the UK but fixed-line sales still account for the majority of digital sales in Europe. We are at the forefront of digital development in the region and continue to be innovative in the digital products, formats and services that we create. For example, for the launch of Placebo's album *Meds*, we partnered with SFR to offer consumers a series of 'mobisodes' along with standard product offerings such as ring tunes and over the air tracks. The mobisode was specifically designed for use on a mobile and the content was targeted to the profile of a Placebo fan. The campaign generated huge interest and *Meds* entered the French album chart at number 1. The album has sold almost 1m units worldwide since its March release.

Japan
The Japanese market recovered during the financial year and, taking physical and digital together, grew by an estimated 6%.

While we saw success from artists such as Tokyo Jihen, Noriyuki Makihara, Tomoyasu Hotei, Coldplay and the Rolling Stones, our Japanese business lost market share in the year reflecting a lack of local releases. In April 2006, we announced a major restructuring of this business to improve the efficiency of our operations, to reinvest a proportion of these savings in the key areas of A&R and marketing, and to introduce a new multi-label organisational structure. We believe that these initiatives will create a company which is better positioned to increase revenues and profits in the coming years. In conjunction with this restructuring, we recently announced our plans to enter into a sale and leaseback of our two Tokyo freehold properties, with a substantial cash inflow expected from the transaction. We sold our former manufacturing plant in Japan to a consortium led by Memory-Tech Corporation on 26 December 2005.

EMI Music's digital sales showed strong growth, rising by 130%. Mobile products continue to be the most popular platform in Japan and have again shown robust growth, almost doubling in value. August's launch of iTunes has helped to fuel growth in the online sector and we have been extremely active in promoting our content on this platform, with our online digital sales increasing by a factor of over six times during the year.

South East Asia

The major markets in South East Asia experienced a significant decline in physical sales as physical and digital piracy continued to take their toll. Rapid digital revenue growth across the industry partly mitigated this impact, to bring the overall market decline to 3.7%.

Despite major releases from Indonesia's Radja, whose album *Langkah Baru* sold over 1m units in the financial year, as well as releases from S.H.E., Ada Band and The Flowers, EMI Music lost market share across the region. We saw strong growth in digital revenues across all platforms, with mobile comprising the largest portion of our digital sales.

Australasia

Market conditions in Australasia worsened towards the end of the financial year, with an overall industry decline of 6%. EMI Music gained market share versus the prior period, driven by releases from local superstar Missy Higgins as well as international releases from Coldplay, Korn and Ben Harper.

Latin America

The industry's sales in Latin America enjoyed good growth, rising by 6.1% over the year. Argentina and Colombia saw the strongest growth rates across the region.

Our Latin American business had a very strong year, showing robust revenue and profit growth. EMI gained market share in every Latin American territory, with the largest out-performance in Brazil. Local superstars RBD had a terrific year, with total sales of over 3m units across four album releases. Releases from local artists Marissa Monte, Quintanilla III, Intocable and Thalia, as well as releases from international artists Coldplay and Robbie Williams, drove sales in the region. In July 2005, we announced a major new joint venture with Grupo Televisa S.A., the largest media company in the Spanish-speaking world, to develop and exploit new Latin music both in Latin America and the US.

EMI Classics

EMI Classics had a strong year and grew its global share with particular successes in Continental Europe and Japan. Notable achievements were the success in Japan and many other countries of *Best Classics 100*, and the release of *Mozart's 100* which reached a number 5 position in the French pop chart. Such recordings illustrate the considerable value of EMI's extensive classical catalogue.

One of EMI Classics most important releases during the year was the critically acclaimed studio recording of Wagner's *Tristan and Isolde* with Placido Domingo and Nina Stemme, the distinguished Swedish soprano who has recently signed to the label.

Virgin Classics also had a good year producing some excellent new recordings, particularly with the world renowned coloratura soprano, Nathalie Dessay, and the young Mexican tenor, Rolando Villazon.

Note: All industry and share data are EMI internal estimates based on official data received from the global recording industry association, the IFPI. EMI measures its revenues for market share purposes following the guidelines used by the IFPI to ensure comparability with the market data.

Depeche Mode
Sean Paul
Pharrell Williams

EMI Music Publishing

EMI Music Publishing delivered another strong performance for the financial year ended 31 March 2006. Reported revenues were £419.6m, an increase of 2.6% at constant currency. This reflects strength across the business, with almost all regions and revenue types delivering underlying revenue growth. Of particular note, mechanical revenues grew by 3.2% at constant currency, the first growth in this revenue type for four years. Operating profit increased by £5.8m to £105.4m with operating margin improving to 25.1%. These results reflect a continuation of EMI Music Publishing's successful and proven strategy of signing the best songwriting talent in the industry and maximising all potential revenue opportunities, both existing and new.

A broad range of songs, songwriters and products underpinned this performance, reflecting the quality and depth of the catalogue and the innovative ways in which we are monetising it. Notable successes during the period included songs by Arctic Monkeys, Black Eyed Peas, Natasha Bedingfield, James Blunt, Kelly Clarkson, Daddy Yankee, Jermaine Dupri, Eminem, Enya, Gorillaz, Jay-Z, Alicia Keys, Daniel Powter, Eros Ramazzotti, Kanye West and Pharrell Williams.

Digital revenues continued to grow strongly, increasing by 46% at constant currency on the prior year, to £19.7m. Revenues from digital music are currently classified amongst the various revenue categories – mechanical, performance, synchronisation and other uses – based on the varying status of income collection for these new uses in different countries.

Growth in digital revenues in music publishing continues to lag the recorded music industry, reflecting an under-developed infrastructure for the tracking and collection of digital royalties and a lack of agreements on digital royalty rates for certain products in some regions. EMI Music Publishing is at the forefront of the industry's effort to ensure that the right structures and rates are in place to identify and collect fully all past and future digital revenues. In a ground-breaking move, EMI Music Publishing signed a heads of agreement in January 2006 that represents the first steps towards a pan-European one-stop shop for the licensing of online rights. EMI will work with the UK's MCPS-PRS Alliance and Germany's GEMA to license the rights of EMI's English language songs across Europe for online and mobile usage.

James Blunt

The use of songs in mobile phone products remains the most significant early digital revenue contributor for EMI Music Publishing and continues to enjoy very strong growth. For the revenue from mobile products, we have seen the percentage contribution from ring tunes increase significantly during the year whilst the contribution from ring tones has decreased, a trend we would expect to see as the marketplace becomes more developed. Revenues from digital downloads and other newer products, such as video downloads, have also grown strongly yet remain relatively small. Recently, EMI Music Publishing announced an agreement with the global internet communications company Skype. The deal, which was the first of its kind, opens up an important new channel for the delivery of music in the ever-expanding digital arena. It enables the licensing of song copyrights from our catalogue for downloading, subscription and ring tunes across Skype's online retail store on a worldwide basis.

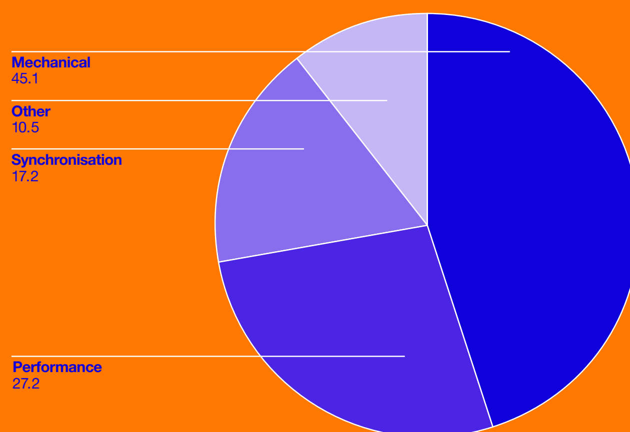
Mechanical revenue
Our mechanical revenues, which are derived from the sale of recorded music, reported growth for the first time in four years, increasing by 3.2% at constant currency despite the global recorded music market continuing to show year-on-year declines during the same period. Mechanical revenues now represent 45% of total divisional sales on a constant currency basis. On a regional basis, our mechanical revenues were particularly strong in the US, reflecting income tracking initiatives that have been taken to ensure collections are maximised.

Performance revenue
Performance revenues, earned when a song is performed live on stage, played in a bar or other public venue or broadcast on the radio or television, grew by 3.4% at constant currency for the year and now represent 27% of divisional revenues on a constant currency basis. Key drivers of growth in this business are the chart success of songs from our roster of active songwriters and the proliferation of new media channels, especially across Europe. On a regional basis, performance income was particularly strong in the UK, reflecting the faster flow of royalties from the PRS, in the US, with a general increase in income from ASCAP and BMI, in Spain, where we saw favourable TV income, and in Germany, where a new tariff and income type for discos was introduced.

Synchronisation revenue
Synchronisation revenue, which is generated by the use of songs in audiovisual works such as advertisements, television programmes, films, computer games and in mobile phones, increased by 5.4% at constant currency, representing more than eleven years of consecutive growth and now contributes 17% to divisional revenues. From the high level achieved in 2004/05, EMI Music Publishing was able to drive meaningful growth in synchronisation by gaining greater penetration in commercials and video, particularly in the US. Significant licences were issued worldwide for a number of major advertising campaigns, including Coca Cola, the Automobile Association, Fuji, Fiat and American Express as well as for TV programmes such as *American Idol*, *Supernanny*, *Gilmore Girls*, *Nip/Tuck*, *Crossing Jordan*, *Scrubs* and *Lost*.

Other revenue
Other revenue typically represents about 10% of revenues, although the absolute amount can vary significantly from year to year. An important driver of the growth in other revenue in recent years has been revenue gained from stepped up efforts in enforcing proper use of our copyrights. By their nature, these revenues tend to be irregular and unpredictable, accounting for the overall decline on a constant currency basis in this revenue category. Excluding these items, the underlying growth in other revenue was strong at over 20%, largely driven by increased background library income.

EMI Music Publishing revenue mix
(%)



KT Tunstall

6. Financial review for the year ended 31 March 2006

Revenue

Reported Group revenue increased by 3.9% or £78.7m to £2,079.9m. The improvement, excluding the impact of currency movements, was 2.1% or £41.5m. The favourable exchange movement was largely driven by a decline in the weighted average rate of the US Dollar against Sterling from $1.85 last year to $1.78 in 2005/06.

At constant currency, revenue in EMI Music grew by 1.9%, with notable increases in North America, UK and Ireland and Latin America.

At constant currency, revenue in EMI Music Publishing was up on the prior year in all major territories, apart from Italy and France, and by 2.6% at a divisional level. The increase in revenue was driven by strong growth in mechanical, performance and synchronisation revenues.

Group digital revenue increased to £112.1m, up 135% from the prior year at constant currency. Digital revenue represented 5.4% of total Group revenue for the year.

Costs

During the course of the year, costs in both divisions were tightly controlled. The underlying gross margin, after distribution costs, improved from 36.4% to 37.2%.

Royalty and copyright costs, manufacturing and distribution costs, together with marketing and promotion costs have increased modestly in total in absolute terms in the year, reflecting the increase in revenue. However, these costs in aggregate have declined as a percentage of total revenue from the prior year. During the year, we delivered the remaining £15m of cost savings from our restructuring initiatives announced in March 2004, taking the total annualised savings from this programme to £50m. These savings were largely reflected in reduced manufacturing and distribution costs and overheads. Group corporate costs were lower in comparison to the prior year in spite of increased legal, regulatory and consultancy costs.

Profit from operations

Group profit from operations (EBITA)[i] increased by £25.4m or 11.3% from £225.1m to £250.5m. Excluding exchange, the increase in EBITA was £21.6m or 9.6%. Group operating margin increased from 11.2% to 12.0%.

EMI Music delivered EBITA of £145.1m, an improvement of £18.1m or 14.4% at constant currency on the prior year. This increase in EBITA was largely driven by particularly good performances in Continental Europe, UK and Ireland, and Latin America. Operating margin improved from 7.8% to 8.7%.

EMI Music Publishing generated EBITA of £105.4m, a growth of 3.5% at constant currency on the prior year. Operating margin improved from 24.9% to 25.1%, reflecting improved net publisher's share and continued strong overhead control.

The Group's share of profit in its associated company investments reduced from £1.1m in 2004/05 to £1.0m in 2005/06. Consequently, the underlying profit from operations for the Group increased from £226.2m in the prior year to £251.5m this year.

Underlying Group finance charges rose by £7.1m to £92.2m. The largest items contributing to this increase were the interest rate rises in both Europe and the US, two of our major funding territories, a lower gain from the amortisation of the 2003 swap unwind and higher average net borrowings over the year, offset only partly by savings from the refinancing of our revolving credit facility completed earlier in the year.

Underlying profit before tax increased by 12.9% from £141.1m to £159.3m, reflecting both the increase in revenue and the continued tight cost control.

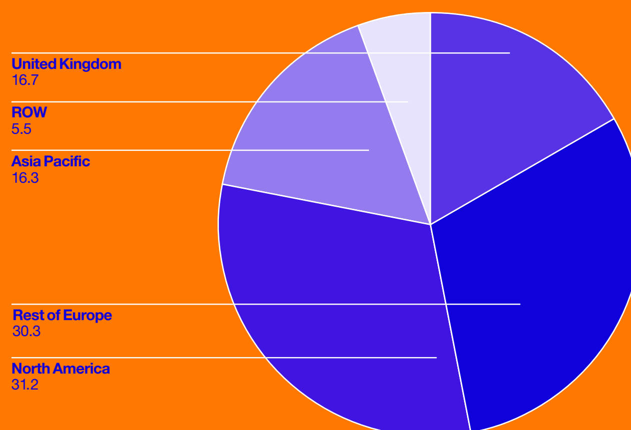
The underlying Group tax rate was 17.6% against 22.3% in the prior year. The reduced rate reflected a movement in profitability towards countries where there were brought-forward tax losses available for offset. The rate has been further reduced due to the settlement of prior liabilities at a lower amount than expected.

As a result of the above, the Group's underlying profit after taxation increased from £109.6m to £131.2m, an increase of 19.7%.

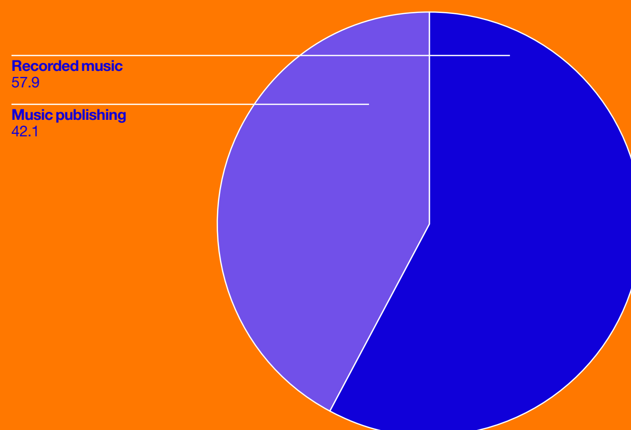
Underlying basic earnings per share[(ii)] were 16.2p, an increase of 2.8p from the prior year. Underlying diluted earnings per share, the calculation of which includes the impact of the potential conversion of convertible bonds (and related bond interest) together with the possible exercise of dilutive share options, increased from 13.1p to 15.7p.

Notes:
(i) Group profit from operations (EBITA) is before exceptional items and amortisation and before share of profit in associates.
(ii) Before exceptional items and amortisation.

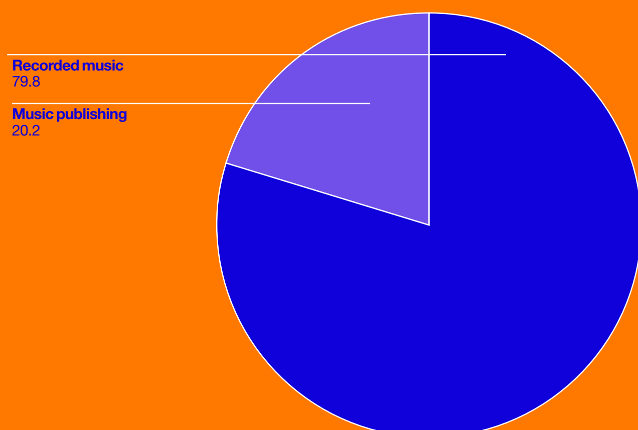
Group turnover by origin
(%)



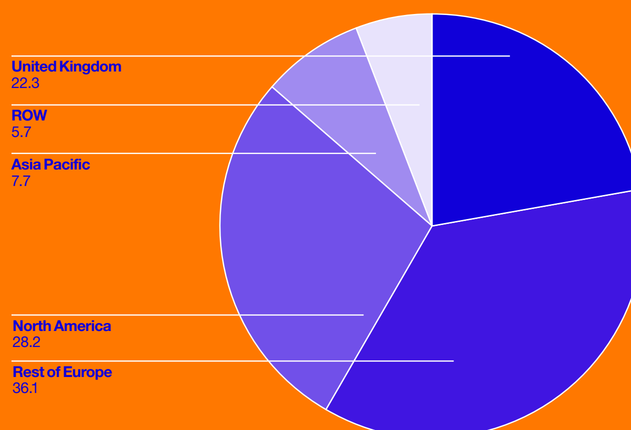
Group operating profit division
(%)



Group turnover by business division
(%)



Group operating profit by origin
(%)



Other items affecting earnings

Exceptional items and amortisation comprise operating exceptional costs, finance exceptional costs and amortisation of music copyrights and intangibles.

The Group is reporting operating exceptional income of £4.0m compared with costs of £17.5m in the prior year. Operating exceptional income is net of property impairment charges of £1.1m in the UK in 2005/06 (2004/05: £18.5m charge in Japan). The remaining operating exceptional income of £5.1m includes gains on property disposals, the gain on disposal of our manufacturing operation in Japan and fair value adjustments to listed investments. The prior-year charge included income of £1.0m in respect of the same components.

The Group is reporting finance exceptional net income relating to remeasurements and refinancing costs of £4.7m compared to net income of £23.2m last year. This primarily relates to the gain on revaluation to fair value of the convertible bond derivative of £4.1m (2004/05: £31.2m gain), the gain on revaluation of the Eurobond embedded call feature of £8.2m (2004/05 £0.2m loss) and the foreign exchange loss on Euro borrowings of £4.1m (2004/05: £9.5m loss). The finance exceptional net income for 2005/06 includes exceptional refinancing costs of £5.2m in connection with the refinancing programme carried out in July 2005 (2004/05: £nil).

Amortisation of music copyrights and other intangibles and impairment of goodwill amounted to £49.9m in comparison with £48.0m last year.

The minority interest cost has increased from a credit of £0.5m in the previous year to a charge of £3.9m this year. This is largely the consequence of increased profitability and the absence of a property impairment charge in our EMI Music business in Japan in which there is a 45% minority.

Profit attributable to members of the Company was £86.1m in comparison with an attributable profit last year of £75.4m.

The Board is recommending a final dividend of 6.0p per share, maintaining a full-year dividend of 8.0p per share and reflecting our strong performance for the year and our continued confidence in the outlook for the business.

Reported results

Total Group profit from operations (including share of associates) was £205.6m in comparison with £160.7m last year. This increase was entirely due to improved trading and reduced property impairment charges.

Total profit before taxation was £118.1m as against £98.8m in the prior year. This increase reflected the improvement in Group profit from operations, partly offset by the reduction in finance exceptional net income.

Cash flow and net borrowings

Improvement in cash conversion and overall cash management remains a key area of focus for the Group. The net cash inflow from operating activities was £188.3m, a small reduction from last year's inflow of £189.0m.

After the net cash inflow from operating activities, we had cash outflows of £2.6m for investment activity and £246.9m for financing activity including £61.2m for dividends. Taking into account the loss on exchange of foreign currency denominated borrowings of £42.8m, year-end net debt has increased by £22.0m from £857.5m to £879.5m.

The net cash inflow from operations after investing activities has approximated the operating result of both divisions in recent years.

Funding and liquidity

At 31 March 2006, the equity of the Group was £558.5m (2005: £557.9m). Equity comprises the aggregate of the fully paid Ordinary Shares of 14p and the share premium account. Further details of the equity are provided in Note 27 of the Financial statements.

With total net debt of £879.5m at 31 March 2006 (2005: £857.5m), the ratio of debt to equity was 157.5% (2005: 153.7%).

Our cash requirements in excess of cash generated by operations are largely funded by borrowings under arrangements with commercial banks and debt raised in the capital markets.

Current funding arrangements include:

- US$500m 8.375% Guaranteed Notes due August 2009;
- £325m 8.25% (stepped up to 9.75%) Sterling Bonds due May 2008;
- €425m 8.625% Senior Notes due October 2013;
- US$243.3m 5.25% Guaranteed Convertible Bonds, due 2010 unless previously redeemed, converted or purchased and cancelled; and,
- a five-year £450m bank facility arranged in July 2005.

We seek to have sufficient facilities available to meet the anticipated needs of the Group for the period covered by the Group's budget and Medium-Term Plan. Facility levels in 2005/06 averaged £1.5bn. The £450m revolving credit facility enables us to manage the seasonal requirements of the business when borrowings are likely to peak. Net borrowing peaked at £1,305.6m at the end of November 2005.

If appropriate, debt is refinanced prior to maturity. This may be to take advantage of improved terms in financial markets or to match a change in revenue streams generated by the business.

On 21 July 2005, the Group signed a new five-year £450m credit facility with a group of banks, allowing EMI to take advantage of more favourable terms in the marketplace. The five-year facility replaced a revolving credit facility (£250m), a 364-day facility (£100m) and a private placement (US$123.8m). In addition, two bilateral facilities (£40m) were not renewed. More information is given in Note 19 of the Financial statements. With this exception, the Group's funding sources have not changed during the year, following the major restructuring in the Autumn of 2003.

The average term of the net debt at 31 March 2006 was 5.4 years against 6.7 years as at the last year end.

Treasury policy
Treasury activity is carried out under a framework of policies and guidelines approved by the Board. The Audit Committee reviewed and approved the policy framework during the year. Control and authority is delegated to the Treasury Management Committee, chaired by the Group Chief Financial Officer.

The Group's Treasury activity is managed by a specialised team based at Group headquarters in London. All debt negotiations and cash management initiatives are directed by this team. Borrowings raised centrally are lent to operating subsidiaries on commercial terms. Where appropriate, cash pooling and sweeping systems are in place to make use of surplus cash in local bank accounts and ensure maximum efficiency in the use of cash resources across the Group.

Financial instruments held by the Group comprise derivatives, borrowings, cash and liquid resources and other financial assets and liabilities, their purpose being to raise finance for the Group's operations. Treasury policies prohibit their use for speculative purposes.

Interest rate risk management
The Group borrows in various currencies and uses swaps, caps and collars to manage interest rate exposure. The Group policy is that a minimum of 25% of the Group's term borrowings should be at fixed/capped rates.

At 31 March 2006, the following interest instruments were in place:

- A US$500m interest rate swap where EMI receives an 8.375% fixed rate and pays a floating rate of three-month LIBOR + 4.65%, maturing in August 2009. This is a fair value hedge of the US$500m 8.375% Guaranteed Notes, due August 2009.
- A €425m interest rate swap where EMI receives an 8.625% fixed rate and pays a floating rate of three-month LIBOR + 4.40%, maturing in October 2013. This is a fair value hedge for the €425m 8.625% Senior Notes, due October 2013.

After taking into account the above instruments, 58.6% (2005: 55.0%) of the Group's gross debt is at floating interest rates and is, therefore, exposed to the risk of increased interest rates. Floating rate debt arises largely from the two swap instruments mentioned above. The effect of a 1% increase in interest rates for all of the Group's floating rate debt would result in an annual increase of approximately £6.9m in the Group's net finance charge (excluding post retirement benefit finance costs).

Further detail of interest rate instruments is provided in Note 15 of the Financial statements.

Foreign currency risk management
The Group faces currency exposure from exchange rate fluctuations against Sterling. Balance sheet exposures are hedged to the extent that overseas liabilities, including borrowings, provide a natural hedge. Group policy is neither to undertake additional balance sheet hedging measures nor to hedge profit and loss account translation exposure. Transaction exposures are hedged, where there are material items that have a high probability of occurring, with the use of forward exchange rate contracts.

The Group's profit and cash flows are denominated in many currencies across the world, the most significant outside the UK being the US Dollar, the Euro and the Japanese Yen. The income statement is translated at weighted average exchange rates for the financial year. In the year ended 31 March 2006, the rates were US$1.78/£ (2005: US$1.85/£), €1.47/£ (2005: €1.46/£) and ¥203.69/£ (2005: ¥198.32/£).

Our debt is structured to match revenue streams in local currency, thereby providing natural currency hedges. Our main committed banking facilities are provided in the UK and the US.

At 31 March 2006, the Group's gross debt was split 38.6% US Dollars (2005: 40.8%), 30.4% Sterling (2005: 29.2%), 30.2% Euro (2005: 29.3%) and 0.8% other currencies (2005: 0.7%). Further details of the currency mix of the Group's gross debt are given in Note 19 of the Financial statements.

Credit risk management
Details of our credit risk management are provided in Note 15 of the Financial statements.

Pensions

The Group operates a number of pension schemes throughout the world. The main scheme, which covers employees in the UK, is the EMI Group Pension Fund (the UK Fund). The UK Fund is of the defined benefit type, as are the Group's pension schemes in Germany and Japan. With the exception of these schemes, the other defined benefit schemes operated on behalf of the Group are not material in size. Staff engaged in other countries are covered by local arrangements which are usually of the defined contribution type.

The UK Fund was closed to new entrants on 1 November 2005. At that date, there were 900 active members of the Fund, together with approximately 22,000 pensioners and deferred pensioners. UK employees who wish to join a pension plan after that date, have the opportunity to join a new stakeholder administered defined contribution plan.

As a consequence of the triennial actuarial valuation of the UK fund as at 31 March 2003, the Group resumed annual contributions in respect of future service to the UK Fund with effect from 1 April 2004. This resulted in a cash outflow of approximately £9.0m in 2005/06. These contributions will continue until the outcome of the next triennial valuation is known. This valuation is as at 31 March 2006 but will not be finalised until the second half of the 2006/07 financial year.

Full reporting of the Group's pension fund costs and the adequacy of funding of its major plans is given in Note 26 of the Financial statements.

7. Future outlook

The recorded music market is undergoing significant change as it becomes increasingly digitised. At this early stage, it is impossible to predict accurately how the market will evolve. However, our analysis, based on recent industry trends, EMI's performance to date and proprietary econometric research, leads us to believe that the global recorded music industry will return to growth in due course driven by consumer demand for digital music products of all types. In this context, we anticipate declining physical sales and have structured our business accordingly. Given the current growth rate of digital music and our future expectations based on this analysis, we continue to believe that digital music sales could represent up to 25% of total global music sales by 2010.

We will continue to invest significantly in A&R, marketing, and in our systems' infrastructure so that we remain positioned at the forefront of the industry in capitalising on the exciting opportunities arising from the market's evolution.

In April 2006, we announced a series of restructuring initiatives aimed at further strengthening our business. These initiatives will involve most regions and will be focused on improving and re-aligning resources to ensure the organisation remains flexible and progressive. A particular area of focus is EMI Music's Japanese business where new skills and a new organisational structure will be introduced to enable the re-allocation of resources into the key areas of A&R and marketing whilst maintaining an aggressive approach to digital business development. These initiatives together are expected to generate £30m of annualised cost savings. We expect that not less than £10m of these savings will be achieved in the financial year ending in March 2007, with the full run rate achieved by the end of the following financial year. In conjunction with these restructuring initiatives, EMI Music plans to enter into sale and leaseback arrangements for its two Tokyo properties and the Capitol Tower in the US. The lease costs that will be incurred as a result of these agreements have already been taken into account in our planned delivery of a net £30m of annualised cost savings.

In the current financial year, EMI Music is planning releases from Chingy, Tiziano Ferro, Janet Jackson, Norah Jones, Stacie Orrico, RBD, Renaud, Joss Stone, KT Tunstall, Keith Urban, Hikaru Utada and Robbie Williams. EMI Music Publishing expects to benefit from releases from artists including Audioslave, Kelly Clarkson, Diddy, Embrace, Janet Jackson, Jewel, Pink, Scissor Sisters, The Zutons, Tool, Usher, Kanye West and Pharrell Williams.

On 3 May 2006, we announced that on 1 May 2006 the Group made an approach to Warner Music Group Corp (Warner Music) in connection with a proposed offer by EMI to acquire all of the outstanding shares of Warner Music for US$28.50 per share, in a combination of cash and EMI shares. Subsequently, Warner Music informed us that it did not wish to enter into discussions regarding our proposal. We continue to believe that an acquisition of Warner Music by EMI would be very attractive to both sets of shareholders but we will only pursue a transaction that delivers enhanced value and earnings accretion to our shareholders.

8. Risks and uncertainties

Our business faces a number of risks and uncertainties. The principal risks and uncertainties are discussed below. We believe that we have in place a robust process for identifying and managing these risks. In 2003, we appointed a full-time dedicated Group Risk Director who steers an annual process of identifying risks to our business, assessing the severity of each of the risks identified and developing and installing controls within the business to eliminate or alleviate the risks where practicable. The Group Chief Financial Officer chairs a Risk Management Steering Committee which is drawn from executive management in all sectors and disciplines within our business. The findings and assessments of the Risk Management Steering Committee are brought to the attention of the Board's Audit and Executive Committees for discussion and approval on an annual basis.

Declining recorded music sales

The value of the worldwide market for recorded music has declined by about 20% since 2001 according to data from the IFPI (the worldwide recording industry association). Economic recession, physical piracy, illegal downloading and growing competition for discretionary consumer spending and retail shelf space have all contributed to this decline. Whilst we believe that new digital music products and services will drive a return to overall industry growth, there are no assurances of the timing or the extent of any improvement in the industry. A continuing decline in sales of physical products could, if not offset by increasing digital revenues, result in reduced revenues and profits in our recorded music division. Additionally, it may have a negative impact on our music publishing business which generates a significant portion of its revenues from mechanical royalties, primarily from the sale of music in CD and other recorded music formats.

Our business is in transition

We are positioning our business to capitalise on the opportunities and to meet the challenges presented by the digital distribution of music content. Legitimate digital product and service offerings are still in the early stages of development and their ultimate impact on our business cannot be predicted with certainty. These new business models may not develop in a way which generates significant profits for our business or they may result in lower or less profitable sales for us than comparable physical sales. It may also be difficult for us to obtain transparency of revenues generated by our digital partners. There are many and varied structures for exploiting music digitally and some of the value chain models can be opaque. The transition to new digital business models requires significant investments in areas such as IT infrastructure and management systems and also requires many new business relationships to be established and managed.

Piracy

Organised commercial physical piracy, the existence of illegal internet file sharing networks and the ubiquity of technological devices which enable unauthorised consumer copying of music content, all represent risks to our business. The IFPI estimates that the physical market for pirated product was worth US$4.6bn in 2004. Internet technology has made it possible for computer users to share unauthorised digital versions of music recordings without the permission of the copyright owners and without paying royalties to holders of applicable intellectual property or other rights. As a result, a large portion of our content is potentially subject to widespread dissemination on the internet without an economic return to us. We are working to control these problems by lobbying governments, by supporting legitimate digital distributors and through collective legal action by the music industry against unauthorised uploaders of music files. Successes in legal proceedings against illegal peer to peer websites, such as Grokster in the US and KaZaa in Australia, are beginning to reduce the availability of unauthorised free music downloads on the internet but online theft continues to be at high levels. We remain dependent on the introduction of stronger copyright protection laws and more stringent enforcement of current laws. Advances in technology mean that new ways to disseminate unauthorised copies of our music content continue to emerge and hence the challenge of combating piracy is on-going. Our results from operations and our financial position may suffer if efforts to stem piracy are not effective or succeed only partially.

Industry structure and competitive environment
The industry in which we operate is highly competitive. Competition amongst record labels for artists and amongst music publishers for songwriters could result in higher royalty payments or failure to attract and retain key talent. The intense competition amongst record companies for shelf space and retailer promotion could result in lower prices and/or higher marketing expenses. Declining prices for competing entertainment products such as DVDs and video games, as well as the emergence of totally new products, could result in reduced demand for music content. Each of these issues could have a negative impact on our revenues and profits from operations.

Retail environment
There has been a significant shift in the retail environment for music. In many countries, mass merchandisers have been taking increased retail market share in physical sales. This has given them significantly greater negotiating leverage and hence resulted in downward pressure on our revenues and profits. Specialist music retailers have been losing market share which has, in certain circumstances, resulted in a significant weakening of their businesses. This could have an adverse impact on our business through factors such as reduced availability of our catalogue at physical retailers and increased bad debts. The retail landscape for digital music sales is in the very early stages of development and it is difficult to predict with certainty how this will evolve over time and the impact that this will have on our business. The market for online music downloads is currently dominated in many countries, notably the US and UK, by Apple Computer, Inc.'s iTunes service, although other digital retailers are emerging over time.

Management of artist and songwriter roster and release schedule
We are dependent on identifying, signing and retaining talented artists and songwriters whose new releases are well received and whose music will continue to generate revenues as part of our catalogue for years to come. Competition for such talent is intense and our financial results would be adversely affected if we fail to identify, sign and retain artists and songwriters under terms that are economically attractive to us. In addition, the timing, existence or absence of superstar releases can have a material impact on our results.

Management talent
The success of our business depends upon the continuing contributions of our executive officers and other key operating personnel. Although we plan for management succession, should these officers or key employees not remain with us, our operations could be adversely affected until suitable replacements with appropriate experience can be found.

Geographic spread
We operate on a global basis, and are thus subject to a range of risks, such as currency fluctuation, capital repatriation, varied regulatory and tax regimes, tariffs, duties and other trade barriers, higher interest rates, recessionary trends, political or financial instability, varying commercial trade terms and different legal protection and enforcement of intellectual property rights. The failure to comply with applicable laws, rules and regulations in these jurisdictions may result in legal proceedings. Additionally, changes in government policy, legislation or regulatory interpretation in any of the markets in which we operate may adversely affect our results.

Legal and regulatory environment
Certain government bodies or agencies may instigate inquiries or investigations into companies operating within the music industry. Such inquiries or investigations may divert the time and resources of management and produce unfavourable results which may adversely affect our revenues and profitability.

Legislation could be enacted or interpreted which could affect our relationships with certain artists or could enable some artists to recapture rights in certain recordings. In the US, there have been attempts in recent years to modify or reinterpret existing legislation that would limit the length of relationships that record companies can have with recording artists or that would enable recording artists to terminate licences or assignments of rights in their copyrighted works. Whilst these legislative initiatives have not progressed, there can be no certainty that legislation will not be formulated which could negatively affect our business.

Whilst the period of copyright protection has been increased for sound recordings in the US and for musical works (i.e. compositions) in the US and in the European Union, the period of protection for sound recordings in the European Union and many other countries outside the US remains at 50 years. As a consequence, over time a portion of our catalogue within Europe will become out of copyright (or in the 'public domain'). This will become increasingly significant over time as some of the major 'evergreen' recordings in our catalogue were recorded in the 1960s. When recordings fall into the public domain, we no longer have the exclusive right to exploit them and third parties will have the ability to market and sell those same sound recordings in direct competition with us and without financial compensation to us or our artists. We are actively lobbying governments and legislators to increase the period of copyright protection beyond current levels, but there can be no certainty that such efforts will succeed. As a result, our ability to exploit our back catalogue and, therefore, our results of operations and cash flows may be adversely affected in future years.

ck Eyed Peas

Bush

Vasco Rossi

Impact of external bodies
External bodies, such as government entities, industry associations or local third-party collection societies, have significant influence on some of our revenues. The two largest sources of income of EMI Music Publishing are mechanical and performance royalties. In the US, mechanical royalty rates are subject to negotiation under the US Copyright Act and outside the US are typically negotiated on an industry-wide basis. Performance rates are usually set by performing rights societies in our major territories and may be subject to challenge by licensees of those performing rights. These processes of setting mechanical and performance royalties may result in the setting of rates at levels lower than we would wish and may, therefore, adversely affect our ability to increase the profitability of our music publishing business.

For our recorded music business, mechanical royalties are a significant expense, whilst revenues from the US satellite radio industry have been driven by a compulsory licence. Changes to the rates or the nature of compulsory licence agreements or the speed of licensing and collection of monies by these third parties could negatively affect our revenues, profitability and cash flows.

Risk of supply interruption
In certain major territories, particularly the US, Europe, Japan and Australia, we source our physical product through one primary manufacturer. Although the industry for CD manufacture has excess supply, our physical product flow could be interrupted if one of our manufacturing partners had difficulty meeting our requirements. For digital products, we utilise a third party for some of the digitisation and other supply chain elements used to provide digital retailers with our music. If the digital supply chain partner had difficulty meeting our requirements, our dissemination of digital music could be hindered. In some key territories, the distribution of our CDs and DVDs is handled by a sole distributor. Whilst we have the ability to terminate these arrangements and switch supplier if the existing distributor fails to meet its obligations, this could lead to a temporary interruption in the supply of our physical product to our customers.

Fluctuation in results of operations and cash flows may affect our ability to service our indebtedness
Our revenues and profits, like those of other companies in the music business, are driven by the number and quality of products that our recording artists and songwriters release and the consumer demand for these releases. We also make non-returnable advance payments to artists and songwriters that impact on our operating cash flows. The timing of releases, associated marketing expenditures and advance payments are largely based on business considerations and other reasons rather than the timing of financial reporting periods. As a result, there may be significant fluctuations from reporting period to reporting period.

A substantial fluctuation or sustained period of lower than expected revenues or profit performance may constrain our ability to service the costs of our capital structure. Our debt facilities of £1.5bn are sizeable and long term in nature, with an average maturity of 5.4 years. The interest costs associated with our debt levels are considerable and portions of the debt will need to be repaid over time. We have also distributed a significant dividend to our shareholders twice each year. If our cash flows from operations are negatively affected by industry or business performance, we may have difficulty in meeting the costs of servicing our debt and in making dividend distributions to our equity holders.

We conduct some of our operations through joint ventures

We currently have interests in a number of joint ventures and may, in the future, enter into further joint ventures as a means of conducting our business. We cannot fully control the operations and the assets of our joint ventures, nor can we make major decisions with respect to our joint ventures unless our joint-venture partners agree. Accordingly, although we may have the ability to veto decisions with respect to our joint ventures, we are not in a position to make unilateral decisions. This may constrain the ability of our joint ventures to take action. In addition, we structure certain of our relationships with artists and songwriters as joint ventures.

Pension fund valuations

We maintain certain defined benefit plans around the world, the largest of which is our UK pension plan. The asset values of our pension funds may rise or fall over time depending on a variety of factors, including in particular, increases or declines in share prices. Pension funding requirements are dependent upon various factors, including interest rate levels, asset returns, regulatory requirements and changes to pension plan benefits. Absent favourable changes to these factors, we may have to satisfy any under-funded amounts of our pension plans through cash contributions over time.

Currency exchange rate fluctuations

The reporting currency for our Financial statements is Sterling. We have substantial assets, liabilities, revenues and costs denominated in currencies other than Sterling. To prepare our consolidated Financial statements we must translate those assets, liabilities, revenues and expenses into Sterling at applicable exchange rates. Consequently, increases and decreases in the value of Sterling versus other currencies will affect the amount of these items in our consolidated Financial statements, even if their value has not changed in their original currency. These translations could, therefore, result in apparent significant changes to our results of operations from period to period.

Keith Urban

9. Resources

The Group has the following key resources which assist it in the pursuit of its key objectives:

- **A deep and diverse portfolio of music assets generating strong results on a consistent basis**

  We have built an extensive bank of content in terms of international scope, breadth of musical styles and genre and quality. This portfolio of music recordings and musical compositions enjoys strong demand each year. EMI Music has a catalogue of music recordings comprised of over 3m tracks including classics by The Beatles,the Rolling Stones, Pink Floyd, Frank Sinatra, Queen and the Beach Boys, as well as newer releases by artists including Robbie Williams, Kylie Minogue, Coldplay, Gorillaz and Norah Jones. These recordings continue to produce strong cash flows with limited incremental marketing costs. EMI Music Publishing has the world's largest and most extensive catalogue of musical compositions with over 1m copyrights owned, controlled or administered. Both our historic and current catalogues consistently generate high levels of uses and produce recurrent cash flows year after year.

  Both EMI Music and EMI Music Publishing are continuously adding content to our catalogues to ensure they remain dynamic and growing resources.

- **Long-term artist and songwriter agreements**

  Our contracts with our recording artists and songwriters generally give us the right to the creative output of those recording artists and songwriters over several years. As a result, when they are successful we continue to share the future financial benefits of that success and to recover our initial investment many times over. We regularly enter into new contracts with our best artists and songwriters even when they have fulfilled all of their contractual obligations to us. In 2002, Robbie Williams re-signed to EMI Records in the UK in a ground-breaking multi-album, multi-rights deal. Our catalogue contains recordings by the Rolling Stones first released over 30 years ago and the band continues to record for us today. In addition to EMI Music Publishing's exciting new writers, established songwriters such as Sting, Enya and Cathy Dennis remain active creatively and enjoy success in terms of both their back-catalogue and more recent releases. Equally important, our contracts provide us with flexibility such that if success does not occur or diminishes, we can end the great majority of our contractual relationships with relatively minimal cost.

- **Established global position**

  EMI is one of the oldest, most established music companies in the world. We are a global business with a presence in more than 50 countries and with revenues spread across all geographic regions of the world. Based on revenue, our recorded music business is one of the largest in the world and our music publishing business is the world's largest music publisher. Our balanced portfolio of international businesses creates a more stable platform for us as macroeconomic trends in one country are balanced and mitigated by trends in other parts of the world. Our success in breaking new artists and promoting and sustaining the careers of our superstars ensures that we remain one of the leading music companies in the world.

- **Our management and employees**

  We enjoy great depth of management expertise at both the corporate and the operating level. The managements of EMI Music and EMI Music Publishing are widely regarded as among the best in the music business. Alain Levy, CEO of EMI Music, has more than 30 years' experience in the industry. During this period, he built PolyGram (now part of Universal Music Group) into the industry leader in recorded music. Alain joined EMI in October 2001. Martin Bandier, CEO of EMI Music Publishing, also has more than 30 years' experience in the music industry. Martin co-founded SBK Entertainment World Inc. in 1984, which now forms the core of our music publishing business. Roger Faxon, previously the Group's CFO, became co-CEO of EMI Music Publishing on 1 April 2006. Roger also has extensive experience both within EMI and the entertainment industry.

  We are committed to maintaining superior management and creative executives at the regional and local level as well. We focus on ensuring that we have highly capable leaders throughout the organisation and use our talent identification and performance review processes to develop and expand upon our team of creative and business-minded professionals. The strength of the EMI name enables us continually to attract the best musical and executive talent. For two years running, EMI Music UK was named as one of the '100 Best Companies to Work For' in an annual survey by *The Sunday Times*. More information on our employees is included on page 32.

- **Trade marks**

  Our trade marks and trade names are important to our business. We register our major trade marks and trade names in each country where we believe it is necessary for the effective protection of our business. Our major trade marks that are owned worldwide include EMI, Capitol, Blue Note, Hemisphere, Now, Now That's What I Call Music!, Best… Ever!, Parlophone and Angel. The Virgin trade mark and the Virgin signature trade mark have been licensed in perpetuity exclusively to us by the Virgin Group for use worldwide in connection with the music business. We monitor and defend against activities that might infringe or dilute our trade marks and trade names.

10. Environmental matters
We recognise that our businesses have an impact on the physical environment and we have identified our key issues as energy use and carbon management, other resource use, and waste management. We have policies and reporting procedures in place to ensure that we measure these impacts and work to minimise them. In the UK, for example, close to 100% of our electricity requirements are met through renewable energy sources. During 2005/06, on a like-for-like basis, our worldwide energy use decreased by 5.7%; this was almost entirely due to the sale of our manufacturing plant in Japan at the end of December. Associated carbon dioxide emissions dropped 6.9% in absolute terms and 13% when related to revenue.

We are also subject to environmental laws and regulations in the countries in which we operate and believe that our existing businesses are compliant with all relevant legislation. In connection with former operations we have been, and may become again, responsible for the costs of investigating or clearing up contaminated properties; to date, any such costs have not been material.

More information on our performance in environmental management is included on page 35 and in our annual social responsibility reports, which can be viewed at www.emigroup.com/social.

11. Social and community issues
EMI's responsibilities as a business also extend to the communities in which it operates. We are committed to fair treatment of all our stakeholders – artists, employees, shareholders, customers, suppliers, governments and society at large. We have a range of policies in place to support this, including a Standards of Business Conduct policy for employees which underlines the importance of integrity, ethics, objectivity and accountability in our dealings with others.

Any social and ethical issues that could cause risk to the business are taken into account as part of the annual risk review process (see section 8). While these issues are important, we do not think that they pose any significant risk.

EMI has an active and on-going community investment programme. Globally, the main causes we support are youth and education, arts and culture, and health and welfare. At Group level, we focus on promoting music education and access to music. This ensures that our community investment activities are aligned with our core business; we believe it is also the way in which the business can best utilise its energy, creativity and expertise to deliver long-term benefits to the community. Our flagship initiative is the EMI Music Sound Foundation which has, to date, awarded over £2.5m to boost music education in the UK. Other key partnerships include London's Roundhouse, Teach First, Music House for Children and education work with the London Sinfonietta, the California Institute of the Arts and Skidmore's Summer Jazz Institute.

EMI is included in the FTSE4Good and the Dow Jones Sustainability Index, both of which assess companies' social, environmental and ethical policies and performance.

More information on social and community issues can be found on pages 32 to 35 and in our annual social responsibility reports, which can be viewed at www.emigroup.com/social.

12. Critical accounting policies and use of estimates
Our discussion and analysis of the Group's financial position and results of operations are based upon our consolidated Financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS). This is the first Annual Report of the Group to be prepared in accordance with IFRS, as adopted by the European Union. The transition date for the application of IFRS is 1 April 2004. The comparative figures for year ended 31 March 2005 have been restated accordingly, except where the Group has taken the option under IFRS 1 *First-time adoption of IFRS* as follows:

- the requirements of IFRS 3 *Business Combinations* have been applied prospectively from 1 April 2003;
- certain properties were held at revalued amounts as at 31 March 2004. On conversion, these revalued amounts were frozen and deemed cost in the case of these properties;
- all actuarial gains and losses in respect of defined benefit pension and post-retirement schemes have been recognised in full in equity from 1 April 2004;
- cumulative translation differences relating to net investments in overseas companies that arose prior to 1 April 2004 have been set to zero and will not be included in any subsequent calculation of profit or loss on disposal;
- only those employee share options granted after 7 November 2002 that had not vested as at 1 January 2005 have been remeasured at fair value; and
- the Group has chosen to adopt IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from 1 April 2004.

The preparation of the Financial statements requires our management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, we evaluate our estimates, including those related to sales returns, bad debts, intangible assets, income taxes, and contingencies and litigation. Historical experience and various assumptions that we believe to be reasonable under the circumstances form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our significant accounting policies are detailed in full on pages 63 to 65 of the Financial statements. The key policies are summarised in this section.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised after making provision in respect of expected future returns of goods and services supplied by the Group prior to the balance sheet date (see below).

Licence income is recorded on an accruals basis where reliable estimates can be made of future receivables relating to income for the current financial year. Where such reliable estimates cannot be made, income is only recorded once received.

Another area of judgement affecting reported revenue and net income is management's estimate of product sales that will be returned. In determining the estimate of product sales that will be returned, management analyses historical return patterns, current economic trends, changes in customer demand and acceptance of our products, as well as changes in our terms of trade. Based on this information, management reserves a percentage of product sales that provide the customer with the right of return.

Accounting for jointly controlled operations
The Group has a number of jointly controlled operations where there is no separate legal entity. An example of such an arrangement is the Now albums which use content from a number of music companies.

The expenses that the Group incurs, and the share of the income that the Group earns from the sale of goods by these jointly controlled operations, are included in the Income statement. Where EMI distributes the joint product, our share of the revenue and costs associated are reported line by line in the Income statement. Where EMI does not distribute the product, the net profit attributable to EMI is reported within revenue.

The assets that the Group controls, and the liabilities that the Group incurs, in respect of these jointly controlled operations are included in the balance sheet.

Kelly Clarkson

Accounting for advances to artists, writers and repertoire owners
In the ordinary course of business, the Group pays advances, and other expenses recoupable from future royalties, to performing artists, songwriters, producers and third-party repertoire owners. One area of judgement affecting our Income statement is management's estimate of the recoverability of those advances on future royalties paid to artists, songwriters, producers and third-party repertoire owners.

Advances are initially capitalised on our balance sheet to the extent that our management believes them to be recoverable. This assessment of recoverability is based upon the current and past popularity of the artists, the initial commercial acceptability of the product, the current and past popularity of the genre of music to which the product belongs, and projected revenue performance. Based on this information, management expenses the portion of such advances that it believes is not recoverable. Our policy is to provide at least 80% of the net account balance in those cases when an artist does not have a proven track record.

As revenue is generated by the product against which an advance was made, we expense through cost of sales the portion of the capitalised advance which has been recouped. Management regularly reviews the recoverability of capitalised advances and will make a provision to the extent that it no longer believes an advance to be recoverable.

Accounting for pensions and other post-retirement benefits
The Group operates three major defined benefit pension schemes. The cost of providing benefits under the schemes is determined separately for each scheme using the projected unit actuarial valuation method.

In reaching the valuations, actuaries must use judgement about uncertain events including, but not limited to, discount rates, expected rate of return on plan assets, participation levels, salary increases and expected healthcare cost trend rates.

The actuarial valuations and the judgements therein form the basis for:
- the service cost charged against profit;
- the expected long-term returns on defined benefit scheme assets and the interest on the defined benefit obligation included as net finance charges in the income statement;
- actuarial gains and losses charged or credited directly to reserves through the statement of recognised income and expense; and,
- actuarially calculated surpluses or deficits on the defined benefit schemes included within the consolidated balance sheet.

All these amounts are sensitive to the assumptions made by the actuaries.

Under IFRS, actuarial valuations of our principal defined benefit pension schemes for accounting purposes are required to be carried out every year. The latest actuarial valuation for our UK pension plan for funding purposes has commenced and will be completed during 2006/07.

Raphael

Dierks Be

Intangible assets
Intangible assets include music copyrights and other intangibles. Intangible assets acquired separately are capitalised at cost, whilst those acquired as part of a business acquisition are capitalised at fair value at the date of acquisition.

Following initial recognition, intangible assets with finite lives are amortised on a systematic basis over their economic useful lives. Intangible assets are tested for impairment if events or changes in circumstances indicate that the carrying value may be impaired. Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets created within the business that cannot be distinguished from the cost of developing the business as a whole are not capitalised. Any relevant expenditure is charged against profit from operations in the period in which the expenditure is incurred.

Share-based payments
The share option programme allows certain Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The expense is spread over the period during which the employees become unconditionally entitled to the options.

A 'binomial lattice' model is used by actuaries to calculate the fair value of the share option at the grant date. In applying the model, actuaries must use judgement about uncertain events including, but not limited to, interest rates, the dividend yield, the volatility of the share price over the expected term of the option (based on historic volatility up to the date of grant), staff turnover and the probability of early exercise of the options.

Judgement also exists in determining the point at which employees become 'unconditionally entitled' to the options. These include the Group's best estimate of the number of awards that will ultimately vest and satisfaction of relevant performance criteria.

Measurement of financial derivatives
Under IFRS, certain debt and related derivative instruments are remeasured to fair value, with the change in fair value shown in the Income statement within finance charges or through reserves where the Standards allow.

The Group has debt and derivative instruments that require fair valuing at each balance sheet date. The various elements are:

- the remeasurement of debt to market value offset by the remeasurement of applicable interest rate swaps to market value (where hedge accounting can be adopted);
- the remeasurement of the conversion option within our US$243m convertible bond;
- the remeasurement of the Eurobond embedded call feature; and,
- the remeasurement of foreign currency denominated debt using exchange rates at the balance sheet date. Where the borrowing hedges a net investment, the change in fair value is booked to reserves. The change in fair value of any additional borrowing is recognised through the Income statement.

The remeasurement of these elements can give rise to significant amounts within finance charges in the Income statement. Factors that affect the remeasurements include changes in interest rates, EMI credit spread, exchange rates and the EMI share price. The above adjustments have no cash impact.

Radja

Daddy Yankee

entley

Social responsibility is as relevant to the music industry as any other sector, and EMI is committed to playing a constructive role in society and in the safeguarding of the environment. Our social responsibility programme began in the early 1990s and has evolved over time to reflect our business and the expectations of our stakeholders.

We continue to be included in the Dow Jones Sustainability Index and FTSE4Good, and we are a founding and active member of the UK's Media CSR Forum. More detailed information on our programme can be found in our annual social responsibility reports, which are available on our website (www.emigroup.com/social).

Employment
The music business relies on creative and motivated people. We work hard to inspire and reward our employees and provide opportunities for personal and career development. This ensures that we continue to recruit and retain the very best people.

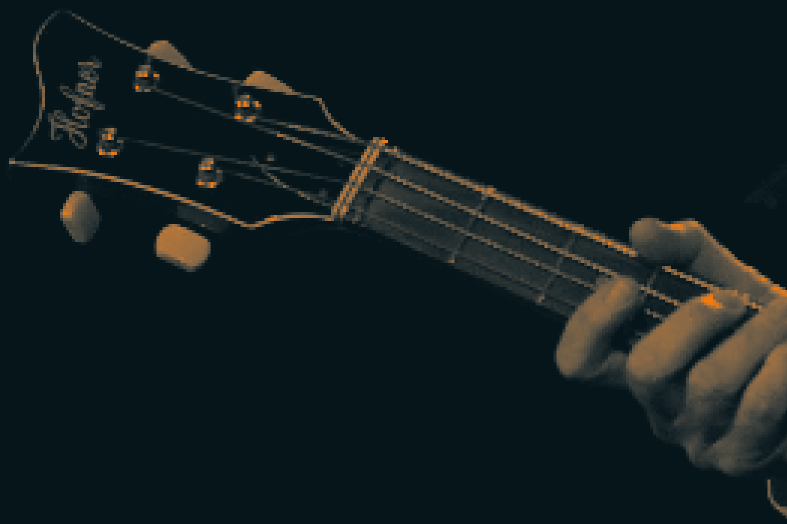
In 2005, we launched a global employee survey to gather the views of our workforce. The music industry has changed dramatically in recent years and the survey is an important step in understanding how EMI employees are responding to the changes. The findings will help determine the future direction of our workplace and enable us to respond to the changing needs and expectations of our staff. The survey had a high response rate, at 78%. Results have been shared with employees and some new initiatives have already been implemented, for example in the area of internal communications.

We continue to equip our management with the skills they need to drive the business forward through our worldwide management development programme. Targeted development and support means our senior managers are better able to compete in an industry that is undergoing such rapid and fundamental change. We believe this type of long-term investment is critical to our success. Business training is, of course, important at all levels of the organisation and globally EMI companies provide opportunities for staff to develop or enhance their skills. Increasingly, development needs are identified and agreed through the performance appraisal systems that are being rolled out throughout the Group. Last year 29% of the total workforce received some form of skills training, a 16% increase on the previous year.

In the UK and Australia, we have been able to offer all employees a flexible benefits package which they can customise to fit their personal circumstances. The benefits offered by the package include the ability to buy and sell annual holiday entitlement, discounted private medical and dental insurance and savings on childcare.

In 2005/06, women made up 48% of all staff, compared to 47% the previous year; however, the number of women in management decreased from 25% to 23%. Ethnic minorities (excluding Asia and Latin America) made up 14% of all staff and 9% of management; this compares to 15% and 5% respectively in the previous year. The level of staff with self-reported disabilities remained broadly stable, at 0.3% of staff and 0.5% of management.

During the year, there were 17 reportable injuries/illnesses (2.9 per 1,000 employees) based on the UK standard measure; this is an improvement on the previous year when there were 19 (4.4 per 1,000 employees). Days' absence from illness per employee was higher, at 3.9 days compared to 3.3 days.



Paul McCartney
Paul McCartney opened Live 8 with a performance of *Sgt Pepper's Lonely Hearts Club Band*, together with U2, and closed the show with a number of Beatles classics, including a rousing finale of *Hey Jude*.

Community

The focus for our community investment programme is music education and we continued our support for a range of initiatives to enable young people to benefit from wider access to music. EMI Music Sound Foundation is our main initiative to boost music education in the UK and Ireland. Established by EMI in 1997, the independently-governed Foundation is based at our head office and shares a very close working relationship with the business. To find out about the work of the Foundation, which will be celebrating its 10th anniversary next year, please visit its website at www.emimusicsoundfoundation.com.

Together with the Brit Trust, EMI and the EMI Music Sound Foundation once again collaborated on a project to enable schools across the UK to benefit from workshops run by the London Sinfonietta, Britain's premier contemporary classical music ensemble. This year's project was based on Karlheinz Stockhausen, the godfather of electronica, whose music has influenced a number of popular EMI artists, including The Beatles, Goldfrapp and Kraftwerk.

In the US, music education was at the heart of two projects which EMI continued to support. For the third year, we were involved in the Grammy Jazz Ensembles programme which enables talented high school students to meet, share experiences and perform with Grammy-nominated artists, including a recording session at the Capitol Studios in Los Angeles. We also continued our partnership with the California Institute of Arts to give music students the opportunity to record, produce and release their original work, working with Capitol Studios' staff.

In the UK, EMI is a founding corporate partner of London's Roundhouse, a dynamic performing arts venue which includes a state-of-the-art community media resource providing young people with an opportunity to develop their creative skills. We have funded a music studio there and during the year we continued our support by hosting a reception in aid of the Roundhouse for music industry professionals and press, running an in-house fundraising campaign, and offering professional help in a number of areas including equipping the music studio and advice on human resource issues.

Another important partnership is with Teach First, which recruits top graduates to teach for two years before taking their skills and experiences into the business world; to date about 50% of participants have opted to stay in teaching for at least a third year. Our support has primarily been funding the recruitment and training of music teachers; by September 2006, secondary students at 10 London schools will be benefiting from better music education. We also recruit senior EMI staff members to act as coaches to the teachers, organise summer placements and host events.

Our individual operating companies are free to direct their community efforts in a very local way, and for many years EMI Music's UK business has played a key role in helping to improve safety in its area of West London. This year, EMI has been a driving force in a new initiative to encourage young people to contribute to their neighbourhoods which, in turn, would reduce the fear of crime. The Safer Neighbourhoods Annual Challenge asked 11–19 year olds to identify problems in their neighbourhood and suggest, and then implement, solutions; these ranged from cleaning up public spaces to organising film evenings for local youth.

CalArts
EMI Music Sound Foundation
Live 8
Roundhouse
Teach First
Dow Jones Sustainability Index

Benefit CDs are a unique way in which our industry can contribute to the community, whether in aid of a specific charity or in response to a disaster. Following Hurricane Katrina and the devastation it caused in New Orleans, EMI Music in the US produced a number of albums to raise money for the relief effort. Our jazz label, Blue Note, released the recording of *Higher Ground*, the Hurricane Relief Benefit Concert at New York's Lincoln Center which was produced by EMI artist and New Orleans native Wynton Marsalis. Parlophone released Dr John's *Sippiana Hericane* and EMI's Christian Music Group collaborated on the album *Songs of Hope*. EMI also worked in partnership with the rest of the music industry to release *Hurricane Relief: Come Together Now*, a multi-artist album which included EMI stars such as Coldplay and Norah Jones.

2005 was also the year of Live 8, which drew attention to third-world poverty through a series of free music concerts around the world. EMI helped make the concerts on 2 July possible with its major financial contribution (together with a very generous royalty rate) in return for the worldwide DVD rights. Funds from the DVD will be utilised by the Band Aid Trust for the relief of hunger and poverty in Africa.

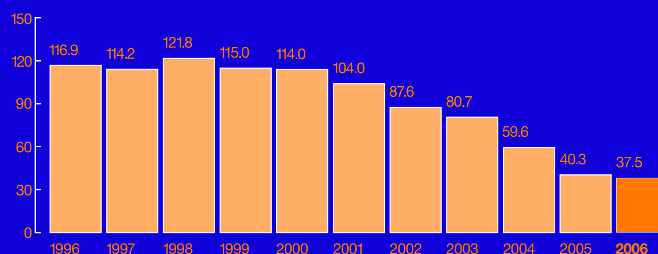
EMI's worldwide charitable cash contributions for the year were £0.9m; this was complemented by additional community investment from participation in industry fundraising events around the world, arts sponsorship, and donations of both staff time and gifts in kind. In the UK, for the sixth consecutive year, EMI was a member of the PerCent Club, which recognises a community investment level of 1% or more of pre-tax profits.

Environment
Following our withdrawal from manufacturing in the US and Europe in 2004, the sale of our CD plant in Japan at the end of 2005 marked a further reduction in the environmental impacts that we manage directly. However, we continue to ask our major product suppliers to report on key environmental performance indicators with the aim of ensuring responsible environmental management in our supply chain.

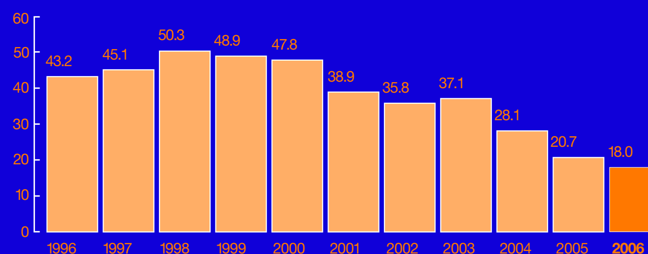
EMI offices, distribution centres and studios globally continue their efforts to find ways to reduce energy and resource consumption and cut office and product waste in line with our environmental policy.

Our carbon dioxide emissions dropped by 6.9% in absolute terms last year and by 13% when related to turnover. This decline is almost entirely due to the sale of the Japanese factory. The decrease in absolute energy use during the year was 5.7%. Globally we source just over 21% of our electricity demand from renewable sources.

Climate impact
CO_2 emitted due to energy use in buildings (kilotonnes)



Climate impact
CO_2 emitted due to energy use in buildings per unit of turnover (tonnes/£m)



Eric Nicoli (55)
Chairman

Eric Nicoli was appointed to the Board in 1993 as a Non-executive Director, becoming executive Chairman in July 1999. Until April 1999, he was Group Chief Executive of United Biscuits (Holdings) plc (UB), which he joined from Rowntree Mackintosh in 1980. He was appointed to the UB Board in 1989 and became Chief Executive of UB in 1991.

Mr Nicoli is: Non-executive Chairman of The Tussauds Group Ltd; Chairman of The PerCent Club, The EMI Group Archive Trust and of the Trustees of the EMI Music Sound Foundation; and a director of Creative and Cultural Industries Ltd. He is co-Chairman of BASCAP, an international initiative to stop counterfeiting and piracy, and he also sits on the UK government's Creative Industries Forum on Intellectual Property.

Roger Faxon (58)
President and Co-Chief Executive Officer, EMI Music Publishing

Roger Faxon became joint CEO of EMI Music Publishing and rejoined the Board on 1 April 2006. He will become sole CEO of EMI Music Publishing on 1 April 2007.

Mr Faxon joined EMI in 1994, initially as Senior Vice President, Business Development & Strategy, EMI Music and, in April 1999, became Executive Vice President and Chief Financial Officer, EMI Music Publishing. On 1 February 2005, after three years as the Chief Financial Officer and an Executive Director of EMI Group plc, Roger Faxon returned to EMI Music Publishing as President and Chief Operating Officer.

Prior to 1994, Mr Faxon held finance, operations and general management positions. These posts included five years with Sotheby's, latterly as Managing Director, Sotheby's Europe and, previously, as Chief Operating Officer, Sotheby's North and South America. This followed ten years in the motion picture industry and six years on the staff of the US Congress.

Mr Faxon is a director of Music Choice Inc. and the American Society of Composers, Authors and Publishers.

Alain Levy (59)
Chairman and Chief Executive Officer, EMI Music

Alain Levy joined EMI and was appointed to the Board in October 2001.

Mr Levy joined CBS International (now Sony Music) in 1972 and, after 12 years, moved to PolyGram (now Universal Music Group), where he became President and CEO in 1991. In both companies he held various posts involving manufacturing, logistics, marketing and management. Mr Levy remained with PolyGram until it was sold to Seagram in 1998.

Mr Levy is a director of David Linley & Co. Ltd and Ilchester Investments Ltd. He also sits on the advisory board of Schroder Venture Partners LLC (formerly Schroder Ventures) in the US and on the European advisory board of Wharton Business School.

Martin Stewart (42)
Chief Financial Officer (CFO)

Martin Stewart, who is a Chartered Accountant, was appointed CFO and became a member of the Board in February 2005, having joined EMI in January 2005.

Before joining EMI, Mr Stewart was Chief Financial Officer of British Sky Broadcasting Group plc. He held this post from 1998 until 2004, having joined that company in 1996. Between 1991 and 1996, Mr Stewart was employed by PolyGram, latterly as Finance Director of PolyGram Filmed Entertainment.

John Gildersleeve (61)
Deputy Chairman and Senior Independent Non-executive Director

John Gildersleeve joined the Board in 2004 when he also became Deputy Chairman and Senior Independent Non-executive Director.

Until 2004, Mr Gildersleeve was the Commercial and Trading Director of Tesco plc. He joined Tesco in 1965 and became an executive director in 1984.

Mr Gildersleeve is also Non-executive Chairman of Gallaher Group plc and of The Carphone Warehouse Group PLC.

Sly Bailey (44)

Sly Bailey joined the Board in 2004.

Mrs Bailey is Chief Executive of Trinity Mirror plc, the UK's largest newspaper publisher. Between 1989 and 2003, Mrs Bailey held various executive posts with the IPC Media Group, joining the Board in 1994 and becoming Chief Executive of IPC Media in 1999. She led the sale of IPC to AOL Time Warner in 2001. From 1984 until 1989, Mrs Bailey worked in sales management for The Independent and The Guardian newspapers.

Mrs Bailey is a non-executive director of The Press Association Ltd. She is also the President of Newstraid, a charity for the distribution and retail news trade, and is a board member of the NSPCC Stop Organised Abuse Appeal.

Kevin Carton (62)

Kevin Carton joined the Board on 1 February 2006.

It is envisaged that, in due course, Mr Carton will become Chairman of the Audit Committee, succeeding Kathleen O'Donovan.

Mr Carton retired as a senior partner of PricewaterhouseCoopers LLP in June 2004 after 38 years. He was the Global Leader of the Entertainment & Media practice based in New York and became a partner of Price Waterhouse in 1977.

Mr Carton serves on the boards of Russell Reynolds Associates and Good Shepherd Services and is on the Board of Advisors at BrainShield Technologies Inc. He was previously a member of the International Council of The Museum of Television & Radio.

Peter Georgescu (67)

Peter Georgescu joined the Board in 2002.

Mr Georgescu is Chairman Emeritus of Young & Rubicam Inc., a network of commercial communications companies, having served as that company's Chairman and CEO from 1994 until 2000.

In addition, Mr Georgescu is a director of Levi Strauss & Co. and International Flavors & Fragrances Inc. He is also Vice Chairman of the directors of New York Presbyterian Hospital and is a member of the US Council on Foreign Relations.

David Londoner (69)

David Londoner joined the Board in 2003.

Mr Londoner, who is a Chartered Financial Analyst, is the General Partner of The North River Company, L.P., a family investment partnership. He spent most of his career at Schroder & Co. Inc., joining a predecessor firm,Wertheim & Co., in 1972 and leaving when it was sold in 2000.

Additionally, Mr Londoner is a director of Meredith Corporation and Wintergreen Fund. He is also a trustee emeritus of the Museum of the Moving Image in the US.

Kathleen O'Donovan (49)

Kathleen O'Donovan joined the Board in 1997 and has chaired the Audit Committee since 1999. She will conclude her third three-year term as Non-executive Director of the Company and retire as a Director on 20 November 2006.

Ms O'Donovan is a non-executive director of Prudential plc, the senior independent non-executive director of Great Portland Estates PLC and serves on the audit committees of both companies. She is also chair of the Invensys Pension Fund. In addition, she was a non-executive director of O_2 plc until its acquisition in January 2006 and subsequent delisting, as well as being a director of the Court of the Bank of England and chair of its audit committee until 2005 when her second three-year term of office ended.

Directors' report
for the year ended 31 March 2006

Business review
The information that fulfils the requirements of the Business Review can be found in the Operating and Financial Review on pages 6 to 31 which is incorporated in this Directors' report by reference.

Dividends
An interim dividend of 2.0p per Ordinary Share was paid on 3 April 2006. The Board is recommending a final dividend of 6.0p per Ordinary Share, making a total of 8.0p (2005: 8.0p). The final dividend will be paid on 2 October 2006 to Ordinary Shareholders on the register as at the close of business on 21 July 2006, with the shares going ex-dividend on 19 July 2006.

Scrip Dividend Scheme
The Company's Scrip Dividend Scheme permits shareholders to enter into a continuing mandate for the receipt of shares in place of cash dividends with the ability to cancel such mandate at any time. It is the Board's intention to apply the Scheme to the final dividend proposed to be declared at the AGM. However, in accordance with Article 159 of the Company's Articles of Association, the Board has the right to amend, suspend or withdraw the application of the Scheme to any particular dividend at any time prior to the allotment of the related shares.

Share capital
Changes in the Company's share capital during the year, and details of the authority for the Company to purchase its own Ordinary Shares as at 31 March 2006, are set out in the Notes to the Group and Company Financial statements on pages 82 and 96.

Substantial shareholders
As at 18 May 2006, the Company had been notified of the following interests of 3% or more in its Ordinary Shares:

	No. of shares	% of capital held
The Capital Group Companies, Inc.	40,512,803	5.11
Deutsche Bank AG	49,278,472	6.22
FMR Corp./Fidelity International Ltd	114,065,999	14.39
HBOS plc/Insight Investment Management Ltd	40,609,739	5.12
Legal & General Investment Management Ltd	27,687,735	3.49
Prudential plc group of companies	37,310,271	4.70
Wellington Management Company, LLP	74,460,205	9.39

Analysis of Ordinary Shareholdings at 18 May 2006

Range	Number of holdings	%	Balance as at 18 May 2006	%
1 to 500	9,720	49.95	1,923,604	0.24
501 to 1,000	4,243	21.80	3,100,499	0.39
1,001 to 10,000	4,648	23.89	10,864,585	1.37
10,001 to 100,000	434	2.23	15,502,961	1.96
100,001 to 1,000,000	291	1.50	101,194,240	12.76
1,000,001 and over	123	0.63	660,339,675	83.28
	19,459	100.00	792,925,564	100.00

Employment policies
Information on the Group's employment policies is given in the Operating and Financial Review on page 27.

Supplier payment policy
The Company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 30 or 60 days. It is the Company's policy to settle the terms of payment when agreeing the terms of each transaction, to ensure that the suppliers are made aware of the terms, and to abide by them. The Company makes payments to its suppliers through its subsidiary, EMI Records Ltd. The number of days' purchases outstanding at 31 March 2006 is calculated at 74 days (2005: 48 days).

Charitable and political expenditure
Charitable, sponsorship and fundraising activities carried out during the year within the Group contributed £0.9m (2005: £1.0m) to charitable organisations and communities around the world. These included UK charitable donations amounting to £0.3m (2005: £0.3m) and £nil (2005: £nil) elsewhere in the European Union ('EU'). These donations were given to support charitable organisations and community initiatives in youth and education, arts and culture, and health and welfare. Further details are contained in the Social responsibility report on pages 32 to 35.

It is the Group's policy not to make any donations to political parties or to incur any political expenditure, as those terms are defined in the Political Parties, Elections and Referendums Act 2000 ('PPERA'). No such donations were made, nor was such expenditure incurred, either in the UK, the rest of the EU or elsewhere during the year (2005: £nil).

Research and development ('R&D')
During the year, Group expenditure on R&D totalled £347,000 (2005: £40,000).

Directors
The present Directors of the Company are named on pages 36 and 37. Mr K K Carton and Mr R C Faxon were appointed as Directors on 1 February and 1 April 2006, respectively. As required by the Company's Articles of Association, both of them will stand for election by shareholders at the 2006 Annual General Meeting ('AGM'). All the other Directors served throughout the year, including Mr M N Bandier, who ceased to be a Director on 31 March 2006.

The changes in the Directors outlined above relating to Messrs. Bandier and Faxon have been made pursuant to the succession plan for the Company's music publishing division announced on 6 January 2005. Under this plan, Mr Faxon left the Board on 1 February 2005 and returned to EMI Music Publishing in New York to become its President and Chief Operating Officer, reporting to Mr M N Bandier. As from 1 April 2006, when Mr Faxon rejoined the Board, he became joint Chief Executive Officer (CEO) of EMI Music Publishing with Mr Bandier. At that time, Mr Bandier, who continues as Chairman of EMI Music Publishing, ceased to be a Director of the Company. From 1 April 2007, Mr Faxon will become sole CEO of EMI Music Publishing, with Mr Bandier remaining as full-time Chairman of the division until 31 March 2008.

Mr E L Nicoli and Mr D J Londoner retire at the AGM pursuant to Article 112(B) of the Company's Articles of Association having been last re-elected or elected in 2003 and, being eligible, offer themselves for re-election.

Ms K A O'Donovan will retire on 20 November 2006 following the completion of three three-year terms as a Non-executive Director. It is intended that Mr K K Carton will succeed her as Chairman of the Audit Committee.

Biographical information relating to the Directors to be elected or re-elected at the AGM is set out on pages 36 and 37.

No Director had a material interest in any contract of significance subsisting at the end of, or during, the year involving any Group company, other than by virtue of having a service contract or letter of appointment. In addition, all Directors benefit from a letter of indemnity in respect of Directors' liabilities these being introduced following a change in company law made during 2005; this is more fully explained in the following paragraph. Details of Directors' interests in the shares of the Company are set out in the Remuneration report on pages 52 to 55.

From 6 April 2005, UK company law was relaxed to permit companies to indemnify directors against liability, including costs and damages, awarded in court proceedings brought by third parties (a 'qualifying third party indemnity provision'). Article 177 of the Company's Articles of Association (both before 14 July 2005 and as amended on that date) provides that, insofar as permitted by law, every Director is entitled to be indemnified by the Company against costs and liabilities incurred in the execution and discharge of the Director's duties and the Company has been advised that, as such, Article 177 provides the benefit of a qualifying third party indemnity provision.

On 14 October 2005 the Company, pursuant to the power conferred by Article 177 (as amended on 14 July 2005) granted to each of the then Directors a separate and express indemnity which constitutes a qualifying third party indemnity provision and which includes provisions relating to the notification of any relevant third party claims and the conduct of the Director's defence. Such indemnities were also granted to Messrs Carton and Faxon on their appointment as Directors.

Disclosure of information to the auditor
So far as each Director is aware, there is no relevant audit information (as defined in S244ZA(3) of the Companies Act 1985) of which the Company's auditors are unaware, and each Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of, and to establish that the auditors are aware of, any relevant audit information.

Auditor
Resolutions to reappoint Ernst & Young LLP as the Company's auditor and authorising the Directors to determine its remuneration will be put to the forthcoming AGM.

Annual General Meeting
The 2006 AGM of the Company will be held at 2.30pm on Thursday, 13 July 2006 at Deutsche Bank, 75 London Wall, London EC2N 2DB.The Notice of AGM accompanies this Annual Report. In addition to the ordinary business of the meeting, resolutions will be put to shareholders to give authority to the Directors to allot shares, give authority to the Directors to disapply pre-emption rights and to give authority to the Company to purchase its own shares. Also, so as to avoid an inadvertent breach of the law, resolutions will be put to shareholders seeking approval for political donations and expenditure by the Company and its principal UK subidiaries. Further explanations of these matters are provided in the letter to shareholders that accompanies the Notice.

Electronic Proxy Appointment ('EPA')
EPA will again be available for this year's AGM. CREST members may also use the CREST electronic proxy appointment service. Further information regarding EPA is provided in the Notice of AGM and on the Proxy Form.

By Order of the Board
C P Ashcroft
Secretary
22 May 2006

Corporate governance

EMI is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year with the Code provisions set out in section 1 of the revised Combined Code on Corporate Governance which was issued in July 2003 ('the Code'), except as regards the length of Directors' service contracts, which is discussed in the Remuneration report on pages 47 and 48, and the combination of the roles of Chairman and Chief Executive which is discussed below.

Ernst & Young LLP has reviewed the Company's statement as to its compliance with the Code, in so far as it relates to those parts of the Code which the UK Listing Authority specifies for review by the external auditor, and its report is set out on page 57.

The remainder of this section, together with the Remuneration report, provides an explanation of how EMI applies the principles of good governance as set out in the revised Code.

The Board

As at 31 March 2006, the Board of EMI Group plc comprised ten Directors of whom four were Executive Directors. There were five Non-executive Directors in office throughout the year, until 1 February 2006, when Kevin Carton was also appointed. As part of the succession plan for EMI Music Publishing, Martin Bandier retired as a Director on 31 March 2006 when he was replaced by Roger Faxon.

All of the Non-executive Directors are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Nomination Committee has conducted an annual review as to whether the Non-executive Directors remain independent applying the criteria set out in the Code. As reflected in their biographies, which appear on pages 36 and 37, the Directors have a wide and balanced range of experience in multinational and consumer-orientated businesses, as well as an appropriately international spread.

Eric Nicoli is executive Chairman of the Company, which position incorporates the role of chief executive officer. Day-to-day executive responsibility for the running of the Company's two main businesses lies with Alain Levy, as Chairman and CEO, EMI Music, and Martin Bandier, as Chairman and joint CEO, EMI Music Publishing, who each report to Eric Nicoli. Roger Faxon became joint CEO of EMI Music Publishing with Martin Bandier on 1 April 2006.

In recent years, and as explained in previous Annual Reports, the Board has concluded that EMI has been best served by having separate CEOs of the recorded music and music publishing businesses with each of them reporting to an executive chairman who complements their music industry experience and expertise. The Board has further concluded that the interposition of another senior executive between the Chairman and the business CEOs would lead to unnecessary duplication, and diffusion of responsibility.

The Board believes that, for the present, the structure outlined above is the most effective for EMI and is in the best interests of both the Company and its shareholders. Furthermore, the Board considers that the nature and level of matters reserved for decision, either to the Board as a whole or to standing committees of the Board, appropriately limit the authority of the Chairman and reflect the combination of the posts of chairman and chief executive officer in one person.

It is the Board's policy that, so long as the Chairman is also the chief executive officer of the Company, the independent Non-executive Directors should comprise a numerical majority of the Board and that the senior independent Non-executive Director should also be either sole or joint Deputy Chairman.

Apart from EMI, Eric Nicoli's only other significant commitment during the year was the chairmanship of The Tussauds Group Limited, a private company.

The Board as a whole considers the appointment of Directors to, and executive appointments within, the Board, based on recommendations from the Nomination Committee which follows a formally approved selection process. The Articles of Association include a requirement that all Directors should submit themselves for election by the shareholders at the AGM immediately following their appointment and for re-election at least once every three years thereafter.

The Board meets at least eight times each year, with additional meetings or contact between meetings as necessary. The programme for each year is approved by the Board in advance. Currently, the programme includes reviews of strategy together with the operations and results of the two main business units, as well as the approval of annual budgets and regular presentations on key business developments, major projects and strategic issues. Actual results for the Group and its two business units are reported to all Directors each month. In the year ended 31 March 2006, the Board met 11 times, including a strategy 'away day' in June and a strategy review as part of its October meeting in New York. In the year ended 31 March 2006, the Board met twice outside the UK to allow closer contact with local management and intends to continue this practice in coming years.

These procedures, together with other regular and ad hoc reports, aim to ensure that the Board is supplied in a timely manner with information that is appropriate to the discharge of its duties.

The Board's programme also includes management development and succession planning, reviews of the effectiveness of the Board and its principal committees, and an assessment of the performance of the Executive and Non-executive Directors. Additionally, the Board's programme provides for at least two meetings a year between the Chairman and the Non-executive Directors, as well as at least one meeting of the Non-executive Directors alone.

During the year, the effectiveness of the Board and its principal committees was assessed through each Director completing a questionnaire prepared by the Company Secretary and approved by the Chairman and Deputy Chairman. The results were then presented to the Board by the Company Secretary and, following discussion by the Board, agreed changes were implemented. A similar process was applied during the year by each of the Audit, Nomination and Remuneration Committees with the effectiveness questionnaire being approved by the respective Committee Chairmen. The review of the performance of the Executive Directors and Non-executive Directors was conducted by the Chairman and Deputy Chairman, through completion of an appraisal form, and the results were communicated to the Directors concerned. The review of the Chairman's performance is led by the Deputy Chairman. The Deputy Chairman's performance is reviewed by the Chairman after he has consulted all of the other Directors.

Tailored induction programmes are provided for new Directors. In addition to briefings by the Chairman, Company Secretary and Chief Financial Officer, meetings are arranged with a range of corporate and business executives as well as the external auditors and other advisers. Inductions also now include modular sessions covering the key characteristics of, and operating risks faced by, the recorded music and music publishing businesses. The Board has also instituted a programme of ongoing professional development for Directors with modular sessions approved in advance by the Board.

The Board has delegated certain matters to standing committees, details of which are set out below. However, to ensure its overall control of the Company's affairs, the Board has reserved certain matters to itself for decision. These include the Group's strategic plans and annual operating budgets; major acquisitions or disposals of companies, businesses or assets, and significant contractual commitments or items of expenditure; together with policies relating to the Group's treasury function, pensions, material litigation, employee share schemes, and environmental and ethical issues. The delegated authorities, together with each Committee's terms of reference and the schedule of matters reserved to the Board for decision, are reviewed each year.

All Directors have access to the services and advice of the Company Secretary, who is appointed by, and may only be removed by, the Board. The Company Secretary advises the Board on all governance matters, through the Chairman. There are also procedures for Directors, in appropriate circumstances, to obtain independent professional advice at the cost of the Company.

The Executive Directors are permitted to take external appointments as non-executive directors but usually only one such appointment may be with another publicly quoted company. They may retain the remuneration from such appointments. All appointments must be approved by the Board to ensure that they do not give rise to conflicts of interest.

The attendance by individual Directors at scheduled and ad hoc meetings of the Board and its Committees in the financial year ended 31 March 2006 was as follows:

Director	Board	Audit	Remuneration	Nomination	Executive
E L Nicoli	11(11)	5*	7*	4(4)	12(12)
M N Bandier[a]	11(11)	n/a	n/a	n/a	10(12)
A M J I Levy	11(11)	n/a	3*	n/a	12(12)
M D Stewart	11(11)	6*	n/a	n/a	11(12)
J Gildersleeve	11(11)	4(6)	7(7)	4(4)	n/a
S Bailey	9(11)	4(6)	6(7)	3(4)	n/a
K K Carton[b]	2(2)	1(1)	1(1)	1(1)	n/a
P A Georgescu	10(11)	5(6)	6(7)	3(4)	n/a
D J Londoner	10(11)	6(6)	7(7)	4(4)	n/a
K A O'Donovan	11(11)	6(6)	6(7)	2(4)	n/a

Figures in brackets denote the maximum number of meetings that each Director could have attended.

* Not Committee members, but invited to attend all or part of the number of meetings indicated.

[a] Resigned on 31 March 2006.
[b] Appointed on 1 February 2006.

Board committees
The principal committees of the Board are the Audit, Remuneration, Nomination and Executive Committees. Reflecting the important role played by the independent Non-executive Directors in ensuring high standards of corporate governance, all the Non-executive Directors are members of the Audit, Remuneration and Nomination Committees.

Each committee has written terms of reference and levels of authority which have been amended so as to ensure compliance with the revised Code; these can be viewed on the Group's website, www.emigroup.com, or obtained on request from the Company Secretary. Except in the case of the Remuneration Committee, minutes of meetings are circulated to all Directors.

Remuneration Committee
The role of the Remuneration Committee, which is chaired by John Gildersleeve, is described on page 44. It meets at least three times each year. The Remuneration report on pages 44 to 55 gives information about the Directors' remuneration.

The main responsibilities and activities of the other three principal Committees are as follows:

Audit Committee
The Audit Committee is chaired by Kathleen O'Donovan and comprises all the Non-executive Directors. The Committee meets at least four times each year and its meetings are normally attended by the Executive Chairman, the Chief Financial Officer, the Group Financial Controller, the external auditor and the Head of Internal Audit. In addition, the Company Secretary & Group General Counsel attends in his capacity as secretary to the Committee. Separate meetings are held by the Committee with both the external auditor (at least twice each year) and the Head of Internal Audit (at least once each year) without the presence of Executive Directors or other management. Following each meeting the Committee Chairman reports to the Board any matter of particular importance.

The Committee is authorised to investigate any matter within its terms of reference and, where necessary, to obtain external legal or other independent professional advice. The Committee's responsibilities, which it has carried out during the year, include:

- reviewing, and assessing the effectiveness of, the Group's internal financial controls together with its internal control and risk management systems;
- making recommendations to the Board with regard to: the appointment, removal and remuneration of the external auditor; overseeing the Company's relations with the external auditor; monitoring the external auditor's independence and objectivity; and the effectiveness of the audit process;
- reviewing the internal audit plan for the year; monitoring and reviewing the effectiveness of the internal audit function; ensuring appropriate co-ordination between the internal audit function and the external auditor; providing adequate resources for the internal audit function and ensuring that it has appropriate standing; and approving the appointment or termination of appointment of the head of the internal audit function; and,
- reviewing the half-year and annual financial statements with particular reference to accounting policies; significant estimates and financial reporting judgements; and the disclosures made therein.

For each year, the Committee adopts a formal programme which is structured to coincide with key events in the Company's financial reporting cycle. The programme also includes other regular items, for example: a review of the Committee's own effectiveness and a periodic review of the internal audit function; a continuing programme of post-investment reviews; the Company's policy for the provision of non-audit services by the external auditor; reviews of material litigation to which the Group is party; reviews of treasury policies and the Group's main pension plans; regular reviews of the IFRS adoption project which ceased on the announcement of the restatement in July 2005; and the review and supervision of the Group's worldwide 'whistleblowing' arrangements. In addition, the Committee's programme during the last year has included regular reports on the effective use of working capital within the recorded music and music publishing businesses.

Each year, the Committee reviews the independence and objectivity of the external auditor with a view to confirming that, in its opinion, the maintenance of objectivity on the one hand and value for money on the other have been kept appropriately in balance. During the past year, the Committee has reconfirmed its detailed and formal policy regarding the provision of non-audit services by the external auditor. Services for which the external auditor may be considered under this policy include supporting and reporting on financial representations in public documentation and general advice on accounting and financial reporting matters. Services for which the external auditor may not be engaged, without the prior approval of the Audit Committee, include employee tax services and consulting services, and the Committee oversees the provision of any tax planning advice by external auditors. Employee tax services for Board members or senior executives may not be undertaken by the external auditor.

Further details of the Committee's role in relation to the annual assessment of the Group's internal control framework are set out below under 'Internal control'.

Nomination Committee
Chaired by John Gildersleeve, the Committee comprises all the Non-executive Directors and the Chairman. The Committee makes recommendations to the Board on the appointment of Directors and the reappointment of Non-executive Directors on the expiry of their three-year terms of appointment. In addition, the Committee is responsible for making recommendations to the Board regarding plans for succession for both Executive and Non-executive Directors.

A formal process has been adopted by the Committee to make recommendations on both the appointment of new Directors and the re-election of existing Directors. This involves an evaluation of the skills, knowledge and experience of the Board as a whole, consideration of the need for the progressive refreshing of the Board and agreement of a description of the role and capabilities required for an anticipated new appointment. The selection process is led by the Chairman in close consultation with the Non-executive Deputy Chairman and all Directors are offered the opportunity to meet a potential appointee before the Committee meets to discuss the proposed recommendation.

In addition, the Committee reviews the structure, size and composition of the Board, and oversees the process for reviewing the effectiveness of the Board and its principal committees as well as the performance of individual Directors.

The Committee meets at least twice a year and otherwise when required. During the financial year ended 31 March 2006, the Committee met four times and recommended the appointment of Kevin Carton as a Non-executive Director with effect from 1 February 2006.

Executive Committee
Chaired by the Chairman, the Executive Committee comprises the CEO, EMI Music and joint CEOs, EMI Music Publishing, together with the Chief Financial Officer. The Committee is responsible for the approval of acquisitions, divestments, capital expenditure and contractual commitments below the level that the Board has reserved to itself for decision, and for certain operational, administrative and other routine matters.

The Committee also regularly reviews and reports to the Board on the performance of the Group's businesses. At least eleven meetings are held by the Committee each year and senior Group executives frequently attend by invitation.

Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union. The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group and the Company and the financial performance and cash flows of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position or financial performance; and,
- state that the Group has complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 and, in respect of the Group, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern
The Directors believe that, after making enquiries they consider to be appropriate, the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control
The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The system of internal control is based on what the Board considers to be appropriate to the Group's activities, to the materiality of the financial and other risks inherent in those activities and to the relative costs and benefits of implementing specific controls. It is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against material misstatement and loss.

The full Board meets regularly throughout the year and the matters specifically reserved for its approval ensure that the Directors maintain control over significant strategic, financial and compliance matters.

The Group has an established organisational structure with clearly defined lines of responsibility and reporting. The Board has devolved to executive management responsibility for implementing and maintaining the Group's system of internal control. Each business unit operates in accordance with policies and procedures applicable to all of the Group's units.

The Group operates comprehensive annual planning, financial reporting and forecasting processes. The Board formally approves strategic plans and annual budgets. The Group's performance is monitored against budget on a monthly basis and all significant variances are investigated. There are defined authorisation procedures in respect of certain matters including capital expenditure, investments, the granting of guarantees and the use of financial instruments. The Audit Committee also receives, twice yearly, a review of all material litigation undertaken by, or against, the Group's companies and considers the associated risks.

The strength of an internal control system is dependent on the quality and integrity of management and staff. Those executives at senior levels are informed of their responsibilities as to the maintenance of sound systems of internal control. A routine and Group-wide process, which requires key executives and managers to certify their compliance with the Group's policies and procedures, reinforces this integrity.

The internal audit function operates as one Group-wide Internal Audit Department which monitors and supports the internal control system and reports to both the Audit Committee and the Group's senior management. The responsibilities of the internal audit function include recommending improvements in the control environment and ensuring compliance with the Group's policies and procedures. The Audit Committee reviews the audit plan prepared by the Internal Audit Department.

Ongoing processes for identifying, evaluating and managing the significant risks faced by the Group were in place for the year under review and up to the date of this Report. These processes are regularly reviewed by the Audit Committee on behalf of the Board and accord with the requirements of Internal Control: Revised Guidance for Directors on the Combined Code issued by the Financial Reporting Council in October 2005.

During the year to 31 March 2006, significant potential risks facing the Group have been assessed and graded in a process managed by the Group Risk Director and involving line and functional management throughout the Group. The controls in place to manage or mitigate each risk were reviewed for adequacy and the processes to monitor and inform the Board about control performance were confirmed.

This assessment is overseen and supervised by the Group Risk Management Steering Committee. This Committee is chaired by the Chief Financial Officer and its members include representatives of the two operating businesses as well as the heads of relevant central functions. The assessment is reviewed by the Audit Committee and is repeated annually. The risk and control assessment is also shared with senior management throughout the Group.

The Board is aware of the disclosure guidelines on social responsibility issued by the Association of British Insurers, and an update on social, ethical and environmental ('SEE') issues is part of the Board's annual programme. Annual performance in these areas is already monitored and publicly disclosed through the Group's Social Responsibility reporting programme.

As part of the annual risk review process and the presentation of those results to the Board, account is taken of any issues arising from SEE matters that could cause risk to value; no significant risks of this nature were identified during the year under review. Appropriate SEE matters are included in the induction programme for Non-executive Directors.

The Group has in place a social responsibility policy as well as specific ethics and environmental policies. An ethics policy (Standards of Business Conduct) is issued each year. Compliance with the policy is monitored by means of self-certification by senior and middle management and through checks made by the Internal Audit Department. A Social responsibility report is published in respect of each financial year and briefer reviews of such matters are included in the Operating and Financial Review on page 28 and elsewhere in this Annual Report on pages 32 to 35.

The Audit Committee receives additional assurance on the operation of internal control systems around the Group, primarily from reviews by the Internal Audit Department, which presents the conclusions of its reviews twice a year. The external auditor also takes internal financial control into consideration as part of its audit. In addition, incidences of control failure and the internal control implications of significant business issues are recorded in a central Control Issues Register, from which a summary report is prepared for the Audit Committee. A report is also prepared for distribution to senior management throughout the Group and appropriate actions are taken to rectify any control failures. Any significant new issues and material changes to the risk environment are reported at the next Board meeting.

Investor relations
The Group is committed to regular and open dialogue with investors. The Chairman and Executive Directors have held, and will continue to hold, discussions with institutional shareholders and analysts. The senior independent Non-executive Director is also available to meet investors, if so requested, and met with investors on two occasions during the year. In addition, there are general presentations to investors and analysts after the announcement of the half-year and annual results which are simultaneously webcast. From time to time, more tailored presentations on specific areas of importance are given.

Individual shareholders have the opportunity to question the Chairman and other Directors at the AGM and can meet them informally after the AGM. Results announcements and other press releases are made available on the Group's website as soon as possible after their publication.

Actions taken to develop an understanding amongst Directors of the views of major shareholders about the Group include reports to the Board on investor relations. Twice each year, these reports are supplemented by more detailed reviews by the Senior Vice President, Investor Relations, supported by the Company's brokers.

Remuneration report
for the year ended 31 March 2006

Remuneration Committee
The Board has delegated to the Remuneration Committee the approval of the remuneration and employment terms of the Executive Directors and certain other senior executives.

The Committee comprises the Non-executive Directors, all of whom are considered to be independent, and its membership during the year was as follows:

Committee Chairman
John Gildersleeve – *Non-executive Deputy Chairman and senior independent Non-executive Director*

Committee Members
Sly Bailey – *Non-executive Director*
Kevin Carton – *Non-executive Director* (since his appointment on 1 February 2006)
Peter Georgescu – *Non-executive Director*
David Londoner – *Non-executive Director*
Kathleen O'Donovan – *Non-executive Director*

Terms of reference
The key terms of reference of the Committee are as follows:

- to provide the policy framework for the remuneration of Executive Directors, the Company Secretary and other senior executive and operational management (currently approximately 100 individuals in total);
- subject to the policy framework and the Code, to review in detail and approve all aspects of the terms and conditions of employment of each Executive Director and the Company Secretary, including their incentive arrangements, pension rights and any compensation payments;
- to review and approve the base salaries of the most senior direct-line reports to the Executive Directors, together with their remuneration packages, incentive arrangements, pension rights and any compensation payments;
- to determine targets for any performance-related incentive arrangements operated by the Company;
- to ensure the effective administration of any other long-term or share-based remuneration arrangements for employees;
- to ensure that regulations and codes on the disclosure of remuneration are adhered to by the Group; and,
- to review major changes in Group employee benefit structures.

The Committee is also authorised, where necessary, to obtain external independent professional advice.

The full terms of reference of the Committee can be obtained on request from the Company Secretary and are set out on the Company's website at www.emigroup.com.

Attendance at meetings and advisers
During the year, the Committee continued to use New Bridge Street Consultants LLP which it has appointed as its adviser. This firm has provided material advice to the Committee to assist it in developing and monitoring policies for remunerating senior employees throughout the Group. The major areas for advice were Executive Directors' remuneration, determining competitive levels and forms of pay for Executive Directors and senior executives, reviewing incentive arrangements for that group, reviewing all share-based and long-term incentive plans and advising the Committee of developments and best practices for remuneration and applicable corporate governance requirements. New Bridge Street Consultants LLP has not, during the year, provided any other services to the Group. The letter of appointment in respect of New Bridge Street Consultants LLP can be viewed on the Group's website, www.emigroup.com, or obtained on request from the Company Secretary.

The Committee schedules three meetings during each year but also holds additional meetings as and when material matters arise for discussion. During the last financial year, the Committee met on seven occasions.

Only Committee members are entitled to attend meetings of the Committee as of right, although the Executive Chairman (the 'Chairman'), the Director of Human Resources (Joe McCollum), the Human Resources executive charged with supporting the Committee (Carol Separovich as Vice President, Rewards Management), together with the Company Secretary & Group General Counsel (in his capacity as Committee Secretary) and the Committee's adviser from New Bridge Street Consultants LLP are generally invited to attend so as to assist and advise the Committee on matters under consideration. Other executives may be invited to attend in respect of specific issues where their guidance may be of assistance to the Committee. In this regard, during the last financial year the Chairman & Chief Executive Officer of EMI Music ('CEO EMI Music') and the Vice Chairman, EMI Music attended three meetings and one meeting, respectively, to provide material assistance and advice with regard to their division. None of these attendees participated in any discussion relating to his or her own remuneration.

In monitoring the level and mix of remuneration packages, the Committee has access to a number of music and general industry remuneration surveys, covering both local and international data. The Committee takes into account factors such as the nature, size, complexity and international profile of the surveyed companies relative to EMI; it also seeks such specific advice from external consultants as it considers appropriate.

Policy statement on Directors' remuneration

Background
The Committee recognises that, as a major UK-listed company, EMI should comply with the highest standards of corporate governance and, wherever it is appropriate to do so having regard to the wider interests of shareholders, UK remuneration best practices. Accordingly, the Committee periodically reviews the Group's remuneration practices against such standards and practices while recognising that the achievement of success in the highly competitive worldwide music market depends critically upon the Group's ability to compete for the management talent necessary to secure, develop and promote successful recording artists, composers and songwriters. The Group's remuneration policies, therefore, will continue to reflect the need to attract, retain and motivate top-calibre international management in the context of remuneration levels and practices in the international music and entertainment industry, many of which are set in the US, the indigenous repertoire of which, in the year ended 31 March 2006, amounted to 43.5% of worldwide record sales.

The Group's remuneration policies also recognise that the music publishing and recorded music businesses operate in distinct market places. The level and form of remuneration will continue to be tailored to the different market places in which the Group competes and to recognise the importance of creative talent to the overall success of the Group.

The remuneration packages of the Executive Directors have been designed to help them attain, and encourage them to retain, long-term interests in EMI's shares, and thereby align their interests with those of shareholders. Performance-related elements, in the form of annual bonuses and share-based long-term incentives, represent a significant proportion of the total annual remuneration opportunity, typically providing at least two thirds of potential remuneration for the achievement of stretching performance targets.

Overview
During the year, the Committee reviewed the policy under the Group's Executive Share Incentive Plan ('ESIP') and annual bonus plan. No changes to the general policy reported in the Annual Reports for the last three years have been made but, as described below, some changes to the detail of performance targets have been made, to ensure that they remain appropriate in the context of the Group's key business objectives. The Group believes pay should be closely linked to performance.

Base salary
Base salary levels are determined by the Committee having regard to the experience and performance of the individual executive, the performance of the Group as a whole over the preceding year, data regarding external salary levels for comparable positions, internal relativities and wage inflation elsewhere in the Group. The Committee seeks to ensure that, in respect of industry-specific roles, base salaries are generally set no higher than the median for the music industry and, in the case of non-operational roles, appropriate regard is given to general industry data while also targeting the median level.

Recognising the requirements of good corporate governance and a desire to constrain fixed costs to the advantage of all shareholders, base salaries for certain operational executives, most notably for the CEO EMI Music, have been kept below industry market levels. In these instances, in order to deliver competitive overall levels of pay, the balance of the overall remuneration is weighted more significantly towards long-term incentives than is the case with EMI's major competitors.

On 1 April 2006, Roger Faxon became joint Chief Executive Officer, EMI Music Publishing with Martin Bandier and was reappointed as an Executive Director of EMI Group plc, coincident with Martin Bandier ceasing to be a director. As from 1 April 2007, Mr Faxon will become sole Chief Executive Officer of EMI Music Publishing and, as from 1 April 2008, he will also become Chairman of the division. In connection with his appointment to these roles and to his previous position as President and Chief Operating Officer, EMI Music Publishing, Mr Faxon's employment agreement was revised as of 1 February 2005.

The base salary rates for each Executive Director on 1 April 2006 were as follows:

E L Nicoli	£750,400 pa
R C Faxon	US$1,500,000 pa
A M J I Levy	£1,057,000 pa
M D Stewart	£525,000 pa

Salaries are revised annually with any increases generally taking effect on 1 April, for Mr Levy and Mr Faxon, and 1 July for Mr Nicoli and Mr Stewart. Other than Mr Stewart, the Executive Directors received an increase in the range of 3% to 4.4% in 2005 which was consistent with the overall increase for other executives and staff. Mr Stewart's first review will take effect from 1 July 2006.

Annual bonus
For the Chairman, CFO and the joint CEO EMI Music Publishing (i.e. Roger Faxon), the maximum bonus opportunity is 100% of base salary and 50% of bonus is payable at target performance (with straight-line interpolation between the target and maximum points). For the CEO EMI Music, the maximum bonus is 300% of base salary. These bonus opportunities are paid in cash following the approval of the accounts for the relevant year.

The performance criteria are tailored to individual positions and to ensure that bonuses are appropriate in all the circumstances. Subject to the Committee's discretion and within the limits described above, bonuses for the year ended 31 March 2007 will be determined as follows:

- for the Chairman and the CFO, 65% of the bonus opportunity will be determined by reference to Profit After Tax targets, with the balance by reference to pre-set strategic objectives. These targets reflect a prime focus, at a Group level, on profit growth, whilst maintaining an optimum cash flow;

- for the joint CEO EMI Music Publishing, the annual bonus will be based on pre-set targets relating to the division's economic profit (i.e. taking into account the value of the investment in the business) from year to year, reflecting EMI Music Publishing's objective of achieving sustained profit growth while providing an adequate return on invested assets; and,

- for the CEO EMI Music, two thirds of the bonus opportunity will be measured by reference to pre-set operating profit margins, with the other third determined by the division's sales performance relative to the recorded music market. These targets reflect the objectives for EMI Music of growing its market share while maintaining or improving profit margins.

Details of the bonuses achieved during the year by individual Executive Directors are set out on page 51.

Long-term incentive arrangements
Under the terms of the ESIP approved by shareholders in 2003, regular annual awards of both share options and performance shares have been made each year.

Following a review of the policy under the ESIP, the Committee proposes to change the mix between share options and performance shares for 2006 grants and to make some changes to the performance conditions. The proposed policy takes account of the following:

- the objective of the review was further to improve the link between reward and performance, whilst still maintaining a strong alignment between the interests of executives and shareholders;

- the need to address the impact of International Financial Reporting Standard 2 - *Share-based Payment* on the Income statement; and,

- the objective of reducing share usage and dilution since the current policy, weighted in favour of share options, has resulted in relatively heavy share usage.

Therefore, for 2006, ESIP awards will be made on the following basis:

- Eric Nicoli and Martin Stewart will be granted performance share awards over shares worth 167% of salary. Awards will vest as to two thirds by reference to Group earnings per share (EPS) growth and as to the remaining one third by reference to Group total shareholder return (TSR) performance.

- In the case of Alain Levy and Roger Faxon, reflecting their roles as divisional CEOs, the performance conditions for awards made in 2006 will be a mix of Group and divisional performance. Over a three-year grant programme, the split between Group-level, as opposed to divisional-level, targets will be approximately 70:30. The Committee believes this split provides an appropriate focus on the overall Group results, thus ensuring alignment with shareholders' interests whilst also providing a focus on long-term divisional performance and an alignment with their key divisional executives.

- For Roger Faxon, the 70:30 split will be achieved as follows. He will receive a performance share award over shares worth 200% of base salary in 2006 and 150% of base salary in 2007 and 2008. His performance share award for 2006 will vest as to three quarters by reference to a range of economic profit targets relating to EMI Music Publishing (i.e. taking into account the value of the investment in the business). For awards in 2006, vesting will be by reference to growth in the division's economic profit over the three years to 31 March 2009. No part of the award will vest until a threshold of 5% pa compound growth in economic profit has been achieved. Thereafter, the award will vest on a straight-line basis from 0% to 100% at a maximum of 10% pa compound growth in economic profit over the three years. Vesting of the remaining one quarter of the award will be by reference to Group TSR performance. The awards for 2007 and 2008 will vest as to two thirds by reference to Group EPS growth and as to one third by reference to Group TSR performance.

- Alain Levy will be granted options over shares worth 300% of base salary and he will receive a performance share award over shares worth 150% of base salary. Three quarters of a grant of share options will vest by reference to a range of targets relating to earnings growth before interest and tax for EMI Music with the balance vesting by reference to Group EPS. Performance share awards will vest as to two thirds by reference to Group EPS growth and as to the remaining one third by reference to Group TSR performance.

Performance conditions will be measured over a fixed three-year period with no retesting opportunity.

Since the ESIP was introduced in 2003, the Group EPS performance condition has been based on adjusted (i.e. normalised) EPS growth, over the three years following grant (with no retesting opportunities). In order for one third of an award to vest, normalised EPS growth must exceed an average of the increase in the Retail Prices Index ('RPI') plus 3% pa; two thirds of an award will vest if normalised EPS growth exceeds an average of RPI plus 5% pa; and all of an award will vest if normalised EPS growth exceeds an average of RPI plus 7% pa (with straight-line interpolation between the points).

For the current year, the Group EPS growth test has been amended slightly so as to measure EPS growth performance on an aggregate basis over the three-year performance period i.e. the Company's actual EPS for each year of the three-year performance period will be added together to arrive at an aggregate EPS performance. For the threshold vesting condition to be achieved, aggregate EPS must exceed a target calculated by taking the EPS of the financial year immediately prior to grant (the 'base EPS') and adding together the three years' EPS that would be achieved on a cumulative aggregate growth of RPI plus 3%. For full vesting to apply, aggregate EPS growth must exceed a target calculated by taking the base EPS and adding together the three years' EPS that would be achieved on a cumulative aggregate growth of RPI plus 7%. This approach has been adopted so that all financial years in the performance period will be taken into account, reducing the volatility and rewarding sustained EPS performance. For those of Alain Levy's share options where the performance condition relates to the growth in the earnings before interest and tax of EMI Music, the same growth targets and vesting schedule will apply.

The EPS measure is diluted EPS adjusted to take account of items which are reported as 'Exceptional Items and Amortisation' in the published accounts of the Group.

TSR is a measure of the return to a shareholder (in terms of share price appreciation, assuming reinvestment of any dividends) over a fixed period. 25% of the shares subject to an award will vest if the Company's TSR, relative to the companies in the FTSE 250 Index (excluding investment trusts) as at the date of award, is at least at the median of that group. This will increase, on a straight-line basis, to full vesting if the Company's TSR is at least at the upper quintile (i.e. within the highest 20%) of that group. The share price used for calculating both the opening and closing TSR of the Company and each company in the comparator group for the three-year period will be assessed using three-month average figures. In addition to satisfying the TSR performance condition, awards will only vest to the extent that the Committee considers that the Company's TSR performance reflects the underlying performance of the Company over the period.

The EPS growth targets were chosen because profit growth (as measured through EPS) is currently considered to be the most appropriate measure of financial performance. The EPS growth condition aligns with the first of the Group's key performance indicators (KPIs) described in the Operating and Financial Review. The TSR condition is included to align the interests of Group executives with the interests of the shareholders.

The FTSE 250 Index was chosen as the TSR comparator group as there have been no, or insufficient, similarly sized independently quoted music companies to provide a more bespoke comparator group and, therefore, it was felt appropriate to compare the performance of EMI with the constituents of the FTSE 250 Index on the basis that, from an investor perspective, shareholders have the choice of investing in EMI as compared with other UK-quoted companies of a similar size. If the Company becomes a constituent of the FTSE 100, the constituents of that Index would be used for subsequent grants.

In all the circumstances, the Committee considers these two Group measures, taken together, to be the most appropriate method of assessing the success of EMI over the medium term and, accordingly, views them as appropriate performance conditions. The Committee reviews these targets each year, prior to awards being made, to determine whether they remain appropriate.

For the CEO EMI Music, measuring an element of long-term performance by reference to the earnings growth of EMI Music is felt to provide a clear focus on long-term divisional performance which would be expected to flow through strongly to the Group's results (as EMI Music revenue accounts for approximately 80% of that of the Group). Market share and operating margin are the Group's KPIs for EMI Music, as described in the Operating and Financial Review, because their achievement is considered to be the principal driver in the overall performance of the division. These KPIs are key to the achievement of the earnings' growth targets included in the long-term incentive performance conditions for Alain Levy.

For the joint CEO Music Publishing, the economic profit approach has been a key performance measure in the division and the target range has been designed to stretch growth significantly ahead of historic norms. Revenue growth and operating margin are shown as the KPIs for EMI Music in the Operating and Financial Review because their achievement is considered to be the principal driver in the overall performance of that division. The economic profit approach adopted in setting the long-term performance target takes both of those KPIs into account. It also gives a weighting to balance sheet management which, while being important at the divisional level, is covered by the Operating Free Cash Conversion KPI at the Group level, as described in the Operating and Financial Review.

In the case of both of these executives, the fact that the majority of the incentive programme will be based on Group targets and the fact that all awards will be share based means that the package still provides a very strong alignment with the interests of shareholders.

The performance targets (both Group and divisional) are considered to be both demanding and stretching over the medium term in light of the prevailing business climate.

EMI's performance against the EPS and TSR targets will be monitored by the Committee, which will assess the extent to which the targets have been achieved. The EPS calculations will be confirmed by the Company's external auditor while the TSR calculations will be undertaken by New Bridge Street Consultants LLP. The basis for calculating EPS has been affected by the move from UK GAAP to International Accounting Standards. The Committee has, therefore, taken steps to ensure that any EPS performance conditions are measured on a consistent basis and as originally intended. Specifically, in order to calculate EPS in relation to awards made prior to 31 March 2004, the Group's results will be restated so as to reflect UK GAAP prior to the adoption of International Accounting Standards. For awards made on or after 1 April 2004, EPS will be calculated by reference to International Accounting Standards.

The Committee also confirms that the Company has at all times complied with the share dilution limits as previously agreed with shareholders.

All UK-based Executive Directors are entitled to participate in the Group-wide ShareSave scheme on the same terms as other UK-based Group employees. Shareholder consent was obtained at the 2004 AGM for the renewal of the ShareSave scheme and also to introduce another tax-sponsored all-employee plan, the Share Incentive Plan (SIP). The operation of these plans will be at the discretion of the Committee, although Executive Directors will be eligible to participate on the same basis as other staff. No grants under the SIP were made during the year.

Details of the awards granted to Executive Directors under the ESIP and ShareSave scheme are contained in the section on Current long-term incentive schemes on page 53. Details of share options and other share awards granted in previous years in accordance with the schemes then applying and the performance criteria attaching to those grants are contained in the section on Closed long-term incentive schemes on pages 54 and 55.

Benefits in kind
Benefits and perquisites are based on general industry practice and typically include a car or car allowance together with life assurance, retirement, disability and healthcare plans. Further details are set out on page 51.

Pension arrangements
For the current UK-based Executive Directors, the policy is to provide pension benefits through a 'final salary' arrangement with an accrual rate of 1/30th. All the current UK-based Executive Directors are subject to the earnings cap (£105,600 in 2005/06) within the final salary scheme and separate arrangements have been in place in relation to pension benefits relating to base salary in excess of the earnings cap. Except in the case of the CFO, an unapproved defined contribution scheme has been utilised to provide benefits with the level of contribution being set by reference to an actuarial assessment of the value of a 1/30th arrangement. For the CFO, a pension allowance is provided, initially at the rate of 40% of annual earnings above the earnings cap but increasing by 1% per year until it reaches 50% of annual earnings above the cap. Benefits are based on base salaries only and specifically exclude bonuses. From 1 November 2005, the final salary scheme has been closed to new entrants, including Executive Directors, and a new defined contribution plan has been established for future pension benefits. Under the new policy, any new Executive Directors joining the defined contribution plan will, in normal circumstances, receive annual Company contributions to the plan of 40% of their base salary and the Executive Directors will be required to make annual contributions of 5% of their base salary as a member contribution.

For the US-based joint CEO EMI Music Publishing, pension contributions are also made with respect to base salary only.

Response to Finance Act 2004 – New Pension Regime
In response to the new pension regime which came into effect on 6 April 2006, the Company has revised its pension arrangements to ensure that UK executives can effectively manage the level of their pension benefits within the new Lifetime Allowance. The new arrangements do not involve additional costs for the Company. In particular, the tax effect of the new regime is borne by executives rather than by the Company. Specific details of the pension arrangements for Executive Directors after 6 April 2006 are provided on page 50.

Directors' service contracts
The Code recommends that notice or contract periods should be set at one year or less. It is the Group's policy to achieve that, where possible.

The Committee endorses the principle of mitigation of loss on early termination of a service contract and recognises the advantage of service contracts including an explicit calculation, subject to mitigation, of compensation payable upon early termination, other than for misconduct or in other circumstances justifying summary termination. The Committee's policy is that such compensation should generally be calculated by reference to base salary, annual bonus at target level and other benefits, including pension contributions, for the notice period or unexpired term of the service contract. The contract should also include an explicit obligation to mitigate and to offset earnings from alternative employment undertaken during the notice period or unexpired term of the contract against all or part of the compensation payment.

However, the Committee is conscious that fixed-term contracts of three or more years are common for senior executives in the global entertainment industry and such agreements often include no (or only a limited) obligation to mitigate. The Committee, therefore, considers that it is in the best interests of EMI and its shareholders to retain the flexibility to compete for top executive talent, where necessary, through the ability to offer contract terms in excess of one year. However, as an alternative, the Committee may agree compensation payments calculated without mitigation in order to limit contract terms or notice periods to one year.

As disclosed in last year's annual report, Martin Bandier's service contract provided two years' severance on termination without cause. It was considered that these terms were appropriate in view of competitive practice in the US, where he remains resident and where EMI Music Publishing continues to be headquartered, and the fact that the service contract was intended to secure his services until age 69. Mr Bandier ceased to be a Director on 31 March 2006. Following his retirement, all Executive Directors' service contracts are based on one year's severance.

Chairman and CFO – Eric Nicoli and Martin Stewart
The service contracts of Mr Nicoli and Mr Stewart, dated 11 April 2003 and 5 January 2005, respectively, are terminable by the Company on one year's notice.

In the case of gross misconduct or other circumstances justifying summary dismissal, the Company may terminate their service contracts without payment of compensation. Termination by the Company in other circumstances, without the required notice being given, entitles the departing executive to compensation, calculated on:

- his then base annual salary (currently £750,400 pa for Mr Nicoli and £525,000 pa for Mr Stewart) for one year; plus,
- the value of retirement benefits and either the continued enjoyment of, or the value of, benefits in kind provided to him for one year (the accrued value of such retirement contributions and the benefits in kind would have been £443,028 for Mr Nicoli and £217,161 for Mr Stewart had either one of them been dismissed on 31 March 2006); plus,
- a sum in respect of lost annual bonus opportunity, being 50% of his maximum bonus for the period from the date of his departure to the end of the contractual notice period.

Their entitlement to such compensation is subject to both a duty to mitigate and, also, offset for any earnings which they derive from other employment during the unworked part of the notice period for which they have been compensated.

CEO EMI Music – Alain Levy
Mr Levy's service contract, which commenced on 15 October 2001 and was amended as of 1 April 2004, allows the Company to terminate his employment at any time without notice. If termination is for cause (as defined in the contract), no compensation is payable. If termination is without cause, or Mr Levy terminates the agreement for good reason (for example, breach by EMI), he is entitled to a lump-sum severance payment based on one year's pay, calculated using:

- his then base annual salary (currently £1,057,000 pa); plus,

- the value of retirement benefits and either the continued enjoyment of, or the value of, benefits in kind provided to him (the accrued value of such retirement contributions and the benefits in kind would have been £558,243 had he been dismissed on 31 March 2006); plus,

- the average annual bonus earned by him over the last three financial years (£1,428,981 in respect of years ended on or before 31 March 2006).

Mr Levy accepted a basic contract term of one year, which is significantly less than competitive music industry practice, as well as a base salary and potential cash bonus at levels lower than those for equivalent positions in other major record companies. In recognition of this, there is no obligation on Mr Levy to mitigate or to offset against the compensation payment any earnings from alternative employment following termination.

Joint CEO EMI Music Publishing – Roger Faxon
Roger Faxon was reappointed as a Director on 1 April 2006. His employment agreement, which is effective as of 1 February 2005, allows EMI to terminate the contract at any time on 30 days' notice. If termination is for cause (as defined in the contract), no compensation is payable. If termination is without cause or Mr Faxon terminates the agreement for good reason (for example, breach by EMI), he is entitled to compensation based on one year's pay, as follows:

- continued payment of his base annual salary (US$1,500,000 pa as from 1 April 2006) for one year; plus,

- continued provision of retirement benefits and the continued enjoyment of benefits in kind provided to him for one year (the annual value of such retirement contributions and the benefits in kind would have been US$622,580 had he been dismissed on 1 April 2006); plus,

- a lump sum equal to his target annual bonus opportunity for the next following financial year, being not less than 50% of his base salary in effect immediately prior to termination.

In the light of competitive music industry practice, and in recognition of Mr Faxon's agreement, when he was promoted to Group CFO on 2 February 2002, to reduce his basic contract term from two years to one year, there is no obligation on him to mitigate, or to offset against the compensation payment any earnings from alternative employment during the year following termination. However, the Company's obligation to continue to provide insurance benefits will cease to the extent that similar benefits are provided by another employer during the 12 months following termination.

Non-executive Directors
Non-executive Directors do not participate in the Group's bonus scheme or long-term incentive plans and are not eligible for membership of any of the Group's pension plans. Their fees are payable wholly in cash.

In view of the greater responsibilities of Non-executive Directors under the Combined Code and more recent legislation together with their strategic contribution and increased time commitment, annual fees, which were last reviewed on 1 January 2004, were increased on 1 January 2006 from £50,000 pa to £55,000 pa. These fees will next be reviewed on 1 January 2008. John Gildersleeve, the Deputy Chairman and senior independent Non-executive Director, received an additional £40,000 pa, which was increased to £45,000 pa on 1 January 2006, reflecting his larger role and his chairmanship of the Remuneration and Nomination Committees. Kathleen O'Donovan received an additional £10,000 pa, which increased to £15,000 pa on 1 January 2006, for chairing the Audit Committee. No other additional fees are payable for membership of Committees or otherwise.

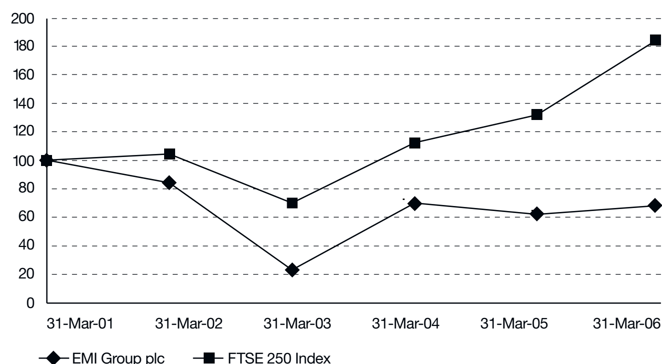
The Non-executive Directors have letters of appointment from the Company which are available for inspection at the Company's registered office or on request and are also provided on the Company's website at www.emigroup.com. Each Non-executive Director is appointed for a specified term of an initial period to the next AGM after appointment and, subject to election at that Meeting, for a further period ending at the third AGM held thereafter. Subsequent reappointment is subject to endorsement by the Board and to re-election by the shareholders. Each Non-executive Director's date of appointment as a Director and his or her most recent date of re-election at an AGM is shown below:

	Date of appointment as a Non-executive Director	Date of letter of appointment	Date of last election or re-election at AGM
J Gildersleeve	28.2.04	25.4.05	13.7.04
S Bailey	2.4.04	25.4.05	13.7.04
K K Carton	1.2.06	24.1.06	n/a
P A Georgescu	1.9.02	25.4.05	14.7.05
D J Londoner	13.5.03	25.4.05	9.7.03
K A O'Donovan	21.11.97	25.4.05	13.7.04

Their appointments may be terminated at any time or in the event that they are not elected or re-elected by shareholders in accordance with the Company's Articles of Association. On termination, a Non-executive Director is entitled to any accrued but unpaid Directors' fees, but not to any other compensation. The Articles, which were adopted by shareholders at the Company's 2005 AGM, provide that a Director will retire, if so agreed, earlier than three years from the date of last reappointment and also, if agreed, will not stand for re-election. This ensures that the Company can, where appropriate, reappoint Non-executive Directors for periods which reflect corporate governance guidelines and that there will be consistency between the terms of appointment and the relevant provisions of the Articles.

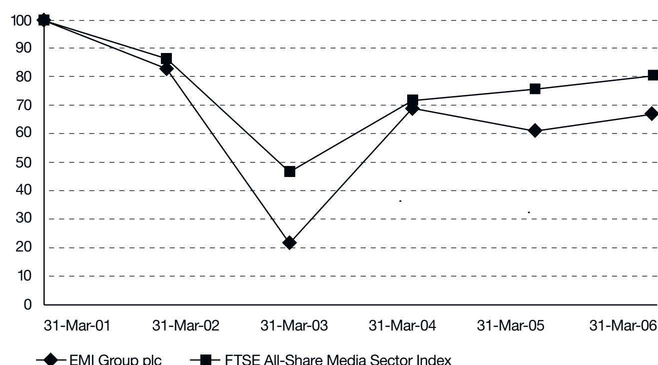
Total shareholder return performance graphs
Under the Directors' Remuneration Report Regulations 2002, UK-listed companies are required to include a graph indicating their TSR (i.e. share price growth assuming reinvestment of any dividends) performance over the last five years relative to a recognised equity index. Consistent with the approach adopted last year, in the absence of suitable comparators, the Committee has again elected to show EMI's performance relative to the FTSE 250 Index. The FTSE 250 Index (excluding investment trusts) was the comparator group for the TSR performance condition for last year's awards under the ESIP and will continue to be so for this and subsequent years unless the Company re-enters the FTSE 100.

Total shareholder return
Source: Thompson Financial



Additionally, the Committee is including the equivalent graph as against the FTSE All-Share Media & Entertainment Sector Index. This illustrates the volatility of the various indices particularly as, at the beginning of the five-year period, UK media stocks were at a relative peak as compared to other sectors.

Total shareholder return
Source: Thompson Financial



The graphs above look at the value, at the end of March 2006, of £100 invested in EMI Group plc on 31 March 2001 compared with the value of £100 invested in the FTSE 250 and FTSE All-Share Media & Entertainment Sector Indices. The other points plotted in the graphs are the values at intervening financial year ends.

Policy on outside appointments
Executive Directors are permitted to take external appointments as non-executive directors but usually only one such appointment may be with another publicly quoted company. The remuneration from such appointments is retained by the Director and the table below sets out such amounts for the year ended 31 March 2006. All appointments must be approved by the Board to ensure that they do not give rise to any conflicts of interest.

	Name of Company	Fees received £
Executive Directors:		
E L Nicoli	The Tussauds Group Ltd	75,575
M N Bandier[a]	National Music Publishers' Association	1,348
A M J I Levy	Schroder Venture Partners LLP	14,045

[a] Retired as a Director on 31 March 2006.

Share ownership guidelines
The Committee has adopted a formal policy that requires Executive Directors to hold shares in EMI worth at least two times their respective base salaries. Executive Directors are required to build up this shareholding by retaining shares with a value of at least 25% of the after-tax gain arising on the maturity of any long-term incentive awards.

Pensions
During the year, all the UK-based Executive Directors were executive members of the EMI Group Pension Fund (the Fund) which provides them, on normal retirement at age 60, with a pension of between 1/60th and 1/30th of the earnings cap for each year of membership, depending upon benefits built up prior to joining the Company. Members contribute 4% of the cap. On death, there is a spouse's pension of two thirds of the member's pension (ignoring the impact of any exchange of pension for a lump sum on retirement), plus child allowances if applicable. An early retirement pension may be paid on leaving but the pension is reduced by 1/3% for each month that pension starts earlier than age 60. Subject to the Company's (or, in the case of Executive Directors, the Committee's) consent, the reduction applied may be less.

Transfer values for all members of the Fund are calculated on a basis that assumes the pension would be drawn at the earliest date where no reduction would apply and with allowance for future pension increases (both before and after pension commences) to reflect the past practice of granting discretionary increases, when appropriate, taking account of the financial position of the Fund.

Pensions in payment are subject to annual increases at the lower of the increase in the RPI in the previous year and 5%. As all of the UK-based Executive Directors joined the Company after 5 April 1997, there is no Guaranteed Minimum Pension (GMP) element included in their pensions. (The GMP is that part of the pension which replaces State Earnings-Related Pension.)

The table below sets out the transfer value at 31 March 2006 of each Executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values are liabilities of the EMI Group Pension Fund and reflect both the age of the Executive Director and his length of service and membership of the Fund.

	Age at	Accrued pension[a]		Increase in accrued pension during the year net of	Transfer value of accrued pension[b]		Directors' contributions during	Increase in transfer value over the year net of Directors'
	31.3.06 Years	**at 31.3.06 £pa**	at 31.3.05 £pa	inflation[a] £pa	**at 31.3.06 £**	at 31.3.05 £	the year £	contributions £pa
Executive Directors:								
E L Nicoli	55	**12,173**	10,058	1,843	**217,811**	160,783	2,464	54,564
A M J I Levy	59	**7,773**	5,808	1,808	**176,871**	115,851	2,464	58,556
M D Stewart	42	**4,107**	567	3,525	**31,425**	4,059	2,464	24,902

[a] The accrued pensions are the amounts which would be paid if the Director left service at the relevant date.
[b] The transfer values have been calculated in accordance with guidance note GN11 published by the Institute of Actuaries and Faculty of Actuaries.

Following the introduction by the Finance Act 2004 of the Lifetime Allowance, from April 2006 Executive Directors were given the choice of continuing as executive members of the Fund or of receiving a supplement to their salary. Both Mr Nicoli and Mr Levy have chosen not to continue as members of the Fund and, in lieu, receive a cash allowance equal to 35% of the pension cap.

Up to 31 March 2006, Fund members joining the Fund after 1989, had their pensionable salary for Fund purposes restricted to an earnings cap (as defined in the Finance Act 1989). In respect of earnings in excess of the earnings cap (£105,600 in the year), for executive members affected by the earnings cap, other than the CFO, the Company was contributing to a separate defined contribution arrangement linked to salary in excess of the earnings cap.

The Finance Act 2004 removed the earnings cap. However, in common with many pension schemes, a scheme-specific cap was introduced to the Fund from April 2006 equal to what the earnings cap would have been but for its removal. At April 2006, the scheme-specific cap was £108,600.

Reacting to other changes introduced by the Finance Act 2004, from April 2006 no further contributions are being made to the defined contribution arrangement referred to above. Instead, an equivalent salary supplement is being paid. The after-tax value of contributions, expressed as a percentage of base salary in excess of the cap, which the Company paid to the defined contribution plan in respect of Executive Directors during the year to 31 March 2006, was:

E L Nicoli	33.42%
A M J I Levy	30.00%

The CFO receives a pension allowance, as described on page 47 and, therefore, does not participate in the defined contribution plan. This allowance amounted to £168,808 for the year to 31 March 2006 and is included in 'Benefits' in the table on page 51.

Money purchase contributions in the year to 31 March 2006

	FURBS[a] £	Tax compensation £	**Total £**
Executive Directors:			
E L Nicoli	213,384	140,017	**353,401**
A M J I Levy	277,920	188,420	**466,340**
M D Stewart	–	–	**–**

[a] Funded unapproved retirement benefits scheme.

These contributions are set at levels which, based on actuarial advice, are likely to deliver comparable benefits to the capped final salary element.

The table below sets out the contributions made to US money purchase pension arrangements in respect of the US-based Executive Director who served during the year.

	Contributions by Group %	US$	Contributions by Director %	US$	**Total US$**
Executive Director:					
M N Bandier[a]	38.6% of base salary[b]	2,314,578	6.9% of pay [b]	411,514	3,094,181

[a] Retired as a Director on 31 March 2006.
[b] Consistent with US practice, pay for this purpose includes the value of annual cash bonuses.

There were no retirement benefits paid to former Directors in excess of those to which they became entitled when such benefits first became payable to such former Directors.

Compensation to former Directors not previously reported
There were no compensation payments or other awards made to former Directors. As referred to above, Martin Bandier continues as an employee of EMI Music Publishing following his retirement as a Director and has received no compensation for loss of office.

Payments to third parties for making the Directors' services available
No payments have been made to third parties for making any Director's services available to the Company.

As required by the Directors' Remuneration Report Regulations, those items from the 'Pensions' heading on page 49 to page 55 inclusive have been subject to audit.

By Order of the Board
John Gildersleeve
Deputy Chairman
19 May 2006

Remuneration details

Annual remuneration[a]

	Base salary or fees £'000	Compensation for loss of employment £'000	Expenses £'000	Benefits[b] £'000	Incentive[c] remuneration £'000	2006 Total in year £'000	2005 Total in year £'000
Executive Directors:							
E L Nicoli	**743.2**	**–**	**–**	**67.4[d]**	**725.4**	**1,536.0**	1,135.6
M N Bandier (retired 31.3.06)	**1,871.7**	**–**	**–**	**46.0**	**1,497.4**	**3,415.1**	3,146.7
A M J I Levy	**1,032.0**	**–**	**–**	**69.7**	**2,435.5**	**3,537.2**	2,050.7
M D Stewart	**525.0**	**–**	**–**	**217.2[e]**	**507.5**	**1,249.7**	171.1
Non-executive Directors:							
J Gildersleeve	**92.6**	**–**	**–**	**–**	**–**	**92.6**	90.0
S Bailey	**51.2**	**–**	**–**	**–**	**–**	**51.2**	49.9
K K Carton (appointed 1.2.06)	**9.2**	**–**	**–**	**–**	**–**	**9.2**	–
P A Georgescu	**51.2**	**–**	**–**	**–**	**–**	**51.2**	50.0
D J Londoner	**51.2**	**–**	**–**	**–**	**–**	**51.2**	50.0
K A O'Donovan	**62.5**	**–**	**–**	**–**	**–**	**62.5**	60.0
Former Executive Director:							
R C Faxon (resigned 31.1.05 and reappointed 1.4.06)	**–**	**–**	**–**	**–**	**–**	**–**	832.3
Former Non-executive Director:							
H Einsmann (retired 13.7.04)	**–**	**–**	**–**	**–**	**–**	**–**	14.2
Total 2006	**4,489.8**	**–**	**–**	**400.3**	**5,165.8**	**10,055.9**	–
Total 2005	4,218.6	–	–	461.0	2,970.9	–	7,650.5

[a] Excludes retirement contributions and tax compensation (see table on page 50) and the value of share awards ceasing to be contingent, as reported in the table shown below.

[b] The nature of the non-cash benefits provided to Executive Directors who held office during the year was as follows:

E L Nicoli:
- provision of a car allowance plus use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

M N Bandier:
- a car allowance of US$36,000 pa; and,
- participation in the Group's US executive medical plan, life, health (hospital, major medical and dental) and accident insurance.

A M J I Levy:
- use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

M D Stewart:
- a car allowance plus use of a Company pool car and driver;
- private healthcare; and,
- personal accident insurance.

[c] Bonuses paid to the Executive Directors reflect achievement against the performance targets referred to in last year's Annual Report. Bonuses for Mr Nicoli and Mr Stewart reflect partial achievement of the profit target, full achievement of the cashflow target and the Committee's assessment of their performance against strategic objectives. In Mr Levy's case, EMI Music's operating profit margin was at approximately two thirds of the scale set in his employment contract and its sales performance relative to the overall music market was strong. The economic profit achieved by EMI Music Publishing resulted in Mr Bandier achieving his maximum bonus opportunity of 80% of base salary.

[d] The 2006 benefits figure for Mr Nicoli is higher than that for the equivalent period in 2005 as the payments in respect of Mr Nicoli's private healthcare and personal accident insurance for both 2004 and 2005 were accounted for in the period ended 31 March 2004.

[e] For Martin Stewart, this includes the pension allowance which is more fully described on page 47 in the Remuneration Report.

Remuneration from prior-year share awards ceasing to be contingent

	Awards No. of shares	2006 Total value[a] £'000	Awards No. of shares	2005 Total value[a] £'000
Executive Directors:				
E L Nicoli	**112,870**	**285,561**	–	–
M N Bandier (retired 31.3.06)	**1,415,625[b]**	**3,581,531**	165,625[b]	391.3
A M J I Levy	**–**	**–**	–	–
M D Stewart	**–**	**–**	–	–
Former Executive Director:				
R C Faxon	**–**	**–**	298,250	704.6
Total	**1,528,495**	**3,867,092**	463,875	1,095.9

[a] The value is based on the share price on the date awards ceased to be contingent.

[b] This figure includes 165,625 shares in respect of a restricted share award totalling 662,500 shares. Whilst in certain circumstances the restricted share award might have lapsed or been released before the vesting date, a proportion of its value was included in reported remuneration each year to match remuneration costs more accurately to the time period in which these shares were earned. The full restricted share award vested on 31 March 2006.

Directors' interests

Directors' interests (all beneficial) in the Company's Ordinary Shares of 14p each[abc]

	Non-contingent share awards[d]	Directly held shares	As at 31.3.06 Total shares held	As at 1.4.05 or date of appointment if later Total shares held
Executive Directors:				
E L Nicoli	**66,260**	**68,732**	**134,992[e]**	203,408
M N Bandier (retired 31.3.06)	**–**	**379,760**	**379,760[e]**	379,760
A M J I Levy	**–**	**775,000**	**775,000**	775,000
M D Stewart	**–**	**–**	**–**	–
Non-executive Directors:				
J Gildersleeve	**–**	**1,377**	**1,377**	1,377
S Bailey	**–**	**1,250**	**1,250**	1,250
K K Carton (appointed 1.2.06)	**–**	**5,000**	**5,000**	–
P A Georgescu	**–**	**102,323**	**102,323**	100,000
D J Londoner	**–**	**10,000**	**10,000**	10,000
K A O'Donovan	**–**	**2,000**	**2,000**	2,000

[a] The Company's Register of Directors' Interests is available for inspection in accordance with the provisions of the Companies Act 1985.

[b] No Director had any interest in either shares or debentures of any subsidiary of the Company.

[c] As potential beneficiaries under the EMI Group General Employee Benefit Trust ('EBT'), the Executive Directors are deemed to be interested in the entire shareholding of the EBT which at 31 March 2006 amounted to 3,391,922 shares.

[d] Non-contingent share awards shown in this column are also included as incentive awards in the table on page 54. Such awards, made under the now-closed Senior Executive Incentive Plan, arise from the deferral of annual cash bonuses into shares. The awards are subject to an additional 1:3 matching award if deferred for three years from the date of the award, or an additional 2:3 award if deferred for six years from the date of the award.

[e] The total of shares held does not include incentive, performance or restricted share awards of 112,870 shares and 1,912,500 shares, respectively, that vested during the year on 31March 2006 as the shares could not be transferred to Mr Nicoli and Mr Bandier until after the end of the close period for Directors' share dealings on 23 May 2006.

Current long-term incentive schemes

Directors' outstanding performance share awards under the Executive Share Incentive Plan[a,b]

	Date of award	Earliest normal vesting date	Lapse date	As at 1.4.05	Vested in year	Awarded in year	Lapsed in year	As at 31.3.06
Executive Directors:								
E L Nicoli	14.7.03	14.7.06	13.1.07	515,294	–	–	–	515,294
	18.6.04	18.6.07	17.12.07	313,153	–	–	–	313,153
	17.6.05	17.6.08	16.12.08	–	–	281,648[c]	–	281,648
Total				**828,447**	**–**	**281,648**[d]	**–**	**1,110,095**
M D Stewart	7.1.05	7.1.08	6.7.08	259,558	–	–	–	259,558
Total				**259,558**	**–**	**–**	**–**	**259,558**

[a] Exercise is subject to the performance target set out in the policy section of this report in respect of performance share awards for Mr Nicoli and Mr Stewart, namely based on the Company's Total Shareholder Return ('TSR'), compared to FTSE 250 companies excluding investment trusts, over a fixed three-year period.

[b] The rules of the ESIP originally provided that a participant was required to pay a nominal sum of £1 on the exercise of a share award, unless such sum was waived by the Remuneration Committee. Since 31 March 2005, the Remuneration Committee has determined that, so as to ease the administration of such awards if and when they vest, the payment of this nominal amount should be waived or removed.

[c] The closing mid-market share price on the date of the award was 254.25p.

[d] The share awards/option grants made during the year ended 31 March 2006 and set out above, were in accordance with the policies set out in the Remuneration report for the year ended 31 March 2005.

Directors' outstanding share options over Ordinary Shares of 14p each under the Executive Share Incentive Plan[a]

	Date granted	Earliest normal exercise date	Lapse date	Exercise price	As at 1.4.05	Exercised in year	Granted in year	Lapsed in year	As at 31.3.06
Executive Directors:									
E L Nicoli	14.7.03	14.7.06	13.7.13	119.250p	1,030,589	–	–	–	1,030,589
	18.6.04	18.6.07	17.6.14	223.660p	626,307	–	–	–	626,307
	17.6.05	17.6.08	16.6.15	256.170p	–	–	563,297	–	563,297
Total					**1,656,896**	**–**	**563,297**[b]	**–**	**2,220,193**
M D Stewart	7.1.05	7.1.08	6.1.15	252.833p	519,116	–	–	–	519,116
Total					**519,116**	**–**	**–**	**–**	**519,116**

[a] Exercise is subject to the performance target set out in the policy section of this report in respect of grants of share options, namely the Company's Earnings Per Share ('EPS') growth over a fixed three-year period.

[b] The share awards/option grants made during the year ended 31 March 2006 and set out above, were in accordance with the policies set out in the Remuneration report for the year ended 31 March 2005.

Directors' outstanding share options over Ordinary Shares of 14p each under the ShareSave scheme

	Date granted	Earliest normal exercise date	Lapse date	Exercise price	As at 1.4.05	Exercised in year	Granted in year	Lapsed in year	As at 31.3.06
Executive Directors:									
E L Nicoli	19.6.03	1.9.08	28.2.09	96p	16,588	–	–	–	16,588
Total					**16,588**	**–**	**–**	**–**	**16,588**
A M J I Levy	19.6.03	1.9.08	28.2.09	96p	16,588	–	–	–	16,588
Total					**16,588**	**–**	**–**	**–**	**16,588**

ShareSave options are normally exercisable for a six-month period following completion of savings to either a three-year or a five-year ShareSave contract and are not subject to additional performance conditions.

Closed long-term incentive schemes

Directors' outstanding share awards under long-term incentive plans

	Date of award	As at 1.4.05 Incentive[a]	Performance[b]	Restricted[c]	During year Matching awards	Vested	Lapsed	As at 31.3.06
Executive Directors:								
E L Nicoli	31.5.00	67,722	–	–	45,148	(112,870)[d]	–	–
	31.5.01	66,260	–	–	–	–	–	66,260
Total		**133,982**	**–**	**–**	**45,148**	**(112,870)**	**–**	**66,260**
M N Bandier[e]	28.9.01	–	1,250,000[f]	–	–	(1,250,000)	–	–
	28.9.01	–	–	662,500[f]	–	(662,500)	–	–
Total		**–**	**1,250,000**	**662,500**	**–**	**(1,912,500)**	**–**	**–**

[a] Incentive share awards are not contingent on future performance and/or are no longer subject to forfeiture. Such awards, made under the now-closed Senior Executive Incentive Plan, arise from the deferral of annual cash bonuses into shares. The awards are subject to an additional 1:3 matching award if deferred for three years from the date of the award, or an additional 2:3 award if deferred for six years from the date of the award.

[b] Shows total potential award.

- The total of the eventual award depends on the achievement of Group or business unit performance against profit targets set by the Remuneration Committee in respect of a performance period that terminates on 31 March in the third year after the date of the award. The eventual award is subject to an additional 1:3 matching award if vesting is deferred for a further three years from the vesting date. In certain circumstances, for example upon a change of control of EMI, awards could be released before the normal vesting date.
- In 2001, in place of overlapping annual share awards based on three-year performance cycles, Mr Bandier was granted a one-time performance share award which requires 2% pa growth in the music publishing division's economic profit for the entire performance period to 31 March 2006, at which level one sixth of the shares accrue, with maximum payout at 7% pa growth (with straight-line vesting between these two points).

[c] Mr Bandier's restricted share award vested on 31 March 2006 but could not be transferred to him until after the end of the close period for Directors' share dealings on 23 May 2006. The award was in lieu of additional base salary and was not, therefore, subject to performance requirements. The aim of the award was to bring Mr Bandier's basic annual remuneration into line with competitive practice in the US, where he is based, whilst aligning his interests more closely with those of the shareholders and providing him with a strong incentive to remain with the Group. No further awards of this nature are envisaged. A proportion of this award was included in remuneration each year so as to match remuneration costs more accurately to the time period in which the shares are earned.

[d] The closing mid-market share prices on the dates of the award (31 May 2000) and vesting (31 March 2006) were 569p and 253p per share, respectively.

[e] Retired as a Director on 31 March 2006.

[f] As reported in previous years and referred to in Note b above, Martin Bandier had a one-off long-term incentive arrangement covering the period from April 2001 to 31 March 2006. This performance share award vested in full on 31 March 2006, the maximum performance target having been achieved. The award could not be transferred to Mr Bandier until after the end of the close period for Directors' share dealings on 23 May 2006.

With the exception of Mr Bandier's awards, on termination of employment in certain circumstances, for example, as a result of death, disability, sale of the relevant business unit, normal retirement, or termination without cause, and if the performance criteria are on target for achievement, a proportion of the awards may become exercisable prior to normal vesting. If the performance criteria are not on target for achievement, the whole award lapses if it has not reached its normal vesting date. Upon a change of control, all awards vest, or can be exchanged for an equivalent value of awards in the acquiring entity, with identical terms to the original awards.

Mr Bandier's outstanding share awards would have vested, in whole or in part, if he was dismissed (other than for cause) or following a change of control of EMI. Both his performance share and restricted share awards would have lapsed if, prior to the vesting date of 31 March 2006, Mr Bandier had resigned voluntarily or his employment agreement had been terminated by EMI for cause. However, if Mr Bandier's employment had been terminated without cause by EMI, he would have received the proportion of his restricted share award which he would have earned had he remained in employment for a further two years. Under these same circumstances, he would also have received a proportion of his performance share award pro-rated to the date of termination, subject to the achievement of the relevant performance criteria. In the event of a change of control of EMI, all the restricted share award would have vested together with a proportion of the performance share award pro-rated to the date of the change of control as well as an additional 625,000 shares up to the maximum award of 1.25m shares. Vesting would have taken place on the earlier of one year after the date of the change of control or the termination of his employment without cause.

Directors' outstanding share options over Ordinary Shares of 14p each[ab]

	Date granted	Earliest normal exercise date[cd]	Lapse date	Exercise price	As at 1.4.05	Exercised in year	Granted in year	Lapsed in year	As at 31.3.06
Executive Directors:									
E L Nicoli	3.6.99	3.6.02	2.6.09	440.000p	60,000	–	–	–	60,000
	21.6.02	21.6.05	20.6.12	243.300p	838,471	–	–	–	838,471
Total					**898,471**	**–**	**–**	**–**	**898,471**
M N Bandier[e]	25.8.95	25.8.98	24.8.05	590.315p	253,084	–	–	(253,084)	–
	23.6.96	23.8.99	22.8.06	734.500p	60,000	–	–	–	60,000
	6.6.97	6.6.00	5.6.07	575.000p	52,144	–	–	–	52,144
Total					**365,228**	**–**	**–**	**(253,084)**	**112,144**
A M J I Levy[f]	15.10.01	15.10.04	14.10.11	300.000p	3,000,000	–	–	–	3,000,000
	15.10.01	15.10.04	14.10.11	400.000p	3,000,000	–	–	–	3,000,000
	15.10.01	15.10.04	14.10.11	500.000p	2,000,000	–	–	–	2,000,000
	15.10.01	15.10.04	14.10.11	700.000p	2,000,000	–	–	–	2,000,000
	2.1.02	2.1.05	1.1.12	357.300p	2,000,000	–	–	–	2,000,000
	19.12.02	19.12.05	18.12.12	146.050p	2,000,000	–	–	–	2,000,000
	19.12.02	18.12.06	18.12.12	153.750p	2,000,000	–	–	–	2,000,000
	19.12.02	17.12.07	18.12.12	269.050p	2,000,000	–	–	–	2,000,000
	19.12.02	9.12.08	18.12.12	233.800p	2,000,000	–	–	–	2,000,000
Total					**20,000,000**	**–**	**–**	**–**	**20,000,000**

[a] No Directors' share options were exercised in the year. Therefore, the total gain made on the exercise of share options was £nil (2005: £nil). The closing mid-market share price on 31 March 2006 was 253p.The range of closing mid-market share prices during the year was 207p and 266p.

[b] All of the options were granted for nil consideration.

[c] Executive Directors' share options are normally exercisable during the period commencing no earlier than three years and ending no later than ten years from the date granted.

[d] Share options were granted to Executive Directors in previous years in accordance with the relevant Executive Share Option Scheme rules and market practice at the time. The table above sets out information on the current Executive Directors' grants of such share options. The performance criteria relating to these grants are as follows:

- For the period from 25 August 1995 to 9 December 1999, the criterion was that the Company's TSR over the relevant calculation period compared to the TSR of the companies in the FTSE 100 at 1 April prior to the date of grant is at least equal to the median of that group. TSR is the percentage growth of the share price, assuming reinvestment of any dividends paid, over the calculation period. The initial calculation period commences on 1 April immediately preceding the date of grant and ends on 31 March three years later and, thereafter, calculations are made at each quarter end for the preceding three-year period until the performance criterion is met or the option lapses.
- For the period from 10 December 1999 to 8 July 2003 (excluding Mr Levy's grants – see footnote (f) below), the criterion was that the increase in the Group's adjusted, fully diluted EPS over a three-year period following the date of grant should exceed an average of the UK retail prices index ('RPI') plus a rate ranging between 2% and 3% pa.

The Committee chose the relevant performance criteria as they were considered to be challenging and in accordance with the then existing market practice, while aligning Executive Directors' interests with those of shareholders.

[e] Retired as a Director on 31 March 2006.

[f] As reported in previous years and summarised in this note below, Alain Levy had a one-off long-term incentive arrangement covering the period from October 2001 to 31 March 2006. As part of the amendment to his service agreement, Mr Levy will participate in the ESIP from 1 April 2006.

On appointment, Mr Levy was granted options over 10m shares at prices between 300p and 700p. On 2 January and 19 December 2002, Mr Levy was granted additional options over 10m shares which represent his entitlement to options in respect of the five financial years up to and including, but ending on, 31 March 2006. The exercise prices for these options were determined after the announcement of the interim results for the respective financial years, using a five-day average share price. Exercise of all the options is generally conditional on the Company's adjusted diluted EPS growing by at least an average of RPI plus 2.5% pa over the period from 31 March 2002 to the 31 March following the relevant vesting date with retesting throughout the option's life. The terms of Mr Levy's contract prescribe the impact of a cessation of employment or a change of control of EMI on the share options granted under his contract. If Mr Levy's appointment were terminated by EMI without cause or by Mr Levy with good reason (as defined in the contract), the options over 10m shares granted on 15 October 2001 would vest and could be exercised without regard to the performance conditions.

If Mr Levy's appointment is terminated in the circumstances described in the preceding paragraph, the options granted on 2 January and 19 December 2002 will vest and may be exercised without regard to the performance conditions. The exercise of options vested under the preceding paragraph must be undertaken within 12 months of the date of termination. On a change of control of EMI, Mr Levy's options will be treated as if his employment had been terminated by EMI without cause with the result that they may be exercised without regard to performance conditions, but the exercise period will be limited to six months. A termination resulting from Mr Levy's death or disability will be treated in the same manner as a termination by the Company without cause.

Financial contents

Group financial statements

57 Group auditor's report
58 Group consolidated income statement
60 Group consolidated balance sheet
61 Group consolidated statement of recognised income and expense
62 Group consolidated cash flow statement and note
63 Group accounting policies
66 Notes to the Group financial statements

Company financial statements

91 Company auditor's report
92 Company accounting policies
93 Company balance sheet and Notes to the Company financial statements

Additional information

99 Group five year summary
100 Investor information

Group auditor's report

Independent auditor's report to the members of EMI Group plc
We have audited the Group financial statements of EMI Group plc for the year ended 31 March 2006 which comprise the Group consolidated income statement, Group consolidated balance sheet, Group consolidated statement of recognised income and expense, Group consolidated cash flow statement and note, Group accounting policies and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of EMI Group plc for the year ended 31 March 2006 and on the information in the Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditors
The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and that the information given in the Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's statement, the Operating and Financial Review and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion
In our opinion:
- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

As explained in Note 33 to the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended.

Ernst & Young LLP
Registered auditor
London
22 May 2006

Group consolidated income statement
for the year ended 31 March 2006

	Notes	Total £m
Revenue	1	**2,079.9**
Group profit from operations before exceptional items and amortisation	1	**250.5**
Exceptional items and amortisation	8	**(45.9)**
Share of profit from associates		**1.0**
Profit from operations*	1&2	**205.6**
Finance charges:		
Finance income	5&8	**71.4**
Finance costs	5&8	**(158.9)**
Total net finance charges		**(87.5)**
Profit (loss) before taxation		**118.1**
Overseas		**(33.1)**
UK		**5.0**
Total taxation	6	**(28.1)**
Profit (loss) from continuing operations after taxation		**90.0**
Attributable to:		
Equity holders of the parent		**86.1**
Minority interest		**3.9**

* The following items are included within Profit from operations	
Cost of sales	**(1,280.3)**
Distribution costs	**(75.0)**
Gross profit	**724.6**
Administration expenses	**(533.5)**
Other operating income, net	**13.5**

Earnings per share (EPS)

		Year ended 31 March 2005
Basic earnings per Ordinary Share	9	**10.9p**
Diluted earnings per Ordinary Share	9	**10.5p**
Underlying basic earnings per Ordinary Share	9	**16.2p**
Underlying diluted earnings per Ordinary Share	9	**15.7p**

Underlying earnings are included as they provide a better understanding of the trading performance of the Group on a normalised basis.

Average exchange rates for the year

	Year ended 31 March 2006
US Dollar to £1	**1.78**
Euro to £1	**1.47**
Yen to £1	**203.69**

The results for the year of subsidiaries reporting in foreign currencies have been translated into Sterling at the appropriate average exchange rates.

** Exceptional items and amortisation include operating exceptional items and amortisation and finance exceptional items. See the Group accounting policies section of these financial statements for definitions of these terms and for examples of the types of transactions that may fall into each category.

Year ended 31 March 2006		Year ended 31 March 2005		
Exceptional items and amortisation** £m	Underlying £m	Underlying Restated £m	Exceptional items and amortisation** Restated £m	Total Restated £m
–	2,079.9	2,001.2	–	2,001.2
–	250.5	225.1	–	225.1
(45.9)	–	–	(65.5)	(65.5)
–	1.0	1.1	–	1.1
(45.9)	251.5	226.2	(65.5)	160.7
14.0	57.4	58.6	32.9	91.5
(9.3)	(149.6)	(143.7)	(9.7)	(153.4)
4.7	(92.2)	(85.1)	23.2	(61.9)
(41.2)	159.3	141.1	(42.3)	98.8
–	(33.1)	(38.5)	7.6	(30.9)
–	5.0	7.0	–	7.0
–	(28.1)	(31.5)	7.6	(23.9)
(41.2)	131.2	109.6	(34.7)	74.9
				75.4
				(0.5)
(49.9)	(1,230.4)	(1,201.8)	(45.8)	(1,247.6)
–	(75.0)	(70.3)	–	(70.3)
(49.9)	774.5	729.1	(45.8)	683.3
(1.1)	(532.4)	(506.8)	(20.7)	(527.5)
5.1	8.4	2.8	1.0	3.8

Year ended 31 March 2005 Restated
9.6p
6.1p
13.4p
13.1p

Year ended 31 March 2005
1.85
1.45
198.32

Group consolidated balance sheet
at 31 March 2006

	Notes	At 31 March 2006 £m	At 31 March 2005 Restated £m
Assets			
Non-current assets			
Music copyrights and intangibles	10	**389.3**	404.6
Goodwill	11	**43.0**	35.1
Property, plant and equipment	12	**196.8**	200.0
Investments in associates	13	**8.8**	8.5
Other investments	14	**15.0**	17.6
Deferred taxation	24	**22.8**	29.9
Financial derivatives	15	**41.3**	39.0
Other receivables	17	**4.4**	6.6
		721.4	741.3
Current assets			
Inventories	16	**37.2**	28.2
Advances	17	**330.1**	336.0
Trade receivables	17	**408.5**	300.1
Corporation tax recoverable	17	**16.7**	21.2
Other receivables	17	**110.6**	109.7
Investments: liquid funds		**1.6**	1.6
Cash and cash equivalents	18	**190.9**	240.9
		1,095.6	1,037.7
Total assets		**1,817.0**	1,779.0
Liabilities			
Non-current liabilities			
Borrowings	19	**(1,049.4)**	(1,068.7)
Other payables	23	**(9.5)**	(10.2)
Deferred taxation	24	**(5.1)**	(8.2)
Pension provisions	26	**(31.1)**	(100.1)
Financial derivatives	15	**(100.3)**	(92.8)
		(1,195.4)	(1,280.0)
Current liabilities			
Borrowings	19	**(22.6)**	(31.3)
Other payables	22	**(1,149.0)**	(1,060.1)
Current tax liability		**(143.1)**	(160.3)
Other provisions for liabilities and charges	25	**(33.5)**	(43.6)
		(1,348.2)	(1,295.3)
Total liabilities		**(2,543.6)**	(2,575.3)
Net liabilities		**(726.6)**	(796.3)
Equity			
Capital and reserves			
Share capital	27	**110.7**	110.6
Share premium account	27	**447.8**	447.3
Capital redemption reserve	28	**495.8**	495.8
Foreign exchange reserve	28	**(17.1)**	3.8
Other reserves	28	**206.4**	204.0
Retained earnings	28	**(2,019.0)**	(2,107.1)
Equity attributable to equity holders of the parent		**(775.4)**	(845.6)
Minority interests (equity)		**48.8**	49.3
Total equity		**(726.6)**	(796.3)

Year end exchange rates

	At 31 March 2006	At 31 March 2005
US Dollar to £1	**1.73**	1.89
Euro to £1	**1.43**	1.45
Yen to £1	**204.66**	202.11

The balance sheets of subsidiaries reporting in foreign currencies have been translated into Sterling at the appropriate year end exchange rate.

Eric Nicoli
Martin Stewart
Directors
22 May 2006

Group consolidated statement of recognised income and expense
for the year ended 31 March 2006

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
Income and expense recognised directly in equity		
Revaluation of music copyrights and intangibles	**4.8**	–
Exchange difference on retranslation of foreign operations	**(21.2)**	0.2
Pension funds: actuarial gains and losses	**58.3**	4.7
Gains (losses) on the revaluation to fair value of available-for-sale investments	**(0.9)**	–
Net income directly recognised in equity	**41.0**	4.9
Profit for the year	**90.0**	74.9
Total recognised income and expense for the year	**131.0**	79.8
Attributable to:		
Equity holders of the parent	**126.4**	92.7
Minority interest	**4.6**	(12.9)
Balance at 31 March	**131.0**	79.8

Group consolidated cash flow statement and note
for the year ended 31 March 2006

	Notes	2006 £m	2005 Restated £m
Cash flows from operating activities			
Cash receipts from operations		**1,982.4**	1,984.7
Cash used in operations		**(1,754.3)**	(1,763.0)
Tax paid		**(39.8)**	(32.7)
Net cash generated from operating activities	a	**188.3**	189.0
Cash flows from investing activities			
Puchase of businesses, net of cash acquired		**(6.9)**	(6.8)
Deferred consideration paid		**(0.9)**	(64.1)
Purchase of associates	13	**(0.3)**	(2.1)
Disposal of associates		**–**	0.1
Purchase of music copyrights and intangibles	10	**(4.1)**	(6.0)
Disposal of music copyrights and intangibles		**7.3**	0.2
Purchase of property, plant and equipment	12	**(30.2)**	(29.9)
Disposal of property, plant and equipment		**16.3**	3.3
Purchase of other investments		**–**	(3.1)
Dividends received from associates		**1.0**	–
Disposal of other investments		**5.9**	1.1
Interest received		**9.3**	5.2
Net cash (used in) investing activities		**(2.6)**	(102.1)
Cash flows from financing activities			
Issue of Ordinary Share capital		**0.6**	1.7
Purchase of own shares		**(0.5)**	(0.3)
Equity dividends paid		**(61.2)**	(62.9)
Dividends paid to minorities		**(2.5)**	(1.3)
Management of liquid funds		**(0.6)**	(0.8)
Financing:			
New loans		**207.8**	128.9
Loans repaid		**(277.6)**	(127.1)
Capital element of finance lease repayments		**(0.6)**	(0.8)
Interest paid		**(111.6)**	(105.5)
Interest element of finance lease repayments		**(0.7)**	(0.5)
Net cash (used in) financing activities		**(246.9)**	(168.6)
Net (decrease) in cash and cash equivalents		**(61.2)**	(81.7)
Cash and cash equivalents at the beginning of the year		**227.3**	310.2
Exchange gains (losses) on cash and cash equivalents in the year		**2.6**	(1.2)
Cash and cash equivalents at the end of the year		**168.7**	227.3
Cash and cash equivalents at the end of the year comprise of:			
Cash at bank and in hand	18	**188.3**	239.1
Overdrafts	19	**(19.6)**	(11.8)
		168.7	227.3

a) Reconciliation of Group profit from operations to net cash flow from operating activities

	Notes	2006 £m	2005 Restated £m
Group profit from operations (before share of profit in associates)	1	**204.6**	159.6
Depreciation charge	12	**25.3**	25.1
Property impairment charge	8 & 12	**1.1**	18.5
Gain on disposal of property, plant and equipment and music copyrights and intangibles		**(9.4)**	(0.8)
Amortisation and impairment of music copyrights and intangibles	10	**49.9**	45.8
Impairment of goodwill	11	**–**	2.2
Remeasurements – revaluation to fair value of investments at fair value through profit and loss		**(2.6)**	–
Share-based payment transactions	29	**4.9**	2.3
Amounts provided		**18.2**	15.0
Provisions utilised		**(36.1)**	(75.7)
(Increase) decrease in inventories		**(7.3)**	(0.1)
(Increase) decrease in receivables		**(74.1)**	39.1
Increase (decrease) in payables		**53.6**	(9.3)
Net cash generated from operations		**228.1**	221.7
Tax paid		**(39.8)**	(32.7)
Net cash generated from operating activities		**188.3**	189.0

Group accounting policies

Basis of preparation
The consolidated financial information comprises the accounts of the Company and its subsidiaries which have been prepared in accordance with applicable accounting standards. Following a regulation adopted by the European Parliament, the consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). The Group's principal accounting policies under IFRS are set out below. The transition date for the application of IFRS is 1 April 2004, and the comparative figures for year ended 31 March 2005 have been restated accordingly.

IFRS 1 *First-time adoption of IFRS*
When preparing its IFRS balance sheet as at 31 March 2006, the Group has taken the following options available under IFRS 1 in applying IFRS:

- The requirements of IFRS 3 *Business Combinations* have been applied prospectively from 1 April 2003;
- Certain properties were held at revalued amounts as at 31 March 2004. On conversion, these revalued amounts were frozen and deemed cost in the case of these properties;
- All actuarial gains and losses in respect of defined benefit pension and post-retirement schemes have been recognised in full in equity from 1 April 2004;
- Cumulative translation differences relating to net investments in overseas companies that arose prior to 1 April 2004 have been set to zero and will not be included in any subsequent calculation of profit or loss on disposal;
- Only those employee share options granted after 7 November 2002 that had not vested as at 1 January 2005 have been remeasured at fair value; and
- The Group has chosen to adopt IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from 1 April 2004.

Basis of consolidation
The consolidated financial statements comprise the financial statements of EMI Group plc and its subsidiaries for the year ended 31 March 2006.

All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which EMI Group plc has control.

Foreign currency translation
Sterling (£) is the functional currency of the parent undertaking and the presentational currency of the Group. The functional currency of subsidiaries, joint ventures and associated companies ('foreign operations') is the currency of the primary economic environment in which they operate.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date.

All differences are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation of foreign operations are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Business combinations and goodwill
The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Goodwill on acquisition is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Due to the adoption of IFRS 3 *Business Combinations* from 1 April 2003, goodwill on acquisitions from 1 April 2003 is not amortised and goodwill already carried in the balance sheet is not amortised from 1 April 2003. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For an asset, such as goodwill, that does not generate largely independent cash flows, the recoverable amount is determined for the smallest identifiable group of assets including that asset that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a 'cash generating unit').

Intangible assets
Intangible assets include music copyrights and other intangibles. Intangible assets acquired separately are capitalised at cost, whilst those acquired as part of a business acquisition are capitalised at fair value at the date of acquisition.

Following initial recognition, intangible assets with finite lives are amortised on a systematic basis over their economic useful lives. These lives are estimated on an individual basis at periods of anything up to and including 20 years. Intangible assets are tested for impairment if events or changes in circumstances indicate that the carrying value may be impaired. Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intangible assets created within the business that cannot be distinguished from the cost of developing the business as a whole are not capitalised. Any relevant expenditure is charged against profit from operations in the period in which the expenditure is incurred.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis to write off the cost, less residual value, of assets over the estimated useful life of the asset. The annual rates used are:

Freehold buildings	2%
Property held under finance leases and leasehold improvements	Period of lease
Plant, equipment and vehicles	10 – 33⅓%

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Where an indicator of impairment exists, the Group makes an estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the income statement in the period in which the item is derecognised.

Assets are held at historical cost with the exception that certain properties in the subsidiary undertaking Toshiba-EMI Limited are carried at revalued amounts that were frozen. This frozen carrying value was deemed cost in the case of these properties.

Leases
Assets which are held under a finance lease, which transfers to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the lease liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Investments in joint ventures and associates
The Group's investments in its associates are accounted for using the equity method. The investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value or dividends received. The Group's share of the results after interest and tax of the associate are included in profit from operations. When an associate has recognised a change in net assets other than through the income statement, the Group recognises its share of the change and discloses it, when applicable, in the statement of recognised income and expense.

The Group has a number of jointly controlled operations where there is no separate legal entity. The expenses that the Group incurs, and the share of the income that the Group earns from the sale of goods by these jointly controlled operations, are included in the income statement. The assets that the Group controls, and the liabilities that the Group incurs, in respect of these jointly controlled operations are included in the balance sheet.

Other investments
All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. At acquisition, all investments are classified as either fair value through profit and loss, held-to-maturity or available-for-sale in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Those investments classified as held-to-maturity or available-for-sale are designated as non-current assets. Unlisted held-to-maturity or available-for-sale investments are held on the balance sheet at cost less any impairment in value. Listed held-to-maturity or available-for-sale investments are held on the balance sheet at fair value, with any changes in fair value being recognised in equity.

Those investments classified as fair value through profit and loss are designated as current assets and are held on the balance sheet at fair value, with any changes in fair value being recognised in the income statement along with gains or losses on disposal.

Advances
In the ordinary course of business the Group pays advances and other expenses recoupable from future royalties to performing artists, songwriters, producers and third party repertoire owners. The amounts paid are carried at cost less recoupment and less an allowance for any unrecoupable amounts. The allowance is based on past revenue performance, current popularity and projected revenue.

Advances are recoupable during the business operating cycle. All advances are therefore reported as current assets, including advances recoupable more than 12 months after the balance sheet date.

Inventories
Inventories are valued at the lower of cost and net realisable value. Cost includes manufacturing overheads where appropriate.

Trade receivables
Trade receivables, which generally have 30-90 day terms, are recognised and carried at the originally invoiced amount less an allowance for any doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the Group consolidated cash flow statement, cash and cash equivalents consist of cash at bank and in hand, as defined above, net of outstanding bank overdrafts.

Borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses on derecognition are recognised in finance charges.

Hedge accounting is adopted where derivatives, such as 'fixed to floating' interest rate swaps, are held as fair value hedges against fixed interest rate borrowings. Under fair value hedge accounting, fixed interest rate borrowings are revalued at each balance sheet date by the change in fair value attributable to the interest rate risk being hedged.

Financial derivatives
The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Guaranteed convertible bonds
The component of the guaranteed convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs. On issue of the guaranteed convertible bonds, the fair value of the liability component was determined using a market rate for an equivalent non-convertible bond. This amount is carried as a liability on an amortised cost basis until extinguished on conversion or redemption. As the convertible bonds are denominated in US Dollars but are convertible to Sterling shares, the remainder of the proceeds is allocated to the conversion option that is recognised and included as a derivative liability, net of issue costs. The value of the conversion option is revalued to fair value at each balance sheet date, with movements in fair value reflected as finance costs or finance income.

Issue costs were apportioned between the liability and derivative components of the guaranteed convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments were first recognised.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money on the quantification of the provision is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Pensions and other employee benefits
The Group operates three major defined benefit pension schemes, plus a number of smaller defined benefit pension schemes. The cost of providing benefits under the schemes is determined separately for each scheme using the projected unit actuarial valuation method.

Liabilities of the schemes are discounted by the current rate of return of an AA-rated corporate bond of equivalent term and currency to the liabilities. Assets of the schemes are measured at fair value at the balance sheet date. Actuarially calculated surpluses or deficits on the defined benefit schemes are included within the consolidated balance sheet. The current service cost of each of the schemes is charged against profit from operations. Expected returns on defined benefit scheme assets and interest on defined benefit scheme liabilities are included as finance income and finance costs, respectively. With effect from 1 April 2004, the Group has adopted the amendment to IAS 19 *Employee Benefits* that permits actuarial gains and losses to be charged or credited directly to equity through the statement of recognised income and expense.

In addition, the Group operates a number of defined contribution schemes. Contributions to defined contribution schemes are charged to the income statement as incurred.

Employee benefits, other than post-employment benefits, that can be carried forward if they have not been used are accrued as they are earned until the benefit is paid or used. Those employee benefits that are foregone if not taken at the time are expensed when incurred.

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:
- Sale of goods: revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Revenue is measured at fair value after making provision in respect of expected future returns of goods and services supplied by the Group prior to the balance sheet date;
- Royalty and other income: all royalty and other income is recognised when it has been earned and can be reliably measured.

Interest income is recognised when it has been earned and can be reliabily measured.

Share-based payments
The share option programme allows certain Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and the expense is spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted.

The amount recognised as an expense reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. No expense is recognised for awards that do not ultimately vest, except for awards where the vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Employees of certain subsidiaries of the Group participate in the employee share incentive plans and the Group has an employee share trust to satisfy non-transferable options granted to executives and senior employees. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity.

The Group has taken advantage of the transitional provisions of IFRS 1 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 January 2005.

Finance charges
Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, foreign exchange losses and losses on hedging instruments that are recognised in the income statement.

Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, dividend income, foreign exchange gains and gains on hedging instruments that are recognised in the income statement.

Income tax
Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base. The following temporary differences are not provided for: the initial recognition of goodwill or of assets or liabilities that affect neither accounting nor taxable profit that is not a business combination; and temporary differences relating to investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled and to the extent that it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Segments
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

Exceptional items and amortisation
Exceptional items and amortisation are excluded from underlying results in order to provide a better understanding of the normalised trading of the Group. The Group considers that such items would fall into either of two categories: operating exceptional items and amortisation; and finance exceptional items.

The Group defines operating exceptional items and amortisation as items which derive either from events or transactions that it considers fall outwith the ordinary activities of the Group or from events or transactions that fall within the ordinary activities of the Group but which, individually or, if of a similar type, in aggregate, need to be disclosed separately by virtue of their size or incidence if the financial statements are to give a true and fair view. Similarly, the Group defines finance exceptional items as items which derive either from events or transactions that it considers fall outwith the ordinary financing activities of the Group or from events or transactions that fall within the ordinary financing activities of the Group but which, individually or, if of a similar type, in aggregate, need to be disclosed separately by virtue of their size or incidence if the financial statements are to give a true and fair view.

Events or transactions that the Group would consider as falling outwith its ordinary activities could include, but are not limited to: the revaluation and/or disposal of property, plant and equipment; the revaluation and/or disposal of held-to-maturity or available-for-sale investments or investments at fair value through profit and loss; the disposal and/or closure of a business, jointly controlled operation or associate; and the costs of a fundamental reorganisation or restructuring. Events or transactions that the Group would consider as falling within its ordinary activities but which need to be disclosed separately could include, but are not limited to: the amortisation and impairment of music copyrights and intangibles; the impairment of goodwill; and the impairment of the cost of an investment in a business, jointly controlled operation or associate. Events or transactions that the Group would consider as falling outwith its ordinary financing activities could include, but are not limited to: gains or losses on the revaluation of derivative financial instruments; gains or losses on the retranslation of foreign currency-denominated borrowings to the extent that they do not provide a hedge against foreign currency-denominated investments; and gains or losses from the ineffectiveness of the interest rate swaps hedge. Events or transactions that the Group would consider as falling within its ordinary financing activities but which need to be disclosed separately could include, but are not limited to, costs incurred as part of the Group's refinancing programmes.

1. Segmental analyses

At 31 March 2006, the Group was organised on a worldwide basis into two main business segments – Music and Music Publishing. These divisions are the basis on which the Group reports its primary segment information.

Results

	2006			2005		
	EMI Music £m	EMI Music Publishing £m	Total £m	EMI Music Restated £m	EMI Music Publishing Restated £m	Total Restated £m
Segment revenue	**1,660.3**	**419.6**	**2,079.9**	1,600.5	400.7	2,001.2
Group profit (loss) from operations before exceptional items and amortisation	**145.1**	**105.4**	**250.5**	125.5	99.6	225.1
Share of profit (loss) from associates	**(0.1)**	**1.1**	**1.0**	0.6	0.5	1.1
Segmental operating exceptional items and amortisation:						
Amortisation of music copyrights and intangibles	**(3.6)**	**(46.3)**	**(49.9)**	(3.0)	(42.8)	(45.8)
Gain on disposal of property, plant and equipment	**0.6**	**(0.2)**	**0.4**	(17.7)	–	(17.7)
Segmental result	**142.0**	**60.0**	**202.0**	105.4	57.3	162.7
Non-segmental operating exceptional items and amortisation			**3.6**			(2.0)
Group profit from operations			**205.6**			160.7
Total net finance charges			**(87.5)**			(61.9)
Profit (loss) before taxation			**118.1**			98.8
Taxation			**(28.1)**			(23.9)
Profit (loss) from continuing operations after taxation			**90.0**			74.9

Other segment items included in the income statement include:

	EMI Music 2006	EMI Music Publishing 2006	Total 2006	EMI Music 2005	EMI Music Publishing 2005	Total 2005
Depreciation	**22.1**	**3.2**	**25.3**	22.0	3.1	25.1
Amortisation of music copyrights and intangibles	**3.6**	**44.3**	**47.9**	3.0	42.8	45.8
Impairment of music copyrights and intangibles	**–**	**2.0**	**2.0**	–	–	–
Impairment of goodwill	**–**	**–**	**–**	2.2	–	2.2
Impairment of property	**0.9**	**0.2**	**1.1**	18.5	–	18.5
Release of overprovision for reorganisation costs charged in prior years	**(2.3)**	**–**	**(2.3)**	(3.8)	–	(3.8)
Reorganisation costs	**2.3**	**–**	**2.3**	3.8	–	3.8

Assets and liabilities

	2006			2005		
	EMI Music £m	EMI Music Publishing £m	Total £m	EMI Music Restated £m	EMI Music Publishing Restated £m	Total Restated £m
Segment assets	**926.3**	**578.0**	**1,504.3**	813.4	586.8	1,400.2
Investments in associates	**5.9**	**2.3**	**8.2**	6.8	1.1	7.9
Unallocated assets			**304.5**			370.9
Consolidated total assets			**1,817.0**			1,779.0
Segment liabilities	**(898.1)**	**(282.4)**	**(1,180.5)**	(835.3)	(256.5)	(1,091.8)
Unallocated liabilities			**(1,363.1)**			(1,483.5)
Consolidated total liabilities			**(2,543.6)**			(2,575.3)
Other segment items included in the balance sheet include:						
Capital expenditure	**25.5**	**8.8**	**34.3**	30.4	5.5	35.9
Average employees (No.)	**5,672**	**640**	**6,312**	6,043	629	6,672

Profit from operations is analysed instead of profit before taxation as finance charges are borne centrally and are not allocated to the operating businesses.

1. Segmental analyses (continued)

The Group's two business segments operate in six main geographic areas, even though they are managed on a worldwide basis.

	United Kingdom £m	Rest of Europe £m	Latin America £m	North America £m	Asia Pacific £m	Other £m	2006 Total £m
Segment revenue	**348.0**	**630.2**	**84.4**	**649.1**	**338.8**	**29.4**	**2,079.9**
Segment assets	**267.1**	**288.5**	**58.8**	**657.5**	**155.6**	**76.8**	**1,504.3**
Investments in associates	**–**	**0.4**	**–**	**6.6**	**1.2**	**–**	**8.2**
Unallocated assets	**–**	**–**	**–**	**–**	**–**	**–**	**304.5**
Consolidated total assets	**267.1**	**288.9**	**58.8**	**664.1**	**156.8**	**76.8**	**1,817.0**
Capital expenditure	**15.3**	**6.9**	**0.6**	**8.7**	**2.2**	**0.6**	**34.3**
Average employees (No.)	**1,201**	**1,393**	**311**	**2,034**	**1,241**	**132**	**6,312**

	United Kingdom Restated £m	Rest of Europe Restated £m	Latin America Restated £m	North America Restated £m	Asia Pacific Restated £m	Other Restated £m	2005 Total Restated £m
Segment revenue	339.6	633.9	55.8	581.2	366.3	24.4	2,001.2
Segment assets	257.1	291.5	34.2	605.7	145.5	66.2	1,400.2
Investments in associates	–	0.2	–	5.9	1.8	–	7.9
Unallocated assets	–	–	–	–	–	–	370.9
Consolidated total assets	257.1	291.7	34.2	611.6	147.3	66.2	1,779.0
Capital expenditure	17.3	6.1	0.6	9.8	1.6	0.5	35.9
Average employees (No.)	1,156	1,623	293	2,124	1,345	131	6,672

Unallocated assets and liabilities include financial derivatives, corporation tax, deferred tax and net borrowings. These items are managed centrally and not allocated to the operating businesses.

2. Profit from operations

The following items have been included in arriving at profit from operations:

	2006 £m	2005 Restated £m
Staff costs (Note 4)	**370.5**	347.3
Cost of inventories recognised as an expense (included in cost of sales)	**252.2**	245.8
Depreciation of property, plant and equipment:		
Owned assets	**22.2**	21.0
Leased assets	**3.1**	4.1
Amortisation and impairment of music copyrights and intangibles (included in cost of sales)	**49.9**	45.8
Impairment of goodwill (included in administration expenses)	**–**	2.2
(Gain) loss on disposal of property, plant and equipment	**(1.5)**	(0.8)
(Gain) loss on disposal of business	**(1.0)**	–
Operating lease rentals payable	**29.5**	31.6
Contribution to defined contribution pension schemes	**5.7**	5.8
Other investments:		
(Gains) losses on revaluation to fair value of investments at fair value through profit and loss	**(2.6)**	(0.2)
Net exchange differences on foreign currency borrowings less deposits	**3.8**	9.5

3. Fees to auditors

	2006 £m	2005 £m
Audit fees paid to Ernst & Young LLP	**2.5**	2.4
Audit fees paid to other firms	**0.2**	0.1
Other fees paid to Ernst & Young LLP:		
UK	**0.9**	0.1
Non-UK	**0.5**	0.4
	4.1	3.0

£0.6m (2005: £0.5m) of the Group audit fees shown above were paid in respect of the parent company.

Other fees include £0.4m (2005: £0.3m) paid to Ernst & Young LLP for tax compliance and planning services and £1.0m (2005: £0.2m) for regulatory and other assurance services.

In addition to the above services, Ernst & Young LLP acted as auditor to the EMI Group Pension Fund in the UK. The appointment of auditors to the Group's UK pension fund and the fees paid in respect of those audits are agreed by the trustees of the fund, who act independently from the management of the Group. The aggregate fees paid to Ernst & Young LLP for audit services to the pension fund during the year were £0.1m (2005: £0.1m).

4. Directors' and employees' costs

	2006 £m	2005 Restated £m
Aggregate emoluments paid to Directors	**12.2**	9.7
Wages and salaries	**295.8**	276.8
Social security costs	**42.2**	41.4
Other pension costs	**20.3**	19.4
Total	**370.5**	347.3

See Note 1 for average employee numbers.

Key management personnel

	2006 £m	2005 Restated £m
Salaries and short-term employee benefits	**17.7**	12.2
Post-employment benefits	**–**	–
Other long-term benefits	**–**	–
Termination benefits	**–**	–
Share-based payments	**0.6**	0.2
	18.3	12.4

As required by IAS 24 *Related Party Transactions*, key management includes Non-executive as well as Executive Directors, and also certain other senior managers. The details of each Director's remuneration, compensation for loss of office, pension entitlements, long-term incentive scheme interests and share options are included in the Remuneration report.

5. Finance charges

	2006 £m	2005 Restated £m
Finance costs:		
Interest payable on bank overdrafts and loans	**92.8**	83.8
Interest payable on other loans	**7.4**	11.3
Interest payable on finance leases	**0.7**	0.5
	100.9	95.6
Interest payable on defined benefit pension scheme liabilities	**48.7**	48.1
	149.6	143.7
Finance income:		
Interest receivable on bank balances	**(2.1)**	(2.2)
Other interest receivable	**(0.3)**	(0.6)
	(2.4)	(2.8)
Expected return from defined benefit pension scheme assets	**(55.0)**	(55.8)
Underlying net finance charges	**(57.4)**	(58.6)
Net finance charges	**92.2**	85.1
Finance exceptional items (Note 8 (ii))	**(4.7)**	(23.2)
Total net finance charges	**87.5**	61.9

6. Taxation

	2006 £m	2005 Restated £m
Current tax	**23.8**	28.4
Deferred tax (Note 24)	**4.3**	(4.5)
	28.1	23.9

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2006	2005
Profit before tax	**118.1**	98.8
Tax calculated at domestic rates applicable to profits in the respective countries at 38.8% (2005: 40%)	**45.8**	39.6
Effects of:		
Income not subject to tax	**(4.2)**	(7.7)
Expenses not deductible for tax purposes	**23.7**	21.0
Utilisation of previously unrecognised tax losses	**(42.3)**	(37.9)
Tax losses for which no deferred income tax was recognised	**16.9**	15.8
Adjustment in respect of prior years	**(11.8)**	(6.9)
Current tax on profit (loss) before taxation	**28.1**	23.9

7. Dividends (equity)

	2006 Per share	2005 Per share	2006 £m	2005 Restated £m
Ordinary dividends:				
2005/2004 final dividend	**6.0p**	6.0p	**47.2**	47.1
2005/2004 interim dividend	**2.0p**	2.0p	**15.7**	15.8
Total	**8.0p**	8.0p	**62.9**	62.9

The interim dividend of 2.0p per share was paid on 1 April 2005 to shareholders on the register at the close of business on 4 March 2005. The final dividend of 6.0p per share was paid on 7 October 2005 to shareholders on the register at the close of business on 9 September 2005.

8. Exceptional items and amortisation

Exceptional items and amortisation are excluded from underlying results in order to provide a better understanding of the normalised trading of the Group, and include operating exceptional items and amortisation and finance exceptional items. See the Group accounting policies section of these financial statements for definitions of these terms and for examples of the types of transactions that may fall into each category.

(i) Operating exceptional items and amortisation

	2006 £m	2005 Restated £m
Net gain on sale of property, plant and equipment	**1.5**	0.8
Gain on disposal of business	**1.0**	–
Gain on revaluation to fair value of investments at fair value through profit and loss	**2.6**	0.2
Restructuring and reorganisation costs:		
Music: headcount reduction	**(2.3)**	(3.8)
Release of overprovision for reorganisation costs charged in prior years	**2.3**	3.8
Property impairment	**(1.1)**	(18.5)
Amortisation and impairment of music copyrights and intangibles	**(49.9)**	(45.8)
Impairment of goodwill	**–**	(2.2)
Total	**(45.9)**	(65.5)

The attributable taxation charge (credit) relating to operating exceptional items and amortisation is £nil (2005: £(7.6)m). The share of the operating exceptional items and amortisation attributable to minority interests is £0.1m (2005: £(5.1)m).

(ii) Finance exceptional items

	2006 £m	2005 Restated £m
Fair value revaluation of convertible bond derivative liability	**4.1**	31.2
Fair value revaluation of interest rate swaps	**1.4**	1.7
Fair value revaluation of Eurobond call feature derivative asset	**8.2**	(0.2)
Foreign exchange on unhedged Euro borrowings	**(4.1)**	(9.5)
Foreign exchange on unhedged foreign currency borrowings	**0.3**	–
Exceptional refinancing costs	**(5.2)**	–
Total	**4.7**	23.2

The attributable taxation charge relating to finance exceptional items is £nil (2005: £nil). See Note 19 for further details on exceptional refinancing costs.

9. Earnings per Ordinary Share (EPS)

	2006	2005 Restated
Earnings per Ordinary Share is calculated using the following:		
Earnings	**£86.1m**	£75.4m
Underlying earnings	**£127.4m**	£105.0m
Basic		
Weighted average number of Ordinary Shares	**786.8m**	785.6m
Diluted		
Adjusted weighted average number of Ordinary Shares	**874.2m**	872.8m

The adjusted weighted average number of Ordinary Shares used in the diluted earnings per share calculations, 874.2m (2005: 872.8m), is the weighted average number of Ordinary Shares, 786.8m (2005: 785.6m), plus adjustments for dilutive share options, 8.5m (2005: 8.4m), plus adjustments for convertible bond options, 78.9m (2005: 78.9m).

Reconciliation from basic to diluted earnings per Ordinary Share

	Year ended 31 March 2006		Year ended 31 March 2005	
	£m	Per Share	Restated £m	Restated Per Share
Earnings/basic EPS	**86.1**	**10.9p**	75.4	9.6p
Dilutive adjustments:				
Convertible bond – attributable interest cost* and dilution	**5.4**	**(0.3)p**	(22.2)	(3.4)p
Dilutive share options – dilution	**–**	**(0.1)p**	–	(0.1)p
Earnings adjusted for effects of dilution/diluted EPS	**91.5**	**10.5p**	53.2	6.1p

* Including fair value revaluation of convertible bond derivative liability included within finance exceptional items.

Reconciliation from basic to underlying basic and underlying diluted earnings per Ordinary Share

	Year ended 31 March 2006		Year ended 31 March 2005	
	£m	Per Share	Restated £m	Restated Per Share
Earnings/basic EPS	**86.1**	**10.9p**	75.4	9.6p
Exceptional items and amortisation:				
Operating exceptional items and attributable taxation	**(4.0)**	**(0.5)p**	9.9	1.3p
Amortisation of music copyrights and intangibles	**47.9**	**6.1p**	45.8	5.8p
Impairment of music copyrights and intangibles	**2.0**	**0.3p**	–	0.0p
Impairment of goodwill	**–**	**0.0p**	2.2	0.3p
Minority interest in operating exceptional items and attributable taxation	**0.4**	**0.1p**	(4.8)	(0.6)p
Minority interest in amortisation of music copyrights and intangibles	**(0.3)**	**(0.1)p**	(0.3)	0.0p
Finance exceptional items	**(4.7)**	**(0.6)p**	(23.2)	(3.0)p
Underlying earnings/underlying basic EPS	**127.4**	**16.2p**	105.0	13.4p
Dilutive adjustments:				
Convertible bond – attributable interest cost and dilution	**9.5**	**(0.4)p**	9.0	(0.2)p
Dilutive share options – dilution	**–**	**(0.1)p**	–	(0.1)p
Underlying earnings adjusted for effects of dilution/underlying diluted EPS	**136.9**	**15.7p**	114.0	13.1p

10. Music copyrights and intangibles

	2006 £m	2005 Restated £m
Cost		
Beginning of the year	**776.4**	785.8
Currency retranslation	**57.6**	(13.8)
Acquisition of businesses	**3.7**	0.2
Additions	**4.1**	6.0
Disposals	**(4.6)**	(1.8)
End of the year	**837.2**	776.4
Amortisation		
Beginning of the year	**371.8**	335.3
Currency retranslation	**30.1**	(7.7)
Charge for year	**49.9**	45.8
Disposals	**(3.9)**	(1.6)
End of the year	**447.9**	371.8
Carrying amount	**389.3**	404.6

11. Goodwill

	2006 £m	2005 Restated £m
Cost		
Beginning of the year	**35.1**	31.1
Currency retranslation	**1.5**	0.3
Acquisition of businesses	**6.5**	5.9
Disposals	**(0.1)**	–
Impairment in the year	**–**	(2.2)
End of the year	**43.0**	35.1

12. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost				
At 31 March 2004 (restated)	132.9	80.0	208.6	421.5
Currency retranslation and reclassification	(13.5)	(0.9)	(24.5)	(38.9)
Acquisition of businesses	–	–	–	–
Disposal of businesses	–	–	(4.6)	(4.6)
Additions	2.5	1.8	25.6	29.9
Disposals	(6.1)	(0.4)	(12.8)	(19.3)
At 31 March 2005 (restated)	115.8	80.5	192.3	388.6
Currency retranslation and reclassification	2.5	1.7	11.7	15.9
Acquisition of businesses	–	–	–	–
Disposal of businesses	–	–	–	–
Additions	6.0	4.9	19.3	30.2
Disposals	(23.0)	(1.1)	(51.1)	(75.2)
At 31 March 2006	**101.3**	**86.0**	**172.2**	**359.5**
Comprising:				
At cost	101.3	86.0	172.2	359.5
At 31 March 2006	**101.3**	**86.0**	**172.2**	**359.5**
Accumulated depreciation and impairment				
At 31 March 2004 (restated)	29.6	16.1	155.2	200.9
Currency retranslation and reclassification	(2.6)	(0.4)	(33.4)	(36.4)
Disposal of businesses	–	–	(2.8)	(2.8)
Depreciation charge for year	2.3	4.1	18.7	25.1
Impairment	18.5	–	–	18.5
Disposals	(4.4)	(0.4)	(11.9)	(16.7)
At 31 March 2005 (restated)	43.4	19.4	125.8	188.6
Currency retranslation and reclassification	1.3	(0.7)	9.7	10.3
Disposal of businesses	–	–	–	–
Depreciation charge for year	2.0	3.2	20.1	25.3
Impairment	1.1	–	–	1.1
Disposals	(13.6)	(1.0)	(48.0)	(62.6)
At 31 March 2006	**34.2**	**20.9**	**107.6**	**162.7**
Carrying amount				
At 31 March 2006	**67.1**	**65.1**	**64.6**	**196.8**
At 31 March 2005	72.4	61.1	66.5	200.0

12. Property, plant and equipment (continued)

Freehold property includes land having a cost of £28.1m (2005: £31.6m) which is not depreciated.

The depreciation charge for the year includes depreciation of assets held under finance leases of £0.4m (2005: £1.2m).

The impairment charge in the year ended 31 March 2005 of £18.5m arose from a comparison of the carrying value of a number of properties held by the Group's Japanese subsidiary with the higher of net realisable value and value in use. The net realisable value was determined by independent valuers and was based on recent transactions for similar properties within the same market.

	2006 £m	2005 Restated £m
The carrying values shown above include the following:		
Finance lease assets	**18.9**	16.9
Assets in the course of construction	**15.0**	17.4

Properties held by Toshiba – EMI Limited were carried at a revalued amount prior to the implementation of IAS16 *Tangible Fixed Assets* in the year ended 31 March 2005. The revalued amount was based on third party expert valuation. Under the transitional arrangements of that standard, the carrying value of these properties has been frozen and carried forward as deemed cost. These properties are currently held at net book value of £30.4m (2005: £37.2m). The comparable amount under the historical cost convention would be £3.9m (2005: £14.3m).

13. Investments in associates

	2006 £m	2005 Restated £m
Beginning of the year	**8.5**	5.5
Currency retranslation	**0.5**	(0.1)
Additions and new loans	**0.3**	2.1
Share of profit (loss)*	**1.0**	1.1
Dividends	**(1.0)**	–
Disposals, provisions and loans repaid	**(0.5)**	(0.1)
End of the year	**8.8**	8.5

* Share of profit (loss) is after tax.

Investments in associates as at 31 March 2006 includes goodwill of £2.5m (2005: £2.4m). None of the Group's associates are listed.

The following table provides summarised financial information of the Group's share of its associates:

	2006 £m	2005 £m
Non-current assets	**0.6**	0.3
Current assets	**4.7**	3.3
Gross assets	**5.3**	3.6
Current liabilities	**(3.2)**	(2.7)
Non-current liabilities	**–**	–
Gross liabilities	**(3.2)**	(2.7)
Share of net assets	**2.1**	0.9
Revenue	**14.8**	12.4
Net profit (loss)	**1.0**	1.1

14. Other investments

	2006 £m	2005 Restated £m
Held-to-maturity investments	**7.9**	8.0
Available-for-sale investments	**7.1**	9.6
Investments at fair value through profit and loss	**0.3**	1.5
	15.3	19.1
Current portion:		
Investments at fair value through profit and loss	**0.3**	1.5
	0.3	1.5
Non-current portion:		
Held-to-maturity investments	**7.9**	8.0
Available-for-sale investments	**7.1**	9.6
	15.0	17.6

The held-to-maturity investments included above represent unlisted equity investments which are held by the Group for long-term return which is broadly determinable. They are valued at cost.

The available-for-sale investments included above represent both listed and unlisted equity investments which offer the Group the opportunity of return through dividend income. The fair values of the listed element of these investments are based on quoted market prices. Fair value gains and losses on these investments are charged directly to equity. The unlisted element of these investments is valued at cost.

The investments at fair value through profit and loss included above represent listed equity investments which offer the Group the opportunity of returns through dividend income and fair value gain. The fair values of these investments are based on quoted market prices. Fair value gains and losses on these investments are charged to profit and loss.

15. Financial derivatives

	2006 Assets £m	2006 Liabilities £m	2005 Assets £m	2005 Liabilities £m
Interest rate swaps – fair value hedge (excluding accrued interest)	**11.0**	**(13.6)**	16.9	(9.6)
Convertible bond derivative	**–**	**(86.7)**	–	(83.2)
€425m 8.625% senior notes embedded call feature	**30.3**	**–**	22.1	–
	41.3	**(100.3)**	39.0	(92.8)

Interest rate swaps
The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2006 were £586.2m (2005: £557.7m). At 31 March 2006, the fixed interest rates vary from 8.38% to 8.63% (2005: 8.38% to 8.63%) and the main floating rates are three-month LIBOR + 465 basis points and three-month EURIBOR + 440 basis points (2005: three-month LIBOR + 465 basis points and three-month EURIBOR + 440 basis points). The fair value of the interest rate swaps is equal to the book value.

Convertible bond derivative
On issue of the guaranteed convertible bond, the fair value of the liability component was determined using a market rate for an equivalent non-convertible bond. As the convertible bond is denominated in US Dollars but convertible into Sterling shares, the remainder of the proceeds were allocated to the conversion option that is recognised and included as a derivative liability, net of issue costs. The value of the call feature is revalued to fair value at each balance sheet date, with movements in the fair value reflected as finance costs or finance income.

€425m 8.625% senior notes
On or after 15 October 2008, the Company may redeem all or part of the notes at redemption prices (plus accrued interest) fixed for the 12-month period starting at the date shown (15 October 2008, 104.3125%; 15 October 2009, 102.8750%; 15 October 2010, 101.4375%; and from 15 October 2011 at 100.0000%). At 31 March 2006, this embedded call feature had a fair value of £30.3m (2005: £22.1m) and is included as a derivative asset.

15. Financial derivatives (continued)

Net investments in foreign operations
In addition to the €425m 8.625% senior notes the Group had Euro and Yen denominated drawings under its £450m revolving credit facility. These drawings were fully repaid at 31 March 2006. During the year, the Euro borrowing had foreign exchange losses of £4.1m (2005: £9.5m loss) while the Yen borrowing had foreign exchange gains of £0.3m (2005: £nil). The foreign exchange loss on the Euro borrowing has been treated as a finance exceptional item and charged to the income statement. As the Yen borrowing is a partial hedge of the net investment in the Group's Japanese subsidiary, the foreign exchange gain on translation of the borrowing to Sterling at the balance sheet date was recognised in 'other reserves' in shareholders' equity to the extent that the borrowing provided a hedge against the net investment, the remainder of £0.3m (2005: £nil) being credited to the income statement.

Credit risk
The Group's principal financial assets are bank balances, cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts. Such an allowance is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the debt.

The credit risk on bank balances is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of geographically dispersed counterparties.

16. Inventories

	2006 £m	2005 £m
Raw materials and consumables	**1.4**	1.5
Work in progress	**–**	0.2
Finished goods	**35.8**	26.5
Total	**37.2**	28.2

17. Receivables

	2006 £m	**2006 £m**	2005 £m	2005 £m
Current receivables:				
Trade receivables		**408.5**		300.1
Advances		**330.1**		336.0
Corporation tax recoverable		**16.7**		21.2
Other receivables:				
Amounts owed by associates	**1.1**		0.5	
Other debtors (including current portion of other investments)	**73.4**		89.2	
Prepayments and accrued income	**36.1**		20.0	
		110.6		109.7
		865.9		767.0
Non-current receivables:				
Other receivables		**4.4**		6.6
Prepayments and accrued income		**–**		–
		4.4		6.6
Total		**870.3**		773.6

The Directors consider that the carrying amount of receivables due both within and after more than one year approximates to their fair value.

18. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**188.3**	239.1
Short-term deposits	**2.6**	1.8
	190.9	240.9

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are ordinarily made for periods varying between one day and one month, although can extend to periods of up to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The Group has balances of cash and cash equivalents totalling £60.7m (2005: £113.1m) held with banks within the UK and £130.2m (2005: £127.8m) held with banks outside, but freely transferable to, the UK.

19. Borrowings

	2006 £m	2005 Restated £m
Non-current		
US$500m 8.375% guaranteed notes	**287.7**	273.8
£325m 8.25% Sterling bonds	**323.1**	322.1
US$123.8m 6.96% senior notes (by instalments)	**–**	48.7
US$243.3m 5.25% guaranteed convertible bonds	**121.1**	107.4
€425m 8.625% senior notes	**300.0**	301.6
Long-term commited facilities*	**(1.5)**	(1.9)
Term loan	**2.0**	1.1
Finance leases	**17.0**	15.9
	1,049.4	1,068.7
Current		
Overdrafts	**19.6**	11.8
Term loan	**1.2**	1.8
US$123.8m 6.96% senior notes (first instalment)	**–**	16.4
Finance leases	**1.8**	1.3
	22.6	31.3
Total borrowings	**1,072.0**	1,100.0

* Includes issue costs of syndicated loan facility of £1.5m (2005: £1.9m).

The fair value of publicly traded borrowings has been calculated using the appropriate market prices at the balance sheet date. For the borrowings which are not publicly traded, the fair value has been calculated by discounting their future cash flows at the appropriate market rate. The Directors estimate the fair value of the Group's borrowings to be as follows:

	Book value 2006 £m	Book value 2005 £m	Fair value 2006 £m	Fair value 2005 £m
Loans and overdrafts	**19.6**	11.8	**19.6**	11.8
US$500m 8.375% guaranteed notes	**287.7**	273.8	**306.0**	286.8
£325m 8.25% Sterling bonds	**323.1**	322.1	**348.0**	349.9
US$123.8m 6.96% senior notes	**–**	65.1	**–**	39.4
US$243.3m 5.25% guaranteed convertible bonds	**121.1**	107.4	**133.5**	123.1
€425m 8.625% senior notes	**300.0**	301.6	**368.1**	347.0
Long-term commited facilities	**(1.5)**	(1.9)	**(1.5)**	(1.9)
Term loan	**3.2**	2.9	**3.2**	2.9
Finance leases	**18.8**	17.2	**18.8**	17.2
	1,072.0	1,100.0	**1,195.7**	1,176.2

Year ended 31 March 2006

	Current coupon rate	Effective interest rate	Within 1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	4 – 5 years £m	More than 5 years £m	Total £m
Non-current									
US$500m 8.375% guaranteed notes	**8.375%**	**8.49%**	**–**	**–**	**–**	**287.7**	**–**	**–**	**287.7**
£325m 8.25% Sterling bonds	**9.75%**	**9.92%**	**–**	**–**	**323.1**	**–**	**–**	**–**	**323.1**
US$123.8m 6.96% senior notes (by instalments)	**8.46%**	**8.63%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
US$243.3m 5.25% guaranteed convertible bonds	**5.25%**	**9.30%**	**–**	**–**	**–**	**–**	**121.1**	**–**	**121.1**
€425m 8.625% senior notes	**8.625%**	**8.94%**	**–**	**–**	**–**	**–**	**–**	**300.0**	**300.0**
Long-term committed facilities			**–**	**–**	**–**	**–**	**(1.5)**	**–**	**(1.5)**
Term loan			**–**	**2.0**	**–**	**–**	**–**	**–**	**2.0**
Finance leases			**–**	**–**	**–**	**–**	**–**	**17.0**	**17.0**
			–	**2.0**	**323.1**	**287.7**	**119.6**	**317.0**	**1,049.4**
Current									
Overdrafts			**19.6**	**–**	**–**	**–**	**–**	**–**	**19.6**
Term loan			**1.2**	**–**	**–**	**–**	**–**	**–**	**1.2**
US$123.8m 6.96% senior notes (first instalment)			**–**	**–**	**–**	**–**	**–**	**–**	**–**
Finance leases			**1.8**	**–**	**–**	**–**	**–**	**–**	**1.8**
			22.6	**–**	**–**	**–**	**–**	**–**	**22.6**
Total borrowings			**22.6**	**2.0**	**323.1**	**287.7**	**119.6**	**317.0**	**1,072.0**

19. Borrowings (continued)

Year ended 31 March 2005 (restated)

	Current coupon rate	Effective interest rate	Within 1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	4 – 5 years £m	More than 5 years £m	Total £m
Non-current									
US$500m 8.375% guaranteed notes	8.375%	8.49%	–	–	–	–	273.8	–	273.8
£325m 8.25% Sterling bonds	9.75%	9.92%	–	–	–	322.1	–	–	322.1
US$123.8m 6.96% senior notes (by instalments)	8.46%	8.63%	–	–	48.7	–	–	–	48.7
US$243.3m 5.25% guaranteed convertible bonds	5.25%	9.30%	–	–	–	–	–	107.4	107.4
€425m 8.625% senior notes	8.625%	8.94%	–	–	–	–	–	301.6	301.6
Long-term commited facilities			–	–	(1.9)	–	–	–	(1.9)
Term loan			–	1.1	–	–	–	–	1.1
Finance leases			–	–	–	–	–	15.9	15.9
			–	1.1	46.8	322.1	273.8	424.9	1,068.7
Current									
Overdrafts			11.8	–	–	–	–	–	11.8
Term loan			1.8	–	–	–	–	–	1.8
US$123.8m 6.96% senior notes (first instalment)			16.4	–	–	–	–	–	16.4
Finance leases			1.3	–	–	–	–	–	1.3
			31.3	–	–	–	–	–	31.3
Total borrowings			31.3	1.1	46.8	322.1	273.8	424.9	1,100.0

In July 2005, the Group signed a new £450m revolving credit facility with a group of banks. This facility replaced a revolving credit facility (£250m), a 364 day facility, (£100m) and enabled a subsidiary to repay the US$123.8m 6.96% senior notes. In addition, two bilateral facilities (£40m) were not renewed. This resulted in exceptional refinancing costs of £5.2m (2005: £nil) of which £3.5m was in respect of issue and repayment costs of the US$123.8m 6.96% senior notes and £1.7m in respect of issue costs relating to the £250m revolving credit facility.

On 11 March 2003, Moody's Investor Service downgraded the Group's credit rating from Baa2 to Ba1. As a consequence, the coupon of the £325m 8.25% Sterling bonds was increased from 8.25% to 9.75% with effect from 20 May 2003 and the coupon of the US$123.8m 6.96% senior notes was increased from 6.96% to 8.46% with effect from 21 August 2003.

The Group holds equivalent US Dollar nominal value interest rate swaps matching the coupon and the term of the US$500m 8.375% guaranteed notes effectively converting the interest basis of the issue to floating rate (set in arrears). See Note 15 for the derivative portion of the borrowing.

The Group holds equivalent Euro nominal value interest rate swaps matching the coupon and the term of the €425m 8.625% senior notes effectively converting the interest basis of the issue to floating rate (set in arrears). See Note 15 for the derivative portion of the borrowing.

At 31 March 2006, the Group had available £437.1m (2005: £349.1m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The term loan of £3.2m (2005: £2.9m) was raised in the period July 2004 to December 2005. Repayments will commence in August 2006 and will continue until January 2008. The loan carries a floating rate of interest at LIBOR + 1.5%.

Overdrafts are unsecured, repayable on demand, and are charged interest at variable rates.

For details regarding the Group's obligations under finance leases, see Note 21.

20. Convertible bond

The US$243.3m 5.25% guaranteed convertible bond, which was issued in October 2003, is repayable in October 2010. The bonds are convertible into US$1,000 Preference Shares of the issuer which will be exchangeable immediately upon issue for Ordinary Shares in the Company. The number of Ordinary Shares for which a Preference Share may be exchanged will be determined by dividing the paid-up value of the Preference Share, translated into Sterling at the fixed rate of US$1.5957, by the exchange price initially set at 193.38p per Ordinary Share. Conversion by the holder at 193.38p per Ordinary Share may occur after 11 November 2003 until seven days prior to the final redemption date. Conversion by the issuer, after 16 October 2007, of all but not part, may occur if the average price per Ordinary Share on at least 20 dealing days in any period of 30 consecutive dealing days has been 130p; or at any time if 85% or more of the aggregate principal amount has been previously purchased, redeemed or cancelled. Redemption by the issuer, after 16 October 2007, may occur if the same aggregate principal amount has been previously purchased, redeemed or cancelled. Redemption by the issuer, after 16 October 2007, may occur if the same conditions which apply to conversion by the issuer are met. Final redemption is on 2 October 2010 at 100% of principal and accrued interest.

21. Obligations under finance leases

	Minimum lease payments 2006 £m	Minimum lease payments 2005 Restated £m	Present value of mimum lease payments 2006 £m	Present value of mimum lease payments 2005 Restated £m
Amounts payable under finance leases:				
Within one year	**1.8**	1.3	**1.8**	1.3
Between one and five years	**7.8**	5.6	**7.2**	5.2
After more than five years	**12.9**	14.1	**9.8**	10.7
	22.5	21.0	**18.8**	17.2
Less: future finance charges	**(3.7)**	(3.8)	**n/a**	n/a
Present value of lease obligations	**18.8**	17.2	**18.8**	17.2
Less: current portion (shown under current liabilities)	**(1.8)**	(1.3)	**(1.8)**	(1.3)
Non-current portion	**17.0**	15.9	**17.0**	15.9

In March 2004, the Group entered into a sale and leaseback scheme relating to a property in Rue Mont Cenis, Paris that is accounted for as a finance lease. The lease runs for a term of 15 years, although the Group has the option to repurchase the property at any time between years five and 12. If the Group opts not to take up this option, then ownership of the property will revert to the lessor at the end of the lease.

The rentals payable under the lease, along with the premium payable should the Group take up the option to repurchase, are set out in the lease agreement.

22. Other payables: current

	2006 £m	2005 Restated £m
Trade payables	**228.6**	205.5
Royalties and fees payable	**658.5**	607.7
Amounts owed to associates	**0.6**	0.6
Deferred consideration payable*	**0.7**	1.0
Other taxes including VAT and social security costs	**22.4**	16.1
Other payables	**76.1**	75.1
Interest payable	**40.7**	46.8
Accruals and deferred income	**121.4**	107.3
Total	**1,149.0**	1,060.1

* Deferred consideration payable includes £0.7m (2005: £0.9m) which is not conditional upon the satisfaction of future performance criteria.

23. Other payables: non current

	2006 £m	2005 Restated £m
Other payables	**9.5**	10.2
Total	**9.5**	10.2

24. Deferred taxation

The major deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods are as follows:

Deferred tax assets

	Accelerated tax depreciation £m	Fair value gains £m	Convertible bond £m	Other £m	Total £m
At 31 March 2004 (restated)	(2.6)	–	–	(21.5)	(24.1)
Charge (credit) to profit or loss for the year	1.8	(7.6)	–	1.0	(4.8)
Charge (credit) to equity for the year	–	–	–	1.8	1.8
Exchange differences	0.3	0.2	–	(3.3)	(2.8)
At 31 March 2005 (restated)	(0.5)	(7.4)	–	(22.0)	(29.9)
Charge (credit) to profit or loss for the year	(0.6)	–	–	6.3	5.7
Charge (credit) to equity for the year	–	–	–	–	–
Exchange differences	–	(0.1)	–	1.5	1.4
At 31 March 2006	**(1.1)**	**(7.5)**	**–**	**(14.2)**	**(22.8)**

24. Deferred taxation (continued)

Deferred tax liabilities

	Accelerated tax depreciation £m	Fair value gains £m	Convertible bond £m	Other £m	Total £m
At 31 March 2004 (restated)	5.6	–	–	(1.4)	4.2
Charge (credit) to profit or loss for the year	0.7	–	–	(0.4)	0.3
Charge (credit) to equity for the year	–	–	–	–	–
Exchange differences	(0.2)	–	–	3.9	3.7
At 31 March 2005 (restated)	6.1	–	–	2.1	8.2
Charge (credit) to profit or loss for the year	(0.2)	–	–	(1.2)	(1.4)
Charge (credit) to equity for the year	–	–	–	–	–
Exchange differences	(0.1)	–	–	(1.6)	(1.7)
At 31 March 2006	**5.8**	–	**–**	**(0.7)**	**5.1**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances after offset for balance sheet purposes:

	2006 £m	2005 Restated £m
Deferred tax liabilities	**5.1**	8.2
Deferred tax assets	**(22.8)**	(29.9)

At the balance sheet date, the Group had unused tax losses of £441.5m (2005: £430.2m) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2005: £nil) of such losses. No deferred tax asset has been recognised in respect of the remaining £441.5m (2005: £430.2m) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of £51.7m (2005: £51.6m) that will expire in 2022. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group had net other deductible temporary differences of £28.3m (2005: £71.7m). No deferred tax has been recognised due to the unpredictability of future profit streams.

Temporary differences arising in connection with interests in associates and jointly controlled operations are insignificant.

25. Other provisions for liabilities and charges

	Trading £m	Employee benefits £m	Acquisition and integration £m	Disposal and fundermental reorganisation £m	Total £m
At 1 April 2005 (restated)	32.9	–	2.7	8.0	43.6
Currency retranslation	1.7	–	–	0.4	2.1
Provisions utilised	(13.8)	–	–	(7.3)	(21.1)
Charged (released)	6.4	0.3	2.4*	(0.7)	8.4
Transfer from pensions provision	–	0.5	–	–	0.5
At 31 March 2006	**27.2**	**0.8**	**5.1**	**0.4**	**33.5**
Current portion:					
At 1 April 2005 (restated)	32.9	–	2.7	8.0	43.6
At 31 March 2006	**27.2**	**0.8**	**5.1**	**0.4**	**33.5**
Non-current portion:					
At 1 April 2005 (restated)	–	–	–	–	–
At 31 March 2006	–	–	–	–	–
Total:					
At 1 April 2005 (restated)	32.9	–	2.7	8.0	43.6
At 31 March 2006	**27.2**	**0.8**	**5.1**	**0.4**	**33.5**

* Deferred consideration payable includes £2.4m (2005: £nil) which is not conditional upon the satisfaction of future performance criteria.

Trading
Trading provisions include royalty audit and other trading provisions charged through profit from operations before operating exceptional items and amortisation. They also include restructuring and reorganisation provisions charged through operating exceptional items (see Note 8).

Disposal and fundamental reorganisation
This provision relates to the reorganisation costs for the closure and/or sale of EMI's manufacturing businesses in North America and Europe.

Acquisition and integration
The provision relates to acquisition and integration costs that were created for eamouts.

Employee benefits
This provision relates to long term and termination benefits.

26. Pensions

The Group operates a number of pension schemes throughout the world. The nature of the Scheme in a particular country is usually in line with local custom and practice and is supportive of, and a key element of, the Group's overall human resources strategy. This operational philosophy results in the majority of the Group's schemes being of the defined contribution type. This has always been the case in, for example, the US.

In a limited number of countries of operation, the Group's local pension arrangements are entirely or partly of the defined benefit type. With the exception of the schemes in the UK, Germany and Japan, these defined benefit arrangements are not significant in size as confirmed by the following summary of the Group's total pension provisions. The schemes in these three countries are material in size and so full detail on each of them is given in the following narrative.

	Major Schemes		Other Schemes		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Pension provisions	**(22.8)**	(92.2)	**(8.3)**	(7.9)	**(31.1)**	(100.1)

The main scheme in the UK, which covers employees of both EMI Group plc and each of the Group's UK subsidiary companies, is the EMI Group Pension Fund (the UK Fund). Benefits provided by the UK Fund are based on final pensionable pay and include a pension which is guaranteed to increase each year by the lower of 5% and the increase in the cost of living. The UK Fund was closed to new entrants on 1 November 2005, on which date a defined contribution plan was started for the benefit of eligible new joiners to the Group's UK businesses. The combination of the launching of a flexible benefits programme to most of the Group's UK employees and the announced closure of the UK Fund to new entrants contributed significantly to an approximate 35% increase in Fund membership amongst eligible employees. This is the main reason for the increase in service cost from £9.0m in 2005 to £12.2m in 2006.

The Group operates two plans in Japan, the financial detail of which is reported in aggregate later in this Note. There were two significant changes to one of these plans, the employees plan, during 2006. The employees plan, whilst remaining a defined benefit scheme, was modified from a final salary scheme to a cash balance scheme on 1 April 2005. The impact of this Plan amendment is reported below. Later in the year, as part of the sale of the manufacturing division of the Group subsidiary to a third party, a significant number of employees transferred their employment to the purchaser. An appropriate quantum of assets was transferred from the Group's pension plan to that of the new employer, in line with the transfer of defined benefit obligation. These transfers are described as divestiture in the following narrative.

There were no significant changes in the German scheme during the year.

The assets and liabilities of these schemes as at 31 March are:

	United Kingdom		Germany		Japan		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Fair value of scheme assets								
Equities	**566.0**	483.0	**–**	–	**–**	–	**566.0**	483.0
Bonds	**391.0**	329.0	**–**	–	**–**	–	**391.0**	329.0
Other	**6.0**	17.0	**1.1**	0.5	**30.4**	42.1	**37.5**	59.6
	963.0	829.0	**1.1**	0.5	**30.4**	42.1	**994.5**	871.6
Present value of defined benefit obligations	**(951.0)**	(885.0)	**(35.5)**	(32.8)	**(30.8)**	(46.0)	**(1,017.3)**	(963.8)
Net pension asset (liability)	**12.0**	(56.0)	**(34.4)**	(32.3)	**(0.4)**	(3.9)	**(22.8)**	(92.2)

The pension plans have not invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

The amounts recognised in the Group consolidated income statement and in the Group consolidated statement of recognised income and expense for the year are analysed as follows:

Year ended 31 March 2006

	United Kingdom £m	**Germany £m**	**Japan £m**	**Total £m**
Recognised in the Group consolidated income statement				
Current service cost	**12.2**	**0.3**	**1.7**	**14.2**
Plan amendment	**–**	**–**	**(5.0)**	**(5.0)**
Divestiture	**–**	**–**	**0.3**	**0.3**
Recognised in arriving at profit from operations	**12.2**	**0.3**	**(3.0)**	**9.5**
Expected return on scheme assets	**(54.2)**	**–**	**(0.9)**	**(55.1)**
Interest cost on scheme liabilities	**46.4**	**1.4**	**0.7**	**48.5**
Recognised in arriving at total net finance charges	**(7.8)**	**1.4**	**(0.2)**	**(6.6)**

26. Pensions (continued)

	United Kingdom £m	Germany £m	Japan £m	Total £m
Taken to Group consolidated statement of recognised income and expense				
Actual return on scheme assets	**(176.1)**	**(0.6)**	**(1.5)**	**(178.2)**
Less: expected return on scheme assets	**54.2**	**–**	**0.9**	**55.1**
	(121.9)	**(0.6)**	**(0.6)**	**(123.1)**
Actuarial losses on defined benefit obligations	**58.4**	**2.1**	**4.3**	**64.8**
Actuarial (gains) and losses recognised in the Group consolidated statement of recognised income and expense	**(63.5)**	**1.5**	**3.7**	**(58.3)**

Year ended 31 March 2005

	United Kingdom £m	Germany £m	Japan £m	Total £m
Recognised in the Group consolidated income statement				
Current service cost	9.0	0.3	2.2	11.5
Recognised in arriving at profit from operations	9.0	0.3	2.2	11.5
Expected return on scheme assets	(54.0)	–	(1.1)	(55.1)
Interest cost on scheme liabilities	45.0	1.5	1.0	47.5
Recognised in arriving at total net finance charges	(9.0)	1.5	(0.1)	(7.6)
Taken to Group consolidated statement of recognised income and expense				
Actual return on scheme assets	(85.3)	(0.1)	0.4	(85.0)
Less: expected return on scheme assets	54.0	–	1.1	55.1
	(31.3)	(0.1)	1.5	(29.9)
Actuarial losses on defined benefit obligations	28.0	0.1	(3.2)	24.9
Actuarial (gains) and losses recognised in the Group consolidated statement of recognised income and expense	(3.3)	–	(1.7)	(5.0)

Pension contributions are determined with the advice of independent actuaries on the basis of valuations using the projected unit method. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by considering best estimates for the expected long-term rates of return from the main asset classes. The date of the last actuarial valuation of scheme assets and obligations was 31 March 2006.

	2006 %	United Kingdom 2005 %	2006 %	Germany 2005 %	2006 %	Japan 2005 %
Main assumptions						
Rate of general increase in salaries	**4.80**	4.75	**3.50**	3.50	**1.30–2.00**	2.00–3.70
Rate of increase to pensions in payment	**2.80**	2.75	**2.00**	2.00	**–**	–
Discount rate for scheme liabilities	**4.95**	5.40	**4.50**	4.50	**2.00**	2.00
Inflation	**2.80**	2.75	**2.00**	2.00	**–**	–
Expected rates of return on scheme assets:						
Equities	**7.90**	8.00	**n/a**	n/a	**n/a**	n/a
Bonds	**4.40**	4.80	**n/a**	n/a	**n/a**	n/a
Other	**3.80**	3.80	**4.00**	4.00	**1.00**	2.50

	2006 %	United Kingdom 2005 %	2006 %	Germany 2005 %	2006 %	Japan 2005 %
Mortality assumptions						
Current pensioners at 65 - male	**20**	20	**18**	17	**n/a**	n/a
Current pensioners at 65 - female	**22**	22	**22**	21	**n/a**	n/a
Future pensioners at 65 - male	**22**	22	**22**	17	**n/a**	n/a
Future pensioners at 65 - female	**24**	24	**26**	21	**n/a**	n/a

The post-retirement mortality assumptions allow for expected increases in longevity. The 'current' disclosures above relate to assumptions based on longevity following retirement at the balance sheet date, with 'future' being that relating to an employee retiring in 2035. As the plans in Japan provide a cash sum at retirement, no post-retirement life expectancy assumption is required.

Members contribute to the UK Fund at the rate of 4% (2005: 4%) except in the case of those members whose contributions are paid by the employer following the launch of a flexible benefits programme in 2005. There were no employee contributions to either the German fund or the Japanese fund in either 2005 or 2006. Employer contributions are made to the UK fund at the rate of 21% (2005: 21%) and to the Japanese fund as advised by the insurance company which administers the fund. Contributions to the plans were £13.3m (2005: £11.9m) and are expected to be £12.5m in 2007.

26. Pensions (continued)

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

	United Kingdom		Germany		Japan		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At 1 April	**(885.0)**	(850.0)	**(32.8)**	(31.4)	**(46.0)**	(52.5)	**(963.8)**	(933.9)
Service cost	**(12.2)**	(9.0)	**(0.3)**	(0.3)	**(1.7)**	(2.2)	**(14.2)**	(11.5)
Interest cost	**(46.4)**	(45.0)	**(1.4)**	(1.5)	**(0.7)**	(1.0)	**(48.5)**	(47.5)
Benefits paid	**51.6**	48.0	**1.2**	1.6	**4.3**	3.7	**57.1**	53.3
Actuarial gains and losses	**(58.4)**	(28.0)	**(2.1)**	(0.1)	**(4.3)**	3.2	**(64.8)**	(24.9)
Employee contributions	**(0.6)**	(1.0)	**–**	–	**–**	–	**(0.6)**	(1.0)
Plan amendment	**–**	–	**–**	–	**5.0**	–	**5.0**	–
Divestiture	**–**	–	**–**	–	**12.1**	–	**12.1**	–
Foreign currency differences	**–**	–	**(0.1)**	(1.1)	**0.5**	2.8	**0.4**	1.7
At 31 March	**(951.0)**	(885.0)	**(35.5)**	(32.8)	**(30.8)**	(46.0)	**(1,017.3)**	(963.8)

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

	United Kingdom		Germany		Japan		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At 1 April	**829.0**	784.0	**0.5**	0.7	**42.1**	44.4	**871.6**	829.1
Expected return on scheme assets	**54.2**	54.0	**–**	–	**0.9**	1.1	**55.1**	55.1
Employer contributions	**8.9**	6.7	**–**	–	**3.8**	4.2	**12.7**	10.9
Contributions paid by employees	**0.6**	1.0	**–**	–	**–**	–	**0.6**	1.0
Benefits paid	**(51.6)**	(48.0)	**–**	(0.4)	**(4.3)**	(3.7)	**(55.9)**	(52.1)
Actuarial gains and losses	**121.9**	31.3	**0.6**	0.1	**0.6**	(1.5)	**123.1**	29.9
Divestiture	**–**	–	**–**	–	**(12.4)**	–	**(12.4)**	–
Foreign currency differences	**–**	–	**–**	0.1	**(0.3)**	(2.4)	**(0.3)**	(2.3)
At 31 March	**963.0**	829.0	**1.1**	0.5	**30.4**	42.1	**994.5**	871.6

History of experience gains and losses:

United Kingdom

	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**963.0**	829.0	785.0
Present value of defined benefit obligations	**(951.0)**	(885.0)	(850.0)
Surplus (deficit) in the scheme	**12.0**	(56.0)	(65.0)
Cumulative actuarial gains and losses at the beginning of the year	**3.3**	–	–
Actuarial gains and losses on scheme assets in the year	**121.9**	31.3	–
Actuarial gains and losses on defined benefit obligations in the year	**(58.4)**	(28.0)	–
Cumulative gains and losses at the end of the year	**66.8**	3.3	–

Germany

	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**1.1**	0.5	0.7
Present value of defined benefit obligations	**(35.5)**	(32.8)	(31.4)
Surplus (deficit) in the scheme	**(34.4)**	(32.3)	(30.7)
Cumulative actuarial gains and losses at the beginning of the year	**–**	–	–
Actuarial gains and losses on scheme assets in the year	**0.6**	0.1	–
Actuarial gains and losses on defined benefit obligations in the year	**(2.1)**	(0.1)	–
Cumulative gains and losses at the end of the year	**(1.5)**	–	–

Japan

	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**30.4**	42.1	44.4
Present value of defined benefit obligations	**(30.8)**	(46.0)	(52.5)
Surplus (deficit) in the scheme	**(0.4)**	(3.9)	(8.1)
Cumulative actuarial gains and losses at the beginning of the year	**1.7**	–	–
Actuarial gains and losses on scheme assets in the year	**0.6**	(1.5)	–
Actuarial gains and losses on defined benefit obligations in the year	**(4.3)**	3.2	–
Cumulative gains and losses at the end of the year	**(2.0)**	1.7	–

On transition to IFRS, the Group took the option available under IFRS 1 to apply IAS 19 such that all actuarial gains and losses arising on defined benefit pension and post-retirement schemes before 1 April 2004 were recognised in equity. The cumulative amount of actuarial gains and losses recognised since 1 April 2004 in the Group consolidated statement of recognised income and expense is £63.3m (2005: £5.0m).

27. Share capital and share premium

(i) Authorised

	2006 £m	2005 £m
Ordinary shares of 14p each	**158.8**	158.8
B shares of 114.5p each	**479.8**	479.8
Deferred shares of 0.0005p each	**17.5**	17.5
	656.1	656.1

(ii) Ordinary Shares in issue

	2006 Number	2005 Number	Share capital 2006 £m	Share capital 2005 £m	Share premium 2006 £m	Share premium 2005 £m
At beginning of year	**789,698,747**	788,599,755	**110.6**	110.4	**447.3**	445.8
Shares issued during the year on the exercise of options:						
Executive schemes	**387,200**	1,074,684	**–**	0.2	**0.5**	1.5
Savings-related scheme	**96,228**	24,308	**–**	–	**–**	–
Scrip Dividend scheme	**710,917**	–	**0.1**	–	**–**	–
At end of the year	**790,893,092**	789,698,747	**110.7**	110.6	**447.8**	447.3

All Ordinary Shares in issue have been allocated, called up and fully paid.

As at 31 March 2006, the Company had authority to purchase 78,970,403 of its Ordinary Shares; this authority will expire on 13 October 2006 or at the conclusion of the Annual General Meeting in 2006, whichever is the earlier.

(iii) Convertible bond

US$243.3m 5.25% guaranteed convertible bonds include options to convert into 78,859,870 14p Ordinary Shares.

(iv) Share premium account

The principal elements that make up the Group's share premium account arose as follows:

	Years arising	£m
Conversions to Ordinary Shares of 7% Convertible Redeemable Second Cumulative Preference Shares 1992/99 of £1 each	1989/90 and 1990/91	56.7
A placing of Ordinary Shares linked to the offer for Thames Television	1990/91	78.0
Issue of Ordinary Shares on exercise of subscription rights of warrants originally attached to 7 3/8% bonds due 1992; and	1991/92	67.1
the transfer from other reserves in respect of amounts paid for the warrants exercised	1991/92	10.2
Issue of Ordinary Shares on conversion of Convertible Unsecured Loan Stock to fund the acquisition of Virgin Music Group	1992/93	508.4
Issue of Ordinary Shares on conversion of 5¾% Guaranteed Redeemable Preference Shares 2004 of THORN EMI Capital NV	1993/94	126.0
Share capital reorganisation (including issue of Redeemable Preference B Shares)	1997/98	(501.2)
Other issues of Ordinary Shares		102.6
Balance at 31 March 2006		**447.8**

28. Reconciliation of movement in equity

	Share capital and share premium £m	Capital redemption reserve £m	Foreign exchange reserve £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 April 2004 (restated)	556.2	495.8	–	202.6	(2,133.7)	(879.1)	64.5	(814.6)
Total recognised income and expenditure for the year	–	–	3.8	–	88.9	92.7	(12.9)	79.8
Shares issued								
Holding Company	1.7	–	–	–	–	1.7	–	1.7
Equity dividend	–	–	–	–	(62.9)	(62.9)	(1.3)	(64.2)
Acquisition of minority shareholdings	–	–	–	–	–	–	(1.0)	(1.0)
Purchase of shares by EBT	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Share-based payment	–	–	–	–	2.3	2.3	–	2.3
ESOP reserve movements	–	–	–	1.7	(1.7)	–	–	–
At 31 March 2005 (restated)	557.9	495.8	3.8	204.0	(2,107.1)	(845.6)	49.3	(796.3)
Total recognised income and expenditure for the year	–	–	(20.9)	–	147.3	126.4	4.6	131.0
Shares issued								
Holding Company	0.5	–	–	–	–	0.5	–	0.5
Equity dividend	–	–	–	–	(62.9)	(62.9)	(2.5)	(65.4)
Scrip dividend	0.1	–	–	–	1.7	1.8	–	1.8
Acquisition of minority shareholdings	–	–	–	–	–	–	(2.6)	(2.6)
Purchase of shares by EBT	–	–	–	(0.5)	–	(0.5)	–	(0.5)
Share-based payment	–	–	–	–	4.9	4.9	–	4.9
ESOP reserve movements	–	–	–	2.9	(2.9)	–	–	–
At 31 March 2006	**558.5**	**495.8**	**(17.1)**	**206.4**	**(2,019.0)**	**(775.4)**	**48.8**	**(726.6)**

(i) Capital redemption reserve
The capital redemption reserve represents the reduction in distributable reserves for the amount paid to redeem preference B shares as part of the share capital reorganisation.

(ii) Foreign exchange reserve
The foreign exchange reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries and to record the effect of hedging net investments in foreign operations.

(iii) Other reserves
The balance held in other reserves is the share options reserve containing shares in the Employee Benefit Trust and the fair value of options granted under share-based payment schemes. For details regarding the Group's share-based payment charge, see Note 29. It also contains a special reserve which reflects the share premium account reduction of July 1988 and unrealised profits on disposals of investments.

The EMI Group General Employee Benefit Trust (EBT) was established to hedge the future obligations of the Group in respect of shares awarded under the Senior Executive Incentive Plans. The Trustee of the EBT, EMI Group EBT (Guernsey) Limited, purchases the Company's Ordinary Shares in the market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group. The EBT has since December 1998 waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares. The EBT's waiver may be revoked or varied at any time.

EBT

	2006		2005	
	Shares held in trust No.	**Cost £m**	Shares held in trust No.	Cost £m
Beginning of the year	**3,840,515**	**16.6**	4,082,771	18.0
Shares purchased	**226,513**	**0.5**	142,721	0.3
Shares vested	**(675,106)**	**(2.9)**	(384,977)	(1.7)
End of the year	**3,391,922**	**14.2**	3,840,515	16.6

At 31 March 2006, the outstanding loan by the Company to the EBT to finance the purchase of Ordinary Shares was £14.6m (2005: £16.9m). The market value at 31 March 2006 of the Ordinary Shares held in the EBT, which are listed in the UK, was £8.6m (2005: £9.1m). All shares held in the EBT are either under option to employees or conditionally gifted to them.

29. Share-based payment

Equity-settled share option schemes

Subscription options
Options granted under the 1995 Executive Share Option Scheme ('ESOS') are normally exercisable no earlier than three years and no later than ten years following the date of grant and are subject to the achievement of performance requirements that must be met before the options normally become exercisable. Options granted under the 2003 Executive Share Incentive Plan ('ESIP'), if subject to a pre-vesting performance requirement, are normally exercisable between three and ten years following the date of grant but only if, and to the extent that, the pre-vesting target has been satisfied. Options granted with pre-grant conditions normally become exercisable in no fewer than four annual tranches commencing no earlier than the second anniversary of the grant date.There are no cash settlement alternatives for the schemes.

Transfer options
Transfer options have been granted to senior executives under the ESOS and the ESIP with the exercise price of the options being the average of the market price of the Company's Ordinary Shares in a period of three or five days prior to the date of grant. The proportion of each option that vests will be determined by the Group's average compound underlying diluted earnings per share growth over RPI from the base year to the end year of the performance period. The option will lapse if this target increase is not achieved within the three years from the date of grant. There are no cash settlement alternatives to receiving shares on the exercise of the option.

A detailed description of the performance conditions attached to the options is provided in the Remuneration report.

Employee Plan
Options granted under the 1994 and 2004 Savings-Related Share Option Schemes ('SRSOS') are normally exercisable for a six month period following completion of savings to either a three year or a five year savings contract. There are no performance criteria attached to these awards.

Details of the share options outstanding during the year are as follows:

				Subscription Options		Transfer Options
	Executive Share Option Schemes Number	Weighted average exercise prices £	1994 and 2004 Savings-Related Share Option Schemes Number	Weigted average exercise prices £	Executive Share Option Schemes Number	Weigted average exercise prices £
Outstanding at 1 April 2004	34,694,566	2.35	3,489,600	1.16	22,972,678	4.00
Granted	6,113,038	2.34	513,436	1.78	1,782,368	2.24
Exercised	(1,074,684)	1.46	(24,308)	0.96	–	–
Lapsed	(3,154,251)	2.51	(498,684)	1.87	(1,612,178)	4.89
Outstanding at 31 March 2005	36,578,669[1]	2.53	3,480,044[1]	1.15	23,142,868[1]	3.80
Granted	5,149,072	2.48	294,136	1.99	253,331	2.56
Exercised	(387,200)	1.23	(96,228)	1.51	–	–
Lapsed	(3,773,091)	3.43	(328,394)	1.61	(2,303,725)	3.53
Outstanding at 31 March 2006	**37,567,450***	**5.56**	**3,349,558**	**1.17**	**21,092,474****	**3.81**

* Of which options over 14,519,893 shares were granted under the 2003 Executive Share Incentive Plan.
** Of which options over 5,017,822 shares were granted under the 2003 Executive Share Incentive Plan.

Exercisable at the end of 31 March 2006	**1,445,545**	**3.45**	**10,913**	**4.28**	**–**	**–**
Exercisable at the end of 31 March 2005	1,168,080	6.73	5,053	3.83	–	–
Final exercise date	**20 November 2015**		**28 February 2011**		**16 June 2015**	

[1]Included within the following schemes are options that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002:
ESOS – subscription options over 22,142,557 shares (2005: 22,057,936 shares)
SRSOS – subscription options over 71,572 shares (2005: 178,476 shares)
ESOS – transfer options over 16,074,652 shares (2005: 18,378,377 shares)

These options have not been subsequently modified and, therefore, do not need to be accounted for in accordance with IFRS 2. The exemptions from IFRS 1 were in respect of employees who left before 1 January 2005.

The weighted average share price at the date of exercise for the following schemes are:
ESOS – subscription options £2.49 (2005: £2.28)
SRSOS – subscription options £2.43 (2005: £2.22)
ESOS – transfer options £nil (2005: £nil)

For the share options outstanding as at 31 March 2006, the weighted average remaining contractual life is 6.4 years (2005: 7.5 years).

29. Share-based payment (continued)

The actual expense recognised for equity settled share-based payment in respect of employee services received during the year to 31 March 2006 is £4.9m (2005: £2.3m).

The weighted average fair value of share options granted during the year was 85.6p (2005: 88.7p). The range of exercise prices for options outstanding at the end of the year was £7.35 – £0.96 (2005: £7.47– £0.96). The weighted average fair value of options granted during the year, the exercise of which is subject to a performance condition, was 120.5p (2005: 95.9p) while the weighted average fair value of options granted under the SRSOS during the year was 89.5p (2005: 87.2p).

The fair value of equity-settled share options granted is estimated as at the date of grant using a proprietary binomial model taking into account the terms and conditions upon which the options were granted. The services received and the liability to pay for those services are recognised over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date with any changes in fair value being recognised in the income statement.

For awards with market conditions attached, the modelling of the impact of this TSR condition is performed using a Monte Carlo model based on the history of weekly returns of the constituents of the FTSE 250 index.

The following table lists the variables used in the model for the years ending 31 March 2006 and 31 March 2005:

			2006
	Share options	**Performance shares**	**SRSOS**
Weighted average share price at grant	**254.3p**	**254.3p**	**249.0p**
Weighted average share exercise price	**255.7p**	**n/a**	**198.0p**
Weighted average expected volatility	**39%**	**39%**	**40%**
Weighted average expected life (years)	**4.8**	**3.5**	**4.3**
Risk free rate	**Range used is between 4.1% to 4.4%**		
Weighted average expected dividend yield	**3.2%**	**3.2%**	**3.2%**

			2005
	Share options	Performance shares	SRSOS
Weighted average share price at grant	238.6p	237.4p	225.0p
Weighted average share exercise price	231.7p	n/a	178.0p
Weighted average expected volatility	48%	48%	44%
Weighted average expected life (years)	4.3	3.3	4.4
Risk free rate	Range used is between 3.4% to 5.2%		
Weighted average expected dividend yield	3.4%	3.4%	3.6%

Expected volatility is the measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share. For each grant the assumed volatility has been calculated over a period prior to grant commensurate with the expected life of the award. Adjustments have been made for historic events that are unlikely to recur in the future.

30. Financial commitments

The Group has commitments, which are largely performance-related, to pay advances to artists, repertoire owners and songwriters amounting to £496.7m at 31 March 2006 (2005: £388.4m). There are no capital commitments at the year end (2005: £nil).

Pursuant to a joint venture agreement with Mr Norman Cheng ('Project Typhoon') the Group has agreed to establish and fund new businesses in the People's Republic of China, Hong Kong and South Korea. The Group has an option to buy and Mr Cheng has an option to sell his equity interest in the joint venture in 2009 at a price determined by reference to earnings over a three-year period. Such a price can be limited to not more than $100m.

Annual commitments under operating leases at 31 March were as follows:

	2006 £m	2005 £m
Land and buildings:		
In the first year	**24.3**	24.6
In the second to fifth years inclusive	**74.7**	63.8
After the fifth year	**108.8**	110.7
Total	**207.8**	199.1
Plant, equipment and vehicles:		
In the first year	**3.3**	3.0
In the second to fifth years inclusive	**3.2**	6.2
After the fifth year	**–**	–
Total	**6.5**	9.2

31. Contingent liabilities

Save as described below, there are no legal or arbitration proceedings involving members of the EMI Group which, so far as the Company is aware, may have a material effect on the financial position of the Group:

(i) The Group, along with other companies in the music and broadcast industries, has received requests from the New York State Attorney General for information regarding practices in connection with the promotion of records on New York state radio stations. The Group has co-operated fully with this enquiry. EMI has a long-standing, strict, written policy prohibiting unlawful radio promotion practices, and that policy has been reaffirmed internally. Certain of the other companies have reached resolution with the Attorney General requiring the adoption of certain radio promotion practices. The Group has already adopted such practices and is currently engaged in discussions with a view towards a resolution with the Attorney General. EMI is not currently aware of any reason for believing that there will be a material financial impact on the Group;

(ii) The Group has also, along with other companies in the music industry, received requests from the New York State Attorney General and the United States Department of Justice for information regarding conditions and pricing of the online sale of music. The Group is co-operating fully with these enquiries. Arising out of these enquires, certain Group companies have been named, along with other companies in the music industry, in 14 separate lawsuits filed in various courts throughout the US. The cases are styled as class action suits on behalf of consumers, and the plaintiffs assert various federal and state law claims relating to allegations of unfair pricing and anti-competitive practices in connection with the online sale of music. Whilst the enquiries are at an early stage and the lawsuits have only recently been filed, on the basis of information presently available, EMI is not aware of any reason for believing that there will be a material financial impact on the Group;

(iii) Certain Group companies are defendants in legal proceedings brought in the New York and the English courts in connection with claims by Apple Corp., the entity that represents the interests of The Beatles, regarding alleged underpayment of royalties in respect of sales of Beatles' recordings. The cases are being vigorously defended and the Group believes that the claims are largely without merit.

The Group had provided the following guarantees at 31 March 2006:

(i) Following the demerger of the Thorn rental business in 1996, Group companies remained contingently liable in respect of guarantees given with regard to certain leases on properties occupied or previously occupied by the Thorn business though, as part of the demerger arrangements, Thorn Limited (formerly called Thorn plc) agreed to indemnify the Group against such liabilities. One of the Group companies so liable was sold to HMV Group as part of the 1998 sale and the Company agreed to indemnify HMV Group plc against any such liabilities. The current or former Thorn properties in respect of which the Group remained contingently liable number approximately 47 (2005:50) and the annual rental payments in respect of such properties total approximately £3.6m (2005: £3.6m). Following the insolvency of Thorn High Street Properties Limited and certain other companies, claims have arisen against the Group in respect of many of the guaranteed leases. Such claims have been met by Thorn Limited pursuant to its agreement to indemnify the Group;

(ii) As part of the sale in 1998 to HMV Group plc (HMV Group) of the companies and assets comprising HMV, the Group entered into an indemnity deed with HMV Group relating, among other things, to guarantees given by the Group in respect of property leases of which approximately 62 (2005: 75) remain outstanding. Under the deed, HMV Group agreed to indemnify the Group against any payments made under those property leases and certain other guarantees and indemnities. The aggregate annual rental payments under guaranteed leases are approximately £18.6m (2005: £20.7m), although they are subject to adjustment both up and down under certain circumstances. The guaranteed leases have terms which expire in 9 to 20 years (2005: 10 to 21 years) and 19 of the leases expire in years beyond 2016. The indemnity deed remains in force in respect of lease guarantees, and HMV Group has secured those obligations pursuant to a security deed, the Company's rights under which rank second behind banks which provide senior credit facilities to HMV Group;

(iii) Letters of credit and third party guarantees totalling £7.0m (2005: £8.9m) have been incurred by Group companies.

32. Related party transactions

(i) Associated undertakings

	2006 £m	2005 £m
Sales to associates for the year ended 31 March	**–**	–
Purchases from associates for the year ended 31 March	**–**	–
Amounts owed by associates as at 31 March	**1.4**	1.4
Amounts owed to associates as at 31 March	**(0.6)**	–

(ii) Compensation to key management personnel (including Directors)

See Note 4 for disclosures in respect of compensation to key management personnel.

(iii) Defined benefit pension plans

As per Note 26, the Group operates a number of pension schemes throughout the world. The main scheme, which covers employees in the UK, is the EMI Group Pension Fund (the UK Fund). The Group also operates significant defined benefit schemes in Germany and Japan. With the exception of these schemes, the other defined benefit schemes operated on behalf of the Group are not material. Further details are provided in Note 26.

33. Transition to IFRS

For all periods up to and including the year ended 31 March 2005, the Group prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 March 2006, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in the Accounting policies section of these financial statements. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 April 2004, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 *First-time Adoption of International Financial Reporting Standards* for the first time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 April 2004 and its previously published UK GAAP financial statements for the year ended 31 March 2005.

The Group has classified its adjustments to IFRS under the following headings:
(i) Dividends;
(ii) Acquisitions;
(iii) Employee benefits;
(iv) Property and leases;
(v) Convertible bond;
(vi) Other financial instruments;
(vii) Tax; and
(viii) Reclassifications.

Exemptions applied
IFRS 1 *First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the general requirement to apply IFRS as effective for 31 March 2006 year ends retrospectively. Details of the exemptions that the Group has taken under this allowance are included in the Accounting policies section of these financial statements under the heading 'IFRS 1 *First-time Adoption of IFRS*'.

Group reconciliation of profit (loss) after taxation for the year ended 31 March 2005

	UK GAAP £m	Acquisitions £m (ii)	Employee benefits £m (iii)	Property and leases £m (iv)	Convertible bond £m (v)	Other financial instruments £m (vi)	Tax £m (vii)	Reclassifi-cations £m (viii)	IFRS £m
Revenue	1,942.8	–	–	–	–	–	–	58.4	2,001.2
Group profit from operations before exceptional items and amortisation	232.9	–	(7.5)	(0.3)	–	–	–	–	225.1
Exceptional items and amortisation	(50.7)	2.7	–	(18.5)	–	0.2	–	0.8	(65.5)
Share of profit from associates	0.9	0.2	–	–	–	–	–	–	1.1
Profit from operations*	183.1	2.9	(7.5)	(18.8)	–	0.2	–	0.8	160.7
Non-operating exceptional items	0.8	–	–	–	–	–	–	(0.8)	–
Profit before finance charges	183.9	2.9	(7.5)	(18.8)	–	0.2	–	–	160.7
Finance charges:									
Finance income	2.8	–	55.8	–	31.2	1.7	–	–	91.5
Finance costs	(94.9)	–	(46.3)	(0.5)	(2.0)	(9.7)	–	–	(153.4)
Total net finance charges	(92.1)	–	9.5	(0.5)	29.2	(8.0)	–	–	(61.9)
Profit (loss) before taxation	91.8	2.9	2.0	(19.3)	29.2	(7.8)	–	–	98.8
Taxation	(31.2)	–	–	–	–	–	7.3	–	(23.9)
Profit (loss) after taxation	60.6	2.9	2.0	(19.3)	29.2	(7.8)	7.3	–	74.9

* The following items are included within profit from operations									
Cost of sales	(1,225.3)	–	(0.1)	–	–	–	–	(22.2)	(1,247.6)
Distribution costs	–	–	–	–	–	–	–	(70.3)	(70.3)
Gross profit	717.5	–	(0.1)	–	–	–	–	(34.1)	683.3
Distribution costs	(69.6)	–	–	–	–	–	–	69.6	–
Administration expenses	(504.0)	2.7	(7.4)	(18.8)	–	–	–	–	(527.5)
Other operating income, net	38.3	–	–	–	–	0.2	–	(34.7)	3.8

33. Transition to IFRS (continued)

Group reconciliation of equity as at 1 April 2004

	UK GAAP £m	Dividends £m (i)	Acquisitions £m (ii)	Employee benefits £m (iii)	Property and leases £m (iv)	Convertible bond £m (v)	Other financial instruments £m (vi)	Tax £m (vii)	Reclassifi-cations £m (viii)	IFRS £m
Non-current assets										
Music copyrights and intangibles	448.7	–	1.8	–	–	–	–	–	–	450.5
Goodwill	31.8	–	(0.7)	–	–	–	–	–	–	31.1
Property, plant & equipment	202.7	–	–	–	17.9	–	–	–	–	220.6
Investment in associates	5.4	–	0.1	–	–	–	–	–	–	5.5
Other investments	13.9	–	–	–	–	–	–	–	1.4	15.3
Deferred taxation	19.2	–	–	–	–	–	–	4.9	–	24.1
Financial derivatives	–	–	–	–	–	–	33.3	–	–	33.3
Other receivables	–	–	–	–	–	–	–	–	7.8	7.8
	721.7	–	1.2	–	17.9	–	33.3	4.9	9.2	788.2
Current assets										
Inventories	28.1	–	–	–	–	–	–	–	–	28.1
Advances	328.3	–	–	–	–	–	–	–	–	328.3
Trade receivables	345.3	–	–	–	–	–	–	–	–	345.3
Corporation tax recoverable	13.4	–	–	–	–	–	–	–	–	13.4
Other receivables	104.7	–	–	(0.3)	–	–	0.4	–	(9.2)	95.6
Investments: liquid funds	1.8	–	–	–	–	–	–	–	–	1.8
Cash and cash equivalents	343.4	–	–	–	–	–	–	–	–	343.4
	1,165.0	–	–	(0.3)	–	–	0.4	–	(9.2)	1,155.9
Total assets	1,886.7	–	1.2	(0.3)	17.9	–	33.7	4.9	–	1,944.1
Non-current liabilities										
Borrowings	(1,058.1)	–	–	–	(16.6)	18.6	(43.4)	–	–	(1,099.5)
Other payables	(12.9)	–	–	–	–	–	–	–	–	(12.9)
Deferred taxation	(5.7)	–	–	–	–	–	–	1.5	–	(4.2)
Pension provisions	(31.3)	–	–	(80.5)	–	–	–	–	–	(111.8)
Financial derivatives	–	–	–	–	–	(116.3)	–	–	–	(116.3)
	(1,108.0)	–	–	(80.5)	(16.6)	(97.7)	(43.4)	1.5	–	(1,344.7)
Current liabilities										
Borrowings	(35.8)	–	–	–	(1.3)	–	–	–	–	(37.1)
Other payables	(1,194.1)	62.8	–	(12.4)	(0.4)	–	32.4	–	–	(1,111.7)
Corporation tax liability	(159.4)	–	–	–	–	–	–	–	–	(159.4)
Other provisions for liabilities and charges	(105.8)	–	–	–	–	–	–	–	–	(105.8)
	(1,495.1)	62.8	–	(12.4)	(1.7)	–	32.4	–	–	(1,414.0)
Total liabilities	(2,603.1)	62.8	–	(92.9)	(18.3)	(97.7)	(11.0)	1.5	–	(2,758.7)
Net liabilities	(716.4)	62.8	1.2	(93.2)	(0.4)	(97.7)	22.7	6.4	–	(814.6)
Equity										
Capital and reserves										
Share capital	110.4	–	–	–	–	–	–	–	–	110.4
Share premium account	445.8	–	–	–	–	–	–	–	–	445.8
Capital redemption reserve	495.8	–	–	–	–	–	–	–	–	495.8
Foreign exchange reserve	–	–	–	–	–	–	–	–	–	–
Other reserves	255.7	–	–	0.6	(18.1)	–	–	–	(35.6)	202.6
Retained earnings	(2,091.7)	62.8	1.2	(88.5)	17.7	(97.7)	22.7	4.2	35.6	(2,133.7)
	(784.0)	62.8	1.2	(87.9)	(0.4)	(97.7)	22.7	4.2	–	(879.1)
Minority interests (equity)	67.6	–	–	(5.3)	–	–	–	2.2	–	64.5
Total equity	(716.4)	62.8	1.2	(93.2)	(0.4)	(97.7)	22.7	6.4	–	(814.6)

33. Transition to IFRS (continued)

Group reconciliation of equity as at 31 March 2005

	UK GAAP £m	Dividends £m (i)	Acquisitions £m (ii)	Employee benefits £m (iii)	Property and leases £m (iv)	Convertible bond £m (v)	Other financial instruments £m (vi)	Tax £m (vii)	Reclassifi-cations £m (viii)	IFRS £m
Non-current assets										
Music copyrights and intangibles	402.8	–	1.8	–	–	–	–	–	–	404.6
Goodwill	33.2	–	1.9	–	–	–	–	–	–	35.1
Property, plant & equipment	183.1	–	–	–	16.9	–	–	–	–	200.0
Investment in associates	8.1	–	0.4	–	–	–	–	–	–	8.5
Other investments	14.8	–	–	–	–	–	0.1	–	2.7	17.6
Deferred taxation	17.7	–	–	–	–	–	–	12.2	–	29.9
Financial derivatives	–	–	–	–	–	–	39.0	–	–	39.0
Other receivables	–	–	–	–	–	–	–	–	6.6	6.6
	659.7	–	4.1	–	16.9	–	39.1	12.2	9.3	741.3
Current assets										
Inventories	28.2	–	–	–	–	–	–	–	–	28.2
Advances	336.0	–	–	–	–	–	–	–	–	336.0
Trade receivables	300.1	–	–	–	–	–	–	–	–	300.1
Corporation tax recoverable	21.2	–	–	–	–	–	–	–	–	21.2
Other receivables	125.3	–	–	(6.9)	–	–	0.6	–	(9.3)	109.7
Investments: liquid funds	1.6	–	–	–	–	–	–	–	–	1.6
Cash and cash equivalents	240.9	–	–	–	–	–	–	–	–	240.9
	1,053.3	–	–	(6.9)	–	–	0.6	–	(9.3)	1,037.7
Total assets	1,713.0	–	4.1	(6.9)	16.9	–	39.7	12.2	–	1,779.0
Non-current liabilities										
Borrowings	(1,042.0)	–	–	–	(15.9)	16.1	(26.9)	–	–	(1,068.7)
Other payables	(10.2)	–	–	–	–	–	–	–	–	(10.2)
Deferred taxation	(9.7)	–	–	–	–	–	–	1.5	–	(8.2)
Pension provisions	(31.9)	–	–	(68.2)	–	–	–	–	–	(100.1)
Financial derivatives	–	–	–	–	–	(83.2)	(9.6)	–	–	(92.8)
	(1,093.8)	–	–	(68.2)	(15.9)	(67.1)	(36.5)	1.5	–	(1,280.0)
Current liabilities										
Borrowings	(30.0)	–	–	–	(1.3)	–	–	–	–	(31.3)
Other payables	(1,132.4)	63.1	–	(11.4)	(0.8)	–	21.4	–	–	(1,060.1)
Corporation tax liability	(160.3)	–	–	–	–	–	–	–	–	(160.3)
Other provisions for liabilities and charges	(43.6)	–	–	–	–	–	–	–	–	(43.6)
	(1,366.3)	63.1	–	(11.4)	(2.1)	–	21.4	–	–	(1,295.3)
Total liabilities	(2,460.1)	63.1	–	(79.6)	(18.0)	(67.1)	(15.1)	1.5	–	(2,575.3)
Net liabilities	(747.1)	63.1	4.1	(86.5)	(1.1)	(67.1)	24.6	13.7	–	(796.3)
Equity										
Capital and reserves										
Share capital	110.6	–	–	–	–	–	–	–	–	110.6
Share premium account	447.3	–	–	–	–	–	–	–	–	447.3
Capital redemption reserve	495.8	–	–	–	–	–	–	–	–	495.8
Foreign exchange reserve	–	–	–	–	–	–	–	–	3.8	3.8
Other reserves	252.2	–	–	0.6	(17.4)	–	–	–	(31.4)	204.0
Retained earnings	(2,101.3)	63.1	4.1	(82.9)	16.3	(67.1)	24.6	8.5	27.6	(2,107.1)
	(795.4)	63.1	4.1	(82.3)	(1.1)	(67.1)	24.6	8.5	–	(845.6)
Minority interests (equity)	48.3	–	–	(4.2)	–	–	–	5.2	–	49.3
Total equity	(747.1)	63.1	4.1	(86.5)	(1.1)	(67.1)	24.6	13.7	–	(796.3)

Impact of IFRS on the consolidated financial statements

Below are explanations for each of the UK GAAP to IFRS accounting policy changes that give rise to the principal differences to net assets or profits on adoption of IFRS:

(i) Dividends

Under IAS 10 *Events After the Balance Sheet Date*, dividends proposed or declared cannot be recognised until they are authorised and no longer at the discretion of the Group. The effect of this on the Group is that the final dividend relating to any particular financial year cannot be accounted for until the following financial year. The impact of this change on the Balance Sheet and Equity is £62.8m as at 1 April 2004 and £63.1m as at 31 March 2005.

(ii) Acquisitions

The Group has taken the exemption granted by IFRS 1 and applied IFRS 3 for acquisitions after 31 March 2003. The key effect of the adoption of IFRS 3 upon the Group's accounting has been the Group ceasing annual goodwill amortisation and instead testing for impairment annually. The impact of this change in accounting policy is to reverse goodwill amortisation and so increase profit for the year ended 31 March 2005 by £2.9m.

33. Transition to IFRS (continued)

(iii) Employee benefits, including share-based payments
Under UK GAAP, pension costs, which were determined in accordance with SSAP 24 *Accounting for Pension Costs*, were charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the Group. Valuation surpluses or deficits were amortised over the expected remaining working life within the Group of the relevant employees.

The main impact of IAS 19 *Employee Benefits* is to bring the surpluses or deficits of the Group's defined benefit pension schemes onto the balance sheet. In addition, certain employee benefits earned but not yet paid or used need to be accrued on the balance sheet. The impact of this change in accounting policy on the income statement for the year ended 31 March 2005 is an additional charge to profit from operations of £(7.5)m and a net credit to finance charges of £9.5m. In addition, this has resulted in the inclusion on the balance sheet of a liability of £93.2m at 1 April 2004 and £86.5m at 31 March 2005.

IFRS 2 *Share-based Payment* requires an expense to be recognised where the Group buys services in exchange for shares or rights over shares ('equity-settled transactions'). The main impact of IFRS 2 on the Group is the expensing of employees' and Directors' share options and other share-based incentives at fair value over the vesting period of the award. The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested as at 1 January 2005. The impact of this change in accounting policy is to increase profit for the year ended 31 March 2005 by £0.1m.

(iv) Property and leases
Under IAS 16, the impairment on previously revalued property charged directly to the revaluation reserve under UK GAAP must now be expensed through the income statement. The impact of this is to decrease profit for the year ended 31 March 2005 by £18.5m.

Following the adoption of IAS 17 *Leases*, one lease entered into by the Group has been reclassified from an operating lease to a finance lease. In addition, a lease incentive is being released over the full lease term instead of the shorter period over which it was being released under UK GAAP. The impact of these changes in accounting policy is to decrease profit for the year ended 31 March 2005 by £0.8m, to include property on the balance sheet of £17.9m at 1 April 2004 and £16.9m at 31 March 2005, and to include a finance lease liability on the balance sheet of £17.9m at 1 April 2004 and £17.2m at 31 March 2005.

(v) Convertible bond
IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* have significantly changed the accounting for borrowings, finance charges and other financial instruments. For the Group's convertible bond, amounts received from the issue have been split between debt and derivative components. The difference between the debt portion of the convertible and the principal is amortised as a finance charge over the life of the convertible. The impact of this change is to decrease profit for 2005 by £2.0m and reduce borrowings by £16.1m at 31 March 2005 (1 April 2004: £18.6m).

In addition, a derivative must now be recognised on the balance sheet at fair value for the eventual conversion of the debt into a fixed number of EMI Group plc Ordinary Shares (31 March 2004: £116.3m, 31 March 2005: £83.2m). Any movements in the fair value, excluding the impact of foreign exchange movements, are reported as finance charges (2005: £31.2m income).

(vi) Other financial instruments
Under IAS 32 and IAS 39, the principal accounting changes relate to the following financial instruments:
- Interest rate swaps: the Group has adopted hedge accounting in respect of 'fixed to floating' interest rate swaps held as hedges against fixed interest rate borrowings. The interest rate swaps are revalued to fair value with a corresponding adjustment to borrowings. A credit to finance charges of £1.7m for the year ended 31 March 2005 has been recorded due to a small amount of hedge ineffectiveness;
- Embedded derivative: on or after 15 October 2008, the Group may redeem all or part of the €425m 8.625% senior notes at redemption prices (plus accrued interest) fixed for the 12-month period starting at the date shown above. A financial derivative asset must be recognised on the balance sheet at the fair value of this embedded call feature (1 April 2004: £22.3m, 31 March 2005: £22.1m). Any movements in the fair value are reported as finance charges (2005: £0.2m charge);
- Swap unwind: in 2003, the Group unwound a swap position resulting in a gain of £55.6m, which was deferred and is being released over the scheduled remaining life of the borrowing. Under IFRS, this deferred gain has been reclassified from creditors to borrowings, resulting in an opening balance adjustment of £32.4m;
- Foreign exchange on borrowings: the Group's High Yield Euro bond cannot be classified as a net investment hedge under IFRS and hence the exchange loss on this borrowing of £9.5m for the year ended 31 March 2005 can no longer be recorded directly in reserves but, instead, is booked as a finance charge;
- Listed investments: those which have been designated as fair value through profit and loss have been revalued to fair value, with the increase in value of £0.2m for the year ended 31 March 2005 being booked to profit from operations.

(vii) Tax
Due to the introduction of IAS 12 *Income Taxes* and the changes in accounting policies from the introduction of IFRS, corresponding adjustments have occurred in the calculation of income taxes. The impact on tax of these changes in accounting policies is to increase profit after taxation for the year ended 31 March 2005 by £7.3m, £7.6m of which relates to the tax credit on the impairment of property.

No tax has been provided in respect of the gain on the convertible bond derivative of £31.2m, as tax legislation is not yet finalised.

(viii) Reclassifications
Under IFRS, the classification of Current Assets is defined as being the operating cycle of the company. As such, the Group has reclassified certain assets between current and non-current on the balance sheet. This includes a number of investments which have been classified, under the provisions of IAS 39, as either fair value though profit and loss, held-to-maturity or available-for-sale. Those investments classified as held-to-maturity or available-for-sale are deemed non-current, whereas those classified as fair value through profit and loss are deemed current. A number of classifications have also been made between reserves in order to show the foreign exchange reserve separately and to absorb the UK GAAP revaluation reserve, which is no longer required under IFRS, into retained earnings.

The expenses that the Group incurs and the share of the income that the Group earns from the sale of goods by the jointly controlled operations are included in the income statement. Under UK GAAP, the Group's share of profits from joint marketing arrangements was included within other operating income. The impact of this reclassification is to increase revenue by £58.4m, increase cost of sales by £(22.2)m, increase distribution costs by £(0.7)m and reduce other operating income by £(35.5)m.

Company auditor's report

Independent auditor's report to the members of EMI Group plc
We have audited the parent company financial statements of EMI Group plc for the year ended 31 March 2006 which comprises the Company balance sheet, Company accounting policies and the related notes 34 to 44. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of EMI Group plc for the year ended 31 March 2006.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Auditors' 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 auditors
The Directors are responsible for preparing the Annual Report, the Remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view, the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and that the information given in the parent company Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the unaudited part of the Remuneration report, the Chairman's statement and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company 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 parent company financial statements and the part of the Remuneration report to be audited 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 parent company financial statements and the part of the Remuneration report to be audited.

Opinion
In our opinion:
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
- the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
London
22 May 2006

Company accounting policies

Basis of preparation
As used in the financial statements and related notes, the term 'Company' refers to EMI Group plc. The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK GAAP.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below. By virtue of Section 230 of the Companies Act, the results for the years ended 31 March 2006 and 31 March 2005 represent continuing operations.

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year.

Restatement due to changes in accounting policy
The 2005 accounts previously reported have been restated for the adoption of FRS 20 *Share-based Payment*, FRS 21 *Events After Balance Sheet Date*, FRS 25 *Financial Instrurments – Disclosure and Presentation* and FRS 26 *Financial Instruments – Measurement*.

Foreign currencies
Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of profit for the financial year.

Turnover
Turnover represents the invoiced value or contracted amount of goods and services supplied by the Company. Turnover is stated net of actual product returns and excludes value added tax and similar sales-related taxes. Provision is also made in respect of expected future returns of goods and services supplied by the Company and its subsidiaries prior to the balance sheet date.

Retirement benefits
Retirement benefits are accounted for under FRS 17 *Retirement Benefits*. The Company operates both defined benefit and defined contribution schemes for its employees. The Company is unable to identify its share of the underlying assets and liabilities of its defined benefit schemes and so, in accordance with FRS 17, the Company accounts for them as defined contribution schemes.

Tangible fixed assets
Assets are held at depreciated historical cost.

Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost, less the estimated residual value of the relevant assets, by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence. The annual rates used are:

Freehold buildings and long-term leasehold property	2%
Short-term leasehold property	Period of lease
Plant, equipment and vehicles	10 – 33⅓%

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.

Taxation
The Company has undertaken to discharge the liability to corporation tax of the majority of its wholly owned UK subsidiaries. Their UK tax liabilities are, therefore, dealt with in the accounts of the Company.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transations or events have occurred at the date that will result in an obligation to pay more tax, or right to pay less, or to receive more tax with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets.
- Provision is made for gains which have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a commitment to dispose of the replacement assets. Provision is made for deferred tax that would arise from remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Financial instruments
As described further in Note 37, financial instruments for the year ended 31 March 2006 are reported in accordance with FRS 26 *Financial Instruments: Measurement*. The accounting policies for both years are set out below:

The Company uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account.

This policy has been applied retrospectively to the prior year financial statements.

Share-based payments
The share option programme allows certain Company employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and the expense is spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted.

The amount recognised as an expense reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. No expense is recognised for awards that do not ultimately vest, except for awards where the vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The Company has applied the requirements of FRS *20 Share-based Payment* which is effective for accounting periods beginning on or after 1 January 2005 and, as such, has been applied to these accounts. Under FRS20, the cost of equity-settled transactions with employees is recognised in the profit and loss account over their vesting period by reference to the fair value of the date at which they were granted. The charge is only calculated on awards made after 7 November 2002 as a result of the transition option applied by the Company.

Events after the balance sheet date
FRS 21 is effective for accounting periods beginning on or after 1 January 2005 and as such has been applied for the first time to these accounts. Under FRS 21, the charge and liability for the final proposed dividend are not recognised in accounts until approved by the shareholders at the AGM. Previously, the dividend was recognised when proposed by the Directors.

Company balance sheet
at 31 March 2006

	Notes	2006 £m	2005 Restated £m
Fixed assets			
Tangible fixed assets	34	22.0	23.3
Investments: subsidiary undertakings	35	2,256.9	2,225.0
Investments: associated undertakings	35	0.6	0.6
Other fixed asset investments	35	0.2	0.3
		2,279.7	2,249.2
Current assets			
Debtors: amounts falling due within one year	36	2,523.8	2,507.6
Cash at bank and in hand and cash deposits		2.3	1.3
		2,526.1	2,508.9
Creditors: amounts falling due within one year			
Other creditors	38	(153.7)	(168.1)
		(153.7)	(168.1)
Net current assets		2,372.4	2,340.8
Total assets less current liabilities		4,652.1	4,590.0
Creditors: amounts falling due after more than one year			
Borrowings	37	(621.6)	(621.8)
Other creditors	39	(817.2)	(792.6)
		(1,438.8)	(1,414.4)
Provisions for liabilities and charges	40	(2.1)	(2.3)
Net assets		3,211.2	3,173.3
Capital and reserves			
Called-up share capital	41	110.7	110.6
Share premium account	41	447.8	447.3
Capital redemption reserve	42	495.8	495.8
Other reserves	42	403.1	400.7
Profit and loss reserve (including goodwill previously written off)	42	1,753.8	1,718.9
Equity shareholders' funds		3,211.2	3,173.3

Eric Nicoli
Martin Stewart
Directors
22 May 2006

Notes to the Company financial statements
for the year ended 31 March 2006

34. Tangible fixed assets

	Freehold property £m	Leasehold property £m	Plant, equipment and vehicles £m	Total £m
Cost at 31 March 2005	4.4	24.0	2.5	30.9
Additions	–	0.4	–	0.4
Disposals and transfers	–	–	–	–
Cost at 31 March 2006	**4.4**	**24.4**	**2.5**	**31.3**
Depreciation at 31 March 2005	0.8	4.9	1.9	7.6
Charge for the year	0.1	1.6	–	1.7
Disposals and transfers	–	–	–	–
Depreciation at 31 March 2006	**0.9**	**6.5**	**1.9**	**9.3**
Net book values at 31 March 2006	**3.5**	**17.9**	**0.6**	**22.0**
31 March 2005	3.6	19.1	0.6	23.3

35. Fixed asset investments

	2006 £m	2005 £m
Investments comprise:		
Subsidiary undertakings (i)	**2,256.9**	2,225.0
Associated undertakings (ii)	**0.6**	0.6
Other fixed asset investments (iii)	**0.2**	0.3
	2,257.7	2,225.9
Comprising:		
Unlisted investments	**2,257.7**	2,225.9
	2,257.7	2,225.9

(i) Investments in subsidiary undertakings

	Cost of shares £m	Loans £m	Provisions £m	Net book value £m
At 31 March 2005	2,027.0	318.5	(120.5)	2,225.0
Additions	–	32.2	–	32.2
Disposals, transfers and other movements	–	(0.3)	–	(0.3)
At 31 March 2006	**2,027.0**	**350.4**	**(120.5)**	**2,256.9**

The principal subsidiary undertakings set out below are those which were held by the Company at 31 March 2006 and, in the opinion of the Directors, significantly affected the Group's results and net assets during the year. Except where otherwise stated, the country of incorporation is England, the operations are within the United Kingdom, the shares are in equity share capital and the businesses are wholly owned.

EMI Music and EMI Music Publishing
Capitol-EMI Music, Inc. (USA)
Capitol Records, Inc. (USA)
Chrysalis Records Ltd
EMI Music Germany GmbH & Co. KG
EMI Entertainment World, Inc.
EMI Music Australia Pty Ltd
EMI Music France S.A.
EMI Music Italy SpA
EMI Music Publishing Ltd
EMI Records Ltd
Jobete Music Co., Inc. (USA)
Priority Records, LLC (USA)
Toshiba-EMI Ltd (Japan)(55% owned)
Virgin Records America, Inc. (USA)
Virgin Records Ltd

Corporate
EMI Group Finance Ltd*
EMI Group Finance (Jersey) Ltd*
EMI Group Holdings (UK) Ltd
EMI Group International Holdings Ltd
EMI Group North America Holdings, Inc. (USA)
EMI Group North America, Inc. (USA)
EMI Group Worldwide Ltd
Virgin Music Group Ltd*

*Held directly by the Company.

(ii) Investments in associated undertakings

	Cost of shares £m	Provisions £m	Net book value £m
At 31March 2005	0.7	(0.1)	0.6
At 31 March 2006	**0.7**	**(0.1)**	**0.6**

The Company holds investments at cost, less provisions for diminution in value.

(iii) Other fixed asset investments

	Cost of shares £m	Provisions £m	Net book value £m
At 31March 2005	2.5	(2.3)	0.2
Currency retranslation	–	–	–
Purchases	0.1	(0.1)	–
Disposals and reclassifications	–	–	–
At 31 March 2006	**2.6**	**(2.4)**	**0.2**

36. Debtors

	2006 £m	2005 Restated £m
Due within one year:		
Amounts owed by subsidiary undertakings	**2,473.6**	2,459.5
Financial derivatives	**41.3**	39.1
Other debtors	**7.2**	8.2
Prepayments and accrued income	**1.7**	0.8
Total	**2,523.8**	2,507.6

37. Borrowings

	2006 £m	2005 Restated £m
Non-current		
£325m 8.25% Sterling bonds	**323.1**	322.1
€425m 8.625% senior notes	**300.0**	301.6
Long-term committed facilities*	**(1.5)**	(1.9)
	621.6	621.8
Current		
Current borrowings	**–**	–
	–	–
Total borrowings	**621.6**	621.8

* Includes issue costs of syndicated loan facility of £1.5m (2005: £1.9m).

The fair value of publicly traded borrowings has been calculated using the appropriate market prices at the balance sheet date. For the borrowings which are not publicly traded, the fair value has been calculated by discounting their future cash flows at the appropriate market rate. The Directors estimate the fair value of the Company's borrowings to be as follows:

	Book value 2006 £m	Book value 2005 Restated £m	Fair value 2006 £m	Fair value 2005 £m
£325m 8.25% Sterling bonds	**323.1**	322.1	**348.0**	349.9
€425m 8.625% senior notes	**300.0**	301.6	**368.1**	347.0
Long-term committed facilities	**(1.5)**	(1.9)	**(1.5)**	(1.9)
	621.6	621.8	**714.6**	695.0

Year ended 31 March 2006

	Current coupon rate	Effective interest rate	Within 1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	4 – 5 years £m	More than 5 years £m	Total £m
Non-current									
£325m 8.25% Sterling bonds	**9.75%**	**9.92%**	**–**	**–**	**323.1**	**–**	**–**	**–**	**323.1**
€425m 8.625% senior notes	**8.625%**	**8.94%**	**–**	**–**	**–**	**–**	**–**	**300.0**	**300.0**
Long-term committed facilities			**–**	**–**	**–**	**–**	**(1.5)**	**–**	**(1.5)**
			–	**–**	**323.1**	**–**	**(1.5)**	**300.0**	**621.6**
Current			**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total borrowings			**–**	**–**	**323.1**	**–**	**(1.5)**	**300.0**	**621.6**

Year ended 31 March 2005

	Current coupon rate	Effective interest rate	Within 1 year £m	1 – 2 years £m	2 – 3 years £m	3 – 4 years £m	4 – 5 years £m	More than 5 years £m	Total Restated £m
Non-current									
£325m 8.25% Sterling bonds	9.75%	9.92%	–	–	–	322.1	–	–	322.1
€425m 8.625% senior notes	8.625%	8.94%	–	–	–	–	–	301.6	301.6
Long-term committed facilities			–	–	(1.9)	–	–	–	(1.9)
			–	–	(1.9)	322.1	–	301.6	621.8
Current			–	–	–	–	–	–	–
Total borrowings			–	–	(1.9)	322.1	–	301.6	621.8

In July 2005, the Group signed a new £450m revolving credit facility with a group of banks. This facility replaced a revolving credit facility (£250m), a 364 day facility (£100m) and enabled a subsidiary to repay the US$123.8m 6.96% senior notes. In addition, two bilateral facilities (£40m) were not renewed. This resulted in exceptional refinancing costs of £5.2m (2005: £nil) of which £3.5m was in respect of issue and repayment costs of the US$123.8m 6.96% senior notes and £1.7m in respect of issue costs relating to the £250m revolving credit facility.

On 11 March 2003, Moody's Investor Service downgraded the Group's credit rating from Baa2 to Ba1. As a consequence, the coupon of the £325m 8.25% Sterling bonds was increased from 8.25% to 9.75% with effect from 20 May 2003.

The Company holds equivalent Euro nominal value interest rate swaps matching the coupon and the term of the €425m 8.625% senior notes effectively converting the interest basis of the issue to floating rate (set in arrears).

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offsets are reflected in the Company balance sheet as appropriate.

38. Other creditors: amounts falling due within one year

	2006 £m	2005 Restated £m
Amounts owed to subsidiary undertakings	**11.2**	11.4
Amounts owed to associated undertakings	**0.6**	0.6
Corporate taxation	**13.8**	25.3
Other taxes including VAT and social security costs	**–**	0.2
Financial derivatives	**86.7**	83.2
Other creditors	**32.1**	36.4
Accruals and deferred income	**9.3**	11.0
Total	**153.7**	168.1

39. Other creditors: amounts falling due after more than one year

	2006 £m	2005 £m
Amounts owed to subsidiary undertakings	**817.2**	792.6
Total	**817.2**	792.6

40. Other provisions for liabilities and charges

	Trading £m	Disposal and fundamental reorganisation £m	Total £m
At 31 March 2004	3.1	0.4	3.5
Provisions utilised	(0.8)	(0.4)	(1.2)
Charged against profit from operations	–	–	–
At 31 March 2005	2.3	–	2.3
Provisions utilised	(0.2)	–	(0.2)
Charged against profit from operations	–	–	–
At 31 March 2006	**2.1**	**–**	**2.1**

Trading
Trading provisions are charged through profit from operations before operating exceptional items and amortisation. They also include restructuring and reorganisation provisions charged through operating exceptional items.

Disposal and fundamental reorganisation
This provision related to property reorganisation costs.

41. Share capital and share premium

	Authorised		Allotted, called-up & fully paid	
	2006 £m	2005 £m	2006 £m	2005 £m
Ordinary Shares of 14p each	**158.8**	158.8	**110.7**	110.6
B Shares of 114.5p each	**479.8**	479.8	**–**	–
Deferred Shares of 0.0005p each	**17.5**	17.5	**–**	–
	656.1	656.1	**110.7**	110.6

(i) Ordinary Shares in issue

	Number	Nominal value £m	Premium £m
At 31 March 2005	789,698,747	110.6	447.3
Shares issued during the year on the exercise of options:			
Executive schemes	387,200	–	0.5
Savings-related scheme	96,228	–	–
Scrip Dividend scheme	710,917	0.1	–
At 31 March 2006	**790,893,092**	**110.7**	**447.8**

As at 31 March 2006, the Company had authority to purchase 78,970,403 of its Ordinary Shares: this authority will expire on 13 October 2006 or at the conclusion of the Annual General Meeting in 2006, whichever is the earlier.

41. Share capital and share premium (continued)

(ii) Share options

Options to subscribe for the Company's Ordinary Shares were outstanding as follows (adjusted for the 1996 demerger and the 1997 share capital reorganisation, where appropriate):

Subscription Options

	Executive Share Option Schemes	1994 and 2004 Savings-Related Share Option Schemes
At 31 March 2005	36,578,669	3,480,044
Granted	5,149,072	294,136
Exercised	(387,200)	(96,928)
Lapsed	(3,773,091)	(328,394)
At 31 March 2006	**37,567,450***	**3,348,858**
Option price per 14p share (range)	119.25 – 700p	119.25 – 700p
Final exercise date*	31 January 2015	28 February 2010

* Of which, options over 14,519,893 shares were granted under the 2003 Executive Share Incentive Plan.

Share options for the transfer of the Company's Ordinary Shares were outstanding as follows:

Transfer Options

	Executive Share Option Schemes
At 31 March 2005	23,142,868
Granted	253,331
Exercised	–
Lapsed	(2,303,725)
At 31 March 2006	**21,092,474****
Option price per 14p share (range)	119.25-700p
Final exercise date*	17 June 2014

* Options granted under the 1995 Executive Share Option Scheme are normally exercisable no earlier than three years and no later than ten years following the date of grant, and are subject to the achievement of performance requirements that must be met before the options normally become exercisable. Options granted under the 2003 Executive Share Incentive Plan, if subject to a pre-vesting performance requirement, are normally exercisable between three and ten years following the date of grant but only if and to the extent that the pre-vesting target has been satisfied. Options granted with pre-grant conditions normally become exercisable in no fewer than four annual tranches commencing no earlier than the second anniversary of the grant date. Options granted under the 1994 and 2004 Savings-Related Share Option Schemes are normally exercisable for a six-month period following completion of savings to either a three year or a five year savings contract.
** Of which options over 5,017,822 shares were granted under the 2003 Executive Share Incentive Plan

(iii) Convertible bond

US$ 243.3m 5.25% guaranteed convertible bonds include options to convert into 78,859,870 14p Ordinary Shares.

(iv) Share premium account

The principal elements that make up the Company's share premium account arose as follows:

	Years arising	£m
Conversions to Ordinary Shares of 7% Convertible Redeemable Second Cumulative Preference Shares 1992/99 of £1 each	1989/90 and 1990/91	56.7
A placing of Ordinary Shares linked to the offer for Thames Television	1990/91	78.0
Issue of Ordinary Shares on exercise of subscription rights of warrants originally attached to 7⅜% bonds due 1992; and	1991/92	67.1
the transfer from other reserves in respect of amounts paid for the warrants exercised	1991/92	10.2
Issue of Ordinary Shares on conversion of Convertible Unsecured Loan Stock to fund the acquisition of Virgin Music Group	1992/93	508.4
Issue of Ordinary Shares on conversion of 5¾% Guaranteed Redeemable Preference Shares 2004 of THORN EMI Capital NV	1993/94	126.0
Share capital reorganisation (including issue of Redeemable Preference B Shares)	1997/98	(501.2)
Other issues of Ordinary Shares		102.6
Balance at 31 March 2006		**447.8**

42. Reserves

	Capital redemption reserve £m	Other reserves £m	Profit and loss reserve £m
At 31 March 2004 – as reported	495.8	402.1	1,706.8
Prior year adjustment	–	(0.1)	(31.5)
At 31 March 2004 – restated	495.8	402.0	1,675.3
Profit attributable to members of the holding company	–	–	104.7
Equity dividend	–	–	(62.9)
Purchase of shares by ESOP	–	(0.3)	–
Share-based payment charge for year	–	–	0.8
ESOP reserve movements	–	1.7	(1.7)
Transfer of realised reserves	–	(2.7)	2.7

42. Reserves (continued)

	Capital redemption reserve £m	Other reserves £m	Profit and loss reserve £m
At 31 March 2005 (as restated)	495.8	400.7	1,718.9
Profit attributable to members of the holding company	–	–	93.4
Gains on foreign currency borrowings	–	–	4.5
Equity dividend	–	–	(62.9)
Scrip dividend	–	–	1.7
Purchase of shares by ESOP	–	(0.5)	–
Share-based payment charge for year	–	–	1.1
ESOP reserve movements	–	2.9	(2.9)
Transfer of realised reserves	–	–	–
At 31 March 2006	**495.8**	**403.1**	**1,753.8**

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. EMI Group plc reported a profit for the financial year ended 31 March 2006 of £93.4m (2005: a profit of £104.7m). The auditor's remuneration for audit services to the Company was £0.6m (2005: £0.5m). Details of Executive and Non-executive Directors' emoluments and their interest in shares and options of the Company are included in the Remuneration report.

The actual expense recognised for equity settled share-based payment in respect of employee services received during the year to 31 March 2006 is £1.1m (2005: £0.8m).

Restatement due to change in accounting policy
The 2005 accounts previously reported have been restated for the adoption of FRS 20, FRS 21, FRS 25 and FRS 26 as follows: profit for the year has increased by £35.5m. The net impact is to increase 'shareholders' funds' as at 31 March 2005 by £2.7m.

(i) Capital redemption reserve
The capital redemption reserve represents the reduction in distributable reserves for the amount paid to redeem preference B shares as part of the share capital reorganisation.

(ii) Other reserves
Other reserves of the Company contain a special reserve which reflects the share premium account reduction of July 1988 and unrealised profits on disposal of investments.

The EMI Group General Employee Benefit Trust (EBT) was established to hedge the future obligations of the Group in respect of shares awarded under the Senior Executive Incentive Plans. The Trustee of the EBT, EMI Group EBT (Guernsey) Limited, purchases the Company's Ordinary Shares in the market with financing provided by the Company, as required, on the basis of regular reviews of the anticipated share liabilities of the Group. The EBT has, since December 1998, waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares. The EBT's waivers may be revoked or varied at any time.

	2006		2005	
	Share held in trust No.	**Cost £m**	Shares held in trust £m	Cost £m
Beginning of the year	**3,840,515**	**16.6**	4,082,771	18.0
Shares purchased	**226,513**	**0.5**	142,721	0.3
Shares vested	**(675,106)**	**(2.9)**	(384,977)	(1.7)
End of the year	**3,391,922**	**14.2**	3,840,515	16.6

At 31 March 2006, the outstanding loan by the Company to the EBT to finance the purchase of Ordinary Shares was £14.6m (2005: £16.9m). The market value at 31 March 2006 of the Ordinary Shares held in the EBT, which are listed in the UK, was £8.6m (2005: £11.3m). All shares held in the EBT are either under option to employees or conditionally gifted to them.

43. Pensions

As noted in the Company accounting policies, the Company is a member of the EMI Group Pension Fund (UK fund), a defined benefit pension scheme for EMI Group plc and its subsidiaries in the UK. As the Company is unable to identify its share of the underlying assets and liabilities of the UK fund, in accordance with FRS 17 it has accounted for it as a defined contribution scheme. The cost of contributions by the Company to the UK fund during the year was £1.0m.

As at 31 March 2006, the UK fund had Scheme assets with a fair value of £963m and a present value of defined benefit obligations of £951m resulting in a net pension asset of £12m. The date of the last actuarial valuation of scheme assets and obligations was 31 March 2006, and was based on the projected unit method.

The cost of contributions to defined contribution schemes during the year was £0.1m (2005: £nil).

44. Dividends (equity)

	2006 Per share	2005 Per share	**2006 £m**	2005 £m
Ordinary dividends:				
2005/2004 final dividend	**6.0**	6.0	**47.2**	47.1
2005/2004 interim dividend	**2.0**	2.0	**15.7**	15.8
Total	**8.0**	8.0	**62.9**	62.9

Group five year summary

Results for periods ending on or before 31 March 2004 have not been restated following the conversion to International Financial Reporting Standards on 1 April 2004. See Note 33 to the financial statements for details of the principal adjustments made to bring the UK GAAP results for the year ended 31 March 2005 in line with the accounting policy changes required for the Group to comply with IFRS.

	2006 **£m**	2005 Restated £m	2004 £m	2003 £m	2002 £m
Results					
Revenue	**2,079.9**	2,001.2	2,120.7	2,175.4	2,445.8
Group profit from operations before exceptional items and amortisation	**250.5**	225.1	249.3	254.7	190.9
Exceptional items	**4.0**	(17.5)	(138.3)	(21.1)	(242.4)
Amortisation and impairment	**(49.9)**	(48.0)	(50.9)	(42.8)	(51.3)
Share of profit from joint ventures	**–**	–	–	0.4	34.3
Share of profit from associates	**1.0**	1.1	(0.3)	0.2	(1.1)
Profit (loss) from operations:	**205.6**	160.7	59.8	191.4	(69.6)
Non-operating exceptional items:					
(Losses) on disposal or closure of business	**–**	–	(40.4)	(25.2)	–
Gains on disposal of fixed assets and investments	**–**	–	23.9	234.9	–
Profit (loss) before finance charges	**205.6**	160.7	43.3	401.1	(69.6)
Finance charges	**(87.5)**	(61.9)	(96.1)	(77.3)	(83.2)
Profit (loss) before taxation	**118.1**	98.8	(52.8)	323.8	(152.8)
Taxation	**(28.1)**	(23.9)	(19.7)	(83.2)	(38.2)
Profit (loss) after taxation	**90.0**	74.9	(72.5)	240.6	(191.0)
Operating assets					
Music copyrights and intangibles	**389.3**	404.6	448.7	451.2	518.2
Goodwill	**43.0**	35.1	31.8	56.2	34.0
Property, plant and equipment	**196.8**	200.0	202.7	289.4	277.3
Non-current investments	**23.8**	26.1	19.3	22.2	29.5
Inventories and receivables, excluding taxation and interest	**932.1**	819.6	797.0	973.9	919.6
Payables and provisions, excluding taxation, dividends and interest payable	**(1,282.7)**	(1,260.0)	(1,201.5)	(1,210.4)	(1,296.4)
Investment in HMV Group plc	**–**	–	–	–	(159.9)
Operating assets	**302.3**	225.4	298.0	582.5	322.3
Key statistics					
Net borrowings	**879.5**	857.5	748.7	859.8	1,057.9
Net cash inflow from operating activities	**188.3**	189.0	309.4	117.2	211.9
Capital expenditure	**34.3**	35.9	51.3	68.5	39.2
Earnings per Ordinary Share:					
Basic	**10.9p**	9.6p	(9.1)p	29.3p	(25.5)p
Underlying diluted	**15.7p**	13.1p	15.5p	15.7p	11.8p
Dividend per Ordinary Share	**8.0p**	8.0p	8.0p	8.0p	8.0p
Return on sales	**12.0%**	11.2%	11.8%	11.7%	7.8%
Effective tax rate (before exceptional items and amortisation)	**17.6%**	22.3%	19.9%	25.3%	30.0%
Interest cover, excluding joint venture (HMV Group plc - discontinued))	**3.0x**	2.9x	3.3x	3.9x	4.0x
Dividend cover	**2.0x**	1.6x	1.9x	2.0x	1.5x

Investor information

Financial calendar
Results announcements
Interim to 30 September 2006: 15 November 2006*
Final to 31 March 2007: 22 May 2007*

AGMs and Reports
2006 Annual General Meeting: 13 July 2006
2006 Interim Report: 24 November 2006*
2007 Annual Report: 8 June 2007*
2007 Annual General Meeting: 19 July 2007*

Dividend payment dates
2006 final: payable on 2 October 2006 to shareholders on the register of members at the close of business on 21 July 2006
2007 interim: payable on 2 April 2007* to shareholders on the register of members at the close of business on 12 January 2007*

* Proposed dates

Lloyds TSB Registrars
Questions about shareholdings, or changes of address or any other particulars, should be sent to: *Lloyds TSB Registrars, Shareholder Services, The Causeway, Worthing, West Sussex BN99 6DA, UK*. A helpline, available at local call rates in the UK only, operates during normal office hours on *0870 600 3984*. Shareholders outside the UK should call *+44 121 415 7060*.

www.shareview.co.uk
Lloyds TSB Registrars have a website at: *www.shareview.co.uk* where shareholders can view information about their shareholdings, as well as find information on how to register a change of name and what to do if a share certificate is lost. There are also facilities to download change of address, dividend mandate and stock transfer forms.

Multiple accounts
If shareholders receive multiple copies of the Group's Annual or Interim Reports, due to differing name and address details, they should write to Lloyds TSB Registrars requesting that their accounts be amalgamated.

Payment of dividends to UK bank or building society accounts
Shareholders who wish to have their dividends paid directly into their UK bank or building society account should request a dividend mandate form from Lloyds TSB Registrars or download the form from *www.shareview.co.uk.* An annual tax voucher will be sent to the shareholder's registered address at the time of the interim dividend payment in March or April each year. The voucher will list all of the dividends paid during the tax year. A tax voucher in respect of the final dividend paid on 6 October 2006 and the interim dividend to be paid on 2 April 2007 will, therefore, be sent to shareholders in April 2007.

Scrip dividend scheme
The Company offers a scrip dividend scheme which gives shareholders the opportunity, if they wish, to receive new Ordinary Shares instead of cash dividends. For more information and a mandate form, please write to: *Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, UK* or call *0870 241 3018* (*+44 121 415 7047* if calling from outside the UK).

Payment of dividends to overseas shareholders
Arrangements can be made for shareholders in a range of countries outside the UK to have their dividends paid directly into their bank account in their local currency. To find out if such a service can be made available to you, please contact Lloyds TSB Registrars on *+44 121 415 7060*.

Share dealing service #
A telephone and internet dealing service has been arranged through Lloyds TSB Registrars which provides a simple way for UK-resident shareholders to buy or sell EMI Group plc shares. Commission is 0.5% with a minimum charge of £20 for telephone dealing and £17.50 for internet dealing. For telephone dealing call *0870 850 0852* between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to *www.shareview.co.uk/dealing.* You will need your shareholder reference number shown on your share certificate.

ShareGift
If you have a small number of EMI Group plc shares, with a value that makes it uneconomic to sell them, you may wish to donate these to the charity ShareGift (registered charity 1052686) which accepts such holdings as charitable donations. Further information on ShareGift can be obtained from their website at *www.sharegift.org* or by calling *020 7828 1151.*

Individual Savings Accounts (ISA) #
Lloyds TSB Bank plc can provide a single company ISA for EMI Group plc Ordinary Shares. Details of this ISA,which is only available to UK-resident shareholders, may be obtained from Lloyds TSB Registrars by writing to them at: *The Causeway, Worthing, West Sussex BN99 6UY,* or by calling their ISA helpline on *0870 24 24 244.*

Monthly Purchase Plan (MPP) #
Lloyds TSB Bank plc provides an MPP for EMI Group plc Ordinary Shares. Information about this MPP may be obtained by writing to: *The Administrators – MPP, Lloyds TSB Registrars, PO Box 4605, Worthing, West Sussex BN99 6QY, UK,* or by calling their MPP helpline on 0870 60 60 268.

American Depositary Receipts (ADRs)
The Company's ADRs trade on the Over-the-Counter market, with one American Depositary Share (ADS) representing two EMI Group plc Ordinary Shares. JPMorgan Chase Bank, N.A. is the Depositary for the Company's ADSs. Enquiries should be directed to: *JPMorgan Service Center, PO Box 3408, South Hakensack, NJ 07606-3408, USA;* Tel: *1-800-990-1135* (toll-free in the USA) or 1-201-680-6630; Website: *www.adr.com*

£/US$ dividend conversion facility
This service enables the holders of Ordinary Shares who are resident in the US to receive their dividends in US Dollars rather than Sterling. Details of this facility may be obtained from: *DB Services Tennessee, Inc., PO Box 305050, Nashville, Tennessee 37230, USA;* Tel: *1-615 835 3100.*

UK capital gains tax information
The market value of the Ordinary Shares of EMI Group plc (then known as THORN EMI plc) held on 31 March 1982, as adjusted for subsequent capitalisation issues, was 408.15p per share.

The base cost of EMI Group plc Ordinary Shares acquired prior to the demerger of 19 August 1996 will need to be apportioned between EMI Group plc Ordinary Shares of 25p each and Thorn plc Ordinary Shares of 25p each in the proportion 78.8% to 21.2%.

The base cost of EMI Group plc Ordinary Shares of 25p each held prior to the share capital reorganisation of 21 July 1997 will then need to be apportioned between the new Ordinary Shares of 14p each and the former B Shares of 114.5p each in the proportion 89.4% to 10.6%.

Share price information
The market price of EMI Group plc's Ordinary Shares is available from the EMI Group website at the address shown under Website/general enquiries below. Within the UK, this price is also available on Ceefax and Teletext, or by calling the FT Cityline service on *0906 843 4214 or 0906 003 4214* (calls charged at 60p per minute).

Unsolicited mail/telephone calls
By law, the EMI Group plc share register has to be available for public viewing. If you wish to avoid receiving unsolicited mail from other organisations, please write to: *Mailing Preference Service, Freepost 22, London W1E 7EZ,* or call *08457 034599* for an application form. You can also register online at: *www.mpsonline.org.uk*

The Telephone Preference Service (TPS) can help you to make sure your telephone number is no longer available to organisations who may call you with offers and information that you do not wish to receive. You can register with the TPS by calling them on *0845 070 0707,* or by writing to: *Freepost 29 LON20771, London W1E 0ZT.* The TPS has a website at *www.tpsonline.org.uk,* or may also be contacted by email using *tps@dma.org.uk*

Annual and Interim Reports
Copies of the Group's previous Annual and Interim Reports are available from the Corporate Communications Department at the address shown below in italics or, for 2001 onwards, on the EMI Group website at the address shown under Website/general enquiries below.

Social Responsibility Report and information
The Group's Social Responsibility Report for 2005 is available on the EMI Group website at the address shown under Website/general enquiries below. Further information on social responsibility matters may be obtained from the Corporate Communications Department at the address shown below in italics.

Website/general enquiries
The EMI Group website provides news and financial information about the Group, as well as its music and music publishing businesses, together with links to its music labels.

General enquiries may be addressed to the Corporate Communications Department at: *EMI Group plc, 27 Wrights Lane, London W8 5SW, UK; Tel: 020 7795 7000.* Callers from outside the UK should call: *+44 20 7795 7000.*Website: www.emigroup.com

The publication of the information in respect of the share dealing service, Individual Savings Accounts and the Monthly Purchase Plan has been approved, for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000,by Lloyds TSB Bank plc, part of the Lloyds TSB Group, which is regulated by the Financial Services Authority.

Design
SEA

Print
The colourhouse

This report is printed on Look! paper which is manufactured by a mill certified to ISO14001 from a combination of virgin wood fibre (from sawmill residues, forest thinnings and sustainably managed forests), mill broke and filler. Pulps used in its production are Totally Chlorine Free (TCF).

Black Eyed Peas

James Blu

Daddy Yankee

Raphael

Pink

RBD

Dierks Bentley

Pharrell Williams

Kate Bush

Radja

Korn

Arctic Monke

Eros Ramazzotti

Alicia Keys

Depeche Mode

EMI Group plc
27 Wrights Lane
London W8 5SW

Telephone
020 7795 7000
www.emigroup.com

Registered in
England and Wales
Number 229231

Vasco Rossi