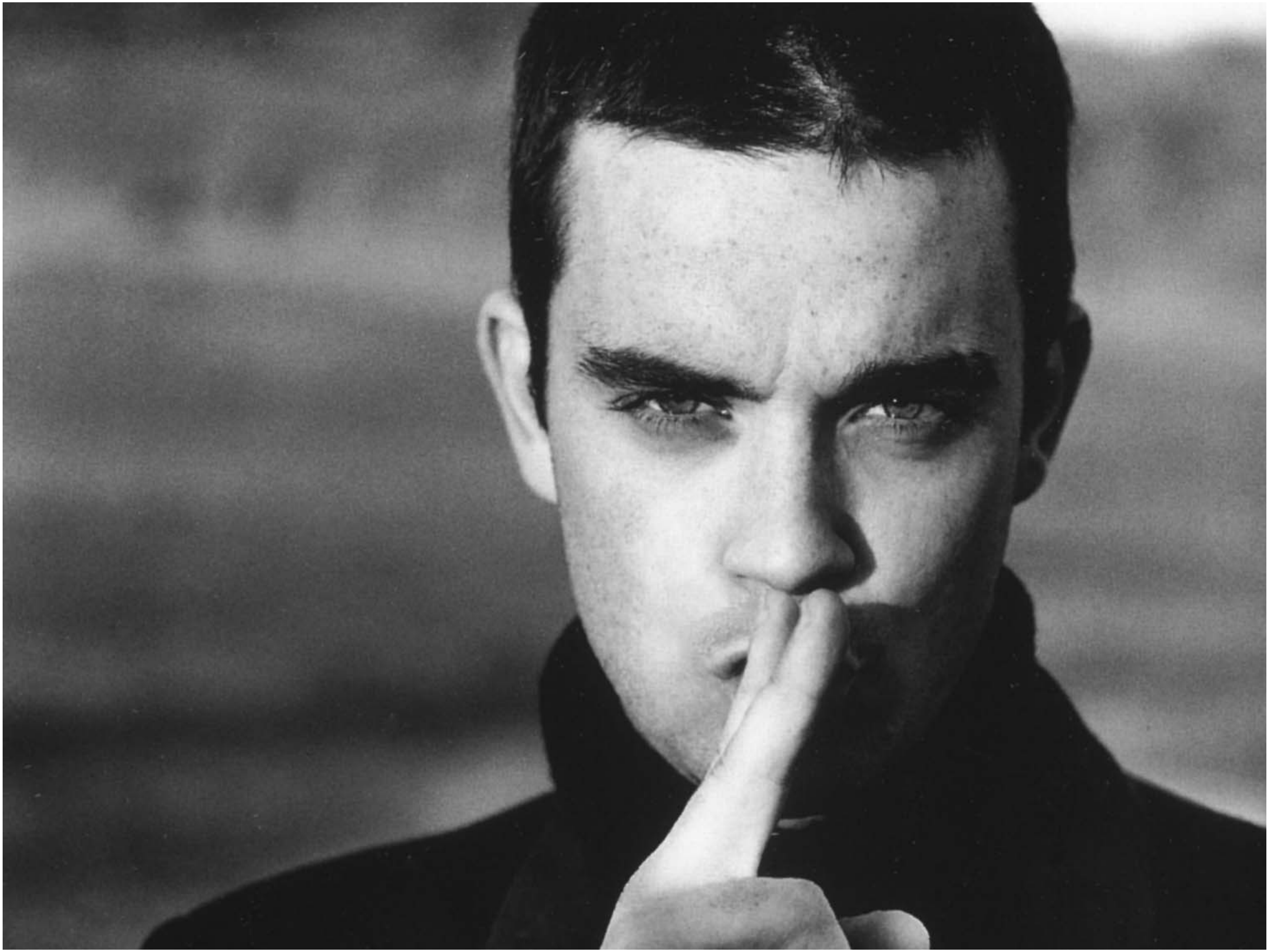
London Business School

Eric Nicoli

Chairman, EMI Group

RIAA Ex. O-116-DP

EMI

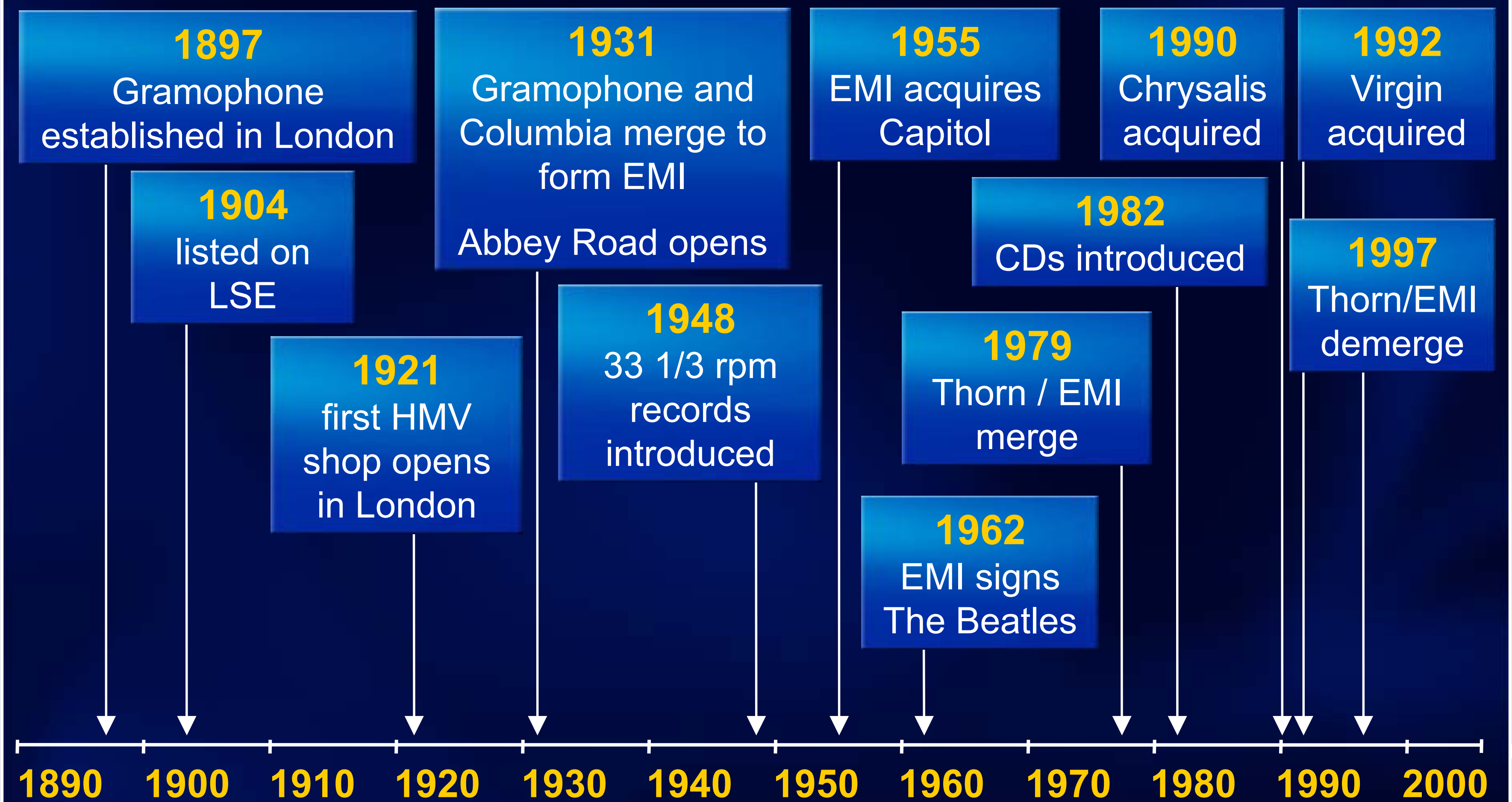


“The Long And Winding Road”

EMI and the music business

EMI

EMI – the first 100 years

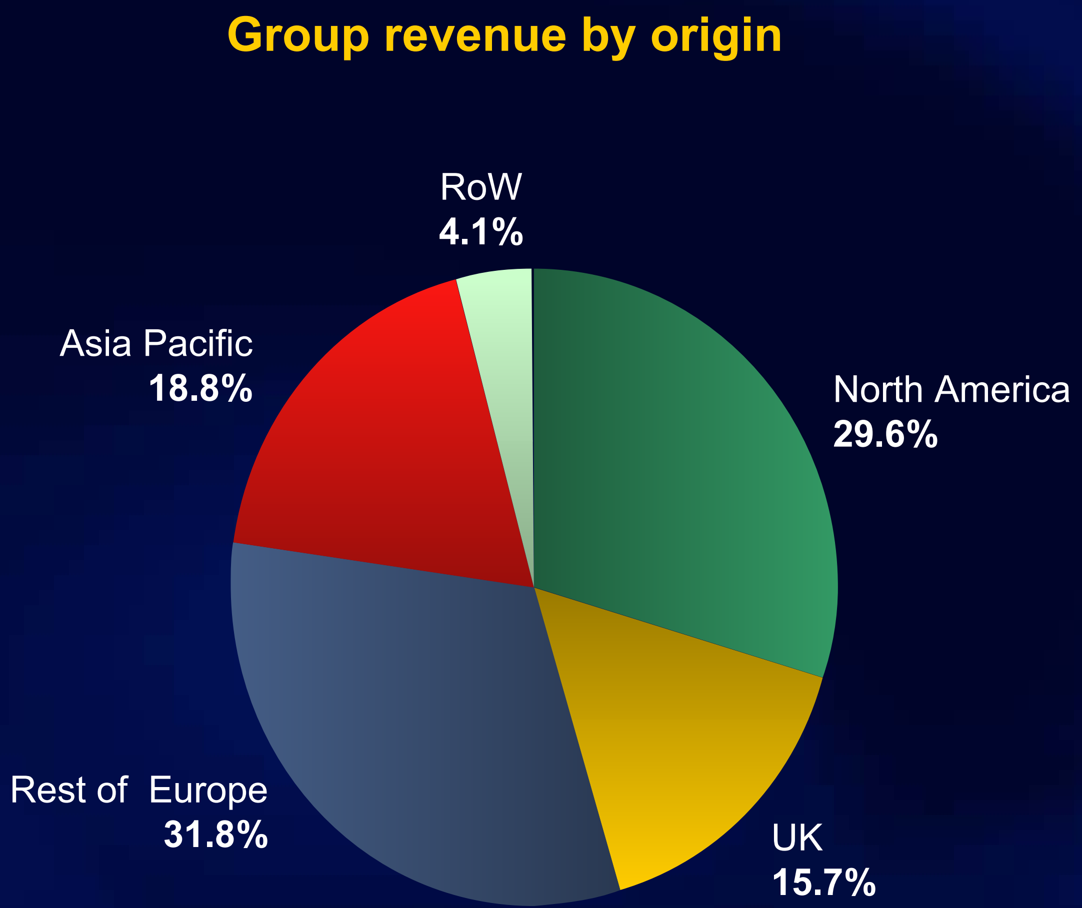


EMI today

- Public company
- Market capitalisation £2 billion
- No.1 music publishing company
- No.3 recorded music company
- Operations in 48 countries on six continents
- 6,700 employees worldwide

EMI

Geography



Source: EMI Group

The EMI Group
– a worldwide leader in music

EMI Music

An outstanding roster of recorded music stars and a rich catalogue of recordings

An exceptional catalogue of songs and a roster of elite songwriters

Summary financials

	EMI Music	EMI Music Publishing	EMI Group
Revenue			
£m	1,600	401	2,001
$m	2,944	738	3,682
EBITA			
£m	125	100	225
$m	230	184	414
Margin	*7.8%*	*24.9%*	*11.2%*

Source : EMI Group, IFRS adjusted FY 04/05

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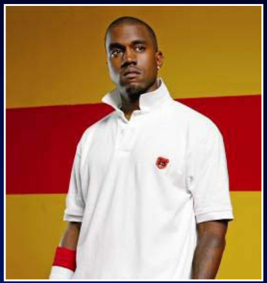
EMI Music Publishing

An impressive catalogue

Ain't No Mountain High Enough • Angels • Bohemian Rhapsody • Can't Take My Eyes Off You • Dancing In The Moonlight • Daydream Believer • Every Breath You Take • Fields of Gold • Get Down On It • Have Yourself A Merry Little Christmas • How Sweet It Is "To Be Loved By You" • Hungry Like The Wolf • I Heard It Through The Grapevine • I'm Not In Love • Lady Marmalade • Let's Get It On • Mamma Mia • Mony Mony • New York New York • Sexual Healing • Shout • Singin' In The Rain • Strangers In The Night • That's The Way (I Like It) • This Old Heart Of Mine • The James Bond Theme • The Loco-Motion • Walking On Sunshine • We Gotta Get Out Of This Place • We Will Rock You • What's Going On • Wild Thing • You've Got A Friend • You've Lost That Lovin' Feeling' •


Kanye West

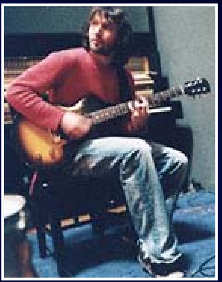
Current song writing talents


Eminem


Natasha Bedingfield


Usher


Alan Jackson


James Blunt


Scissor Sisters

EMI

EMI Music: recorded music

An exciting roster of current recording artists

A rich back catalogue of recordings

Shirley Bassey • Beach Boys • Beastie Boys • The Beatles • Blondie • Marc Bolan • David Bowie • Kate Bush • Maria Callas • Enrico Caruso • Joe Cocker • Nat King Cole • Deep Purple • Fats Domino • Jacqueline du Pre • Duran Duran • Edward Elgar • Gracie Fields • George Formby • Hollies • Iron Maiden • Nigel Kennedy • Lenny Kravitz • Peggy Lee • John Lennon • Vera Lynn • Paul McCartney • Dean Martin • Massive Attack • Johnny Mercer • Steve Miller • N*E*R*D • Mike Oldfield • Edith Piaf • Pink Floyd • Andre Previn • Queen • Simon Rattle • Cliff Richard • Rolling Stones • Simple Minds • Spandau Ballet • Spice Girls • Stranglers • Frank Sinatra • Tina Turner • UB40 • Fats Waller

Major EMI labels

Parlophone

Virgin

Capitol Records Hollywood and Vine

Chrysalis

Blue Note

EMI Classics

Positiva

EMI's top selling albums worldwide 2005

	Artist	Title
1	Coldplay	X & Y
2	Robbie Williams	Intensive Care
3	Gorillaz	Demon Days
4	The Rolling Stones	A Bigger Bang
5	Various	Now That's What I Call Music! Vol 19/20
6	Keith Urban	Be Here
7	Various	Now That's What I Call Music! 62
8	KT Tunstall	Eye To The Telescope
9	KOЯN	See You On The Other Side
10	RBD	Rebelde

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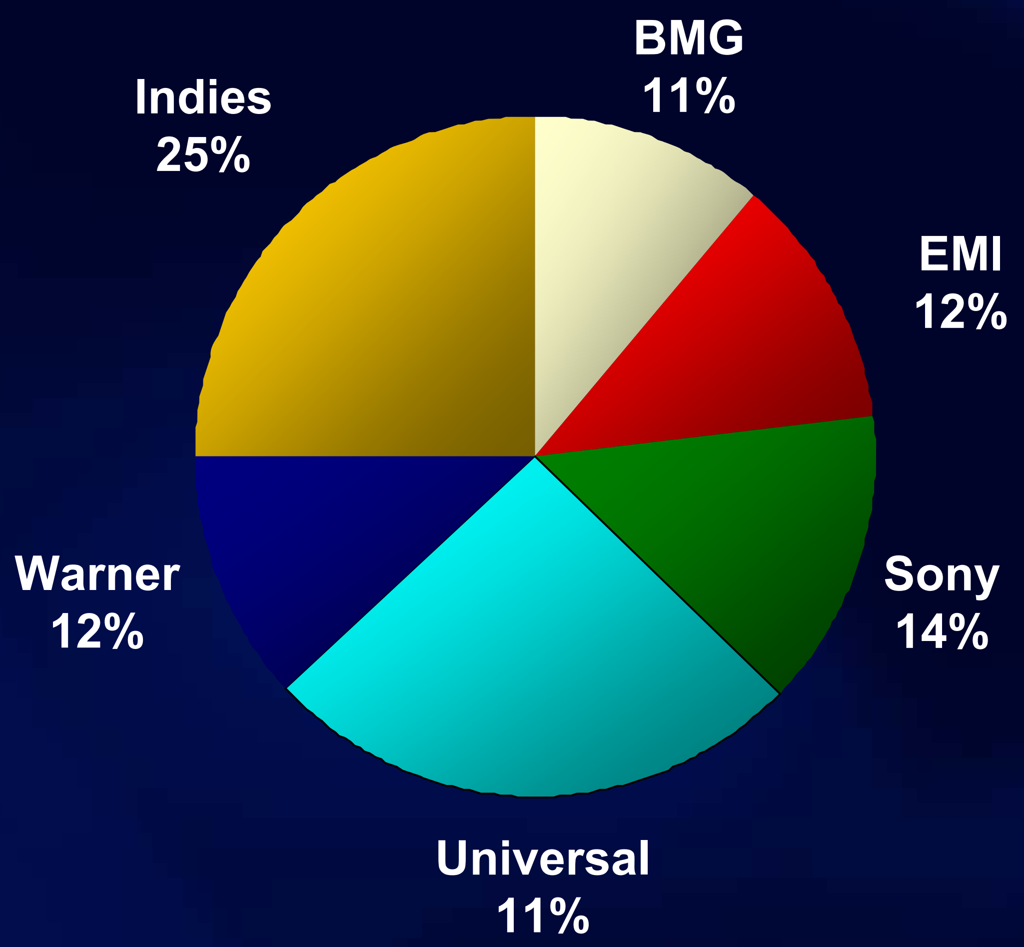
World recorded music market share



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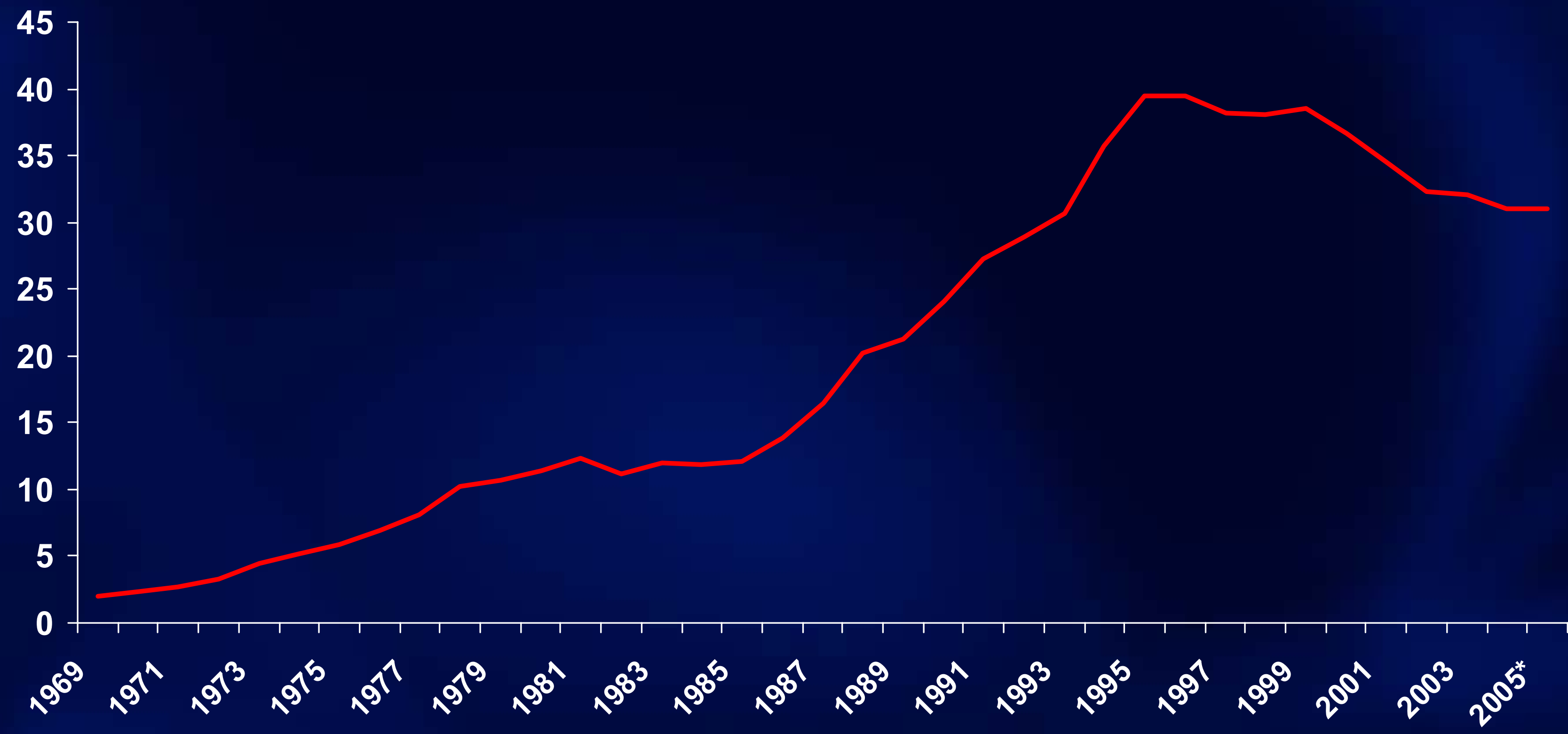
Global recorded music sales 1969-2005

USD billions



Source: Enders Analysis

2004 & 2005 figures are estimates

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What do you do when your market takes a dive?

- Understand the root causes of decline
- Address the issues in your existing business
- Find new sources of income
- Redefine the business

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Root causes of market decline

- General economic conditions
- Growth in competing entertainment products
- Piracy
  - Physical piracy
  - Online piracy
- Quality of music

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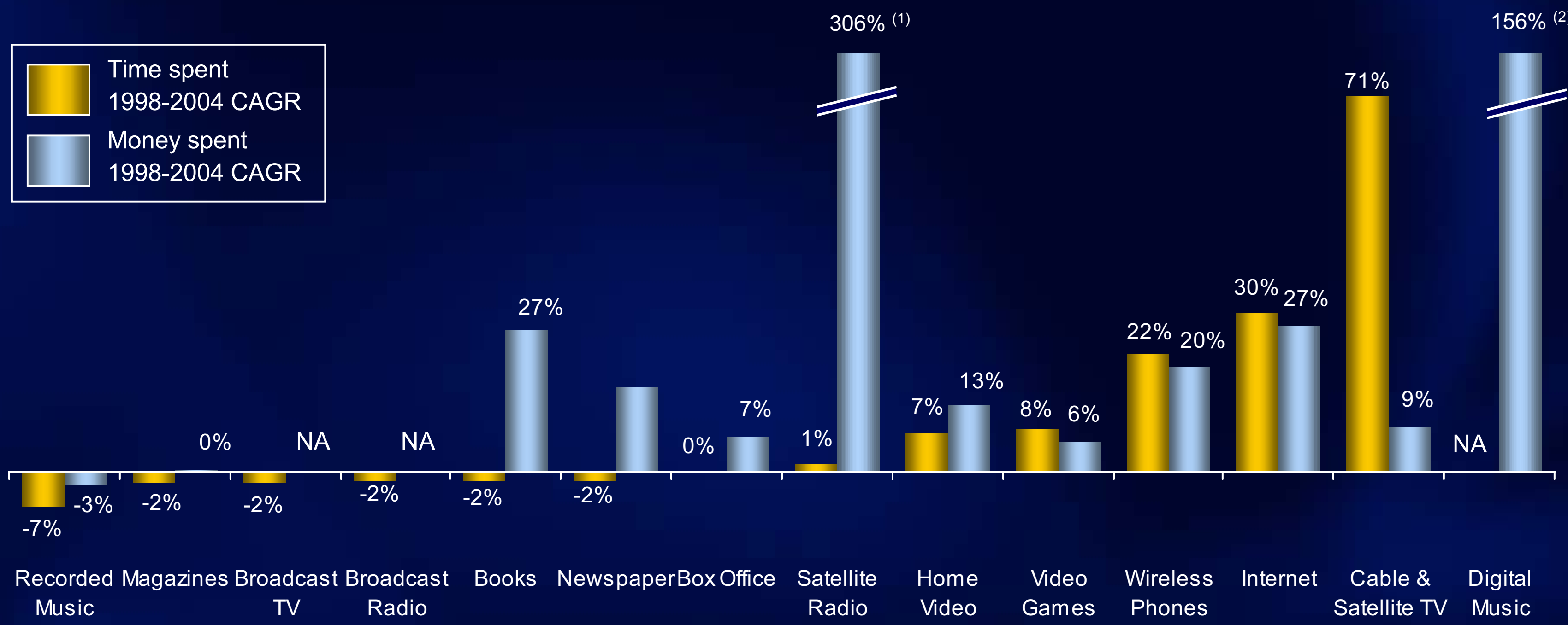
Consumer spending is shifting away from traditional formats

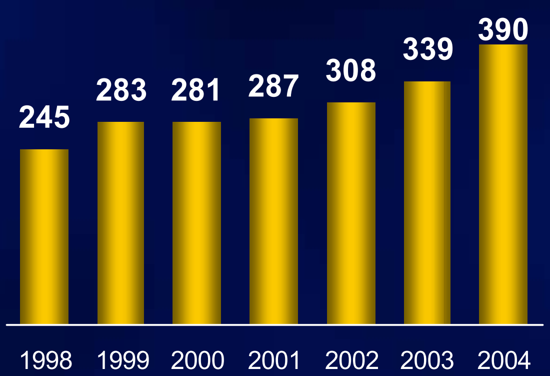
Change in media and entertainment spend



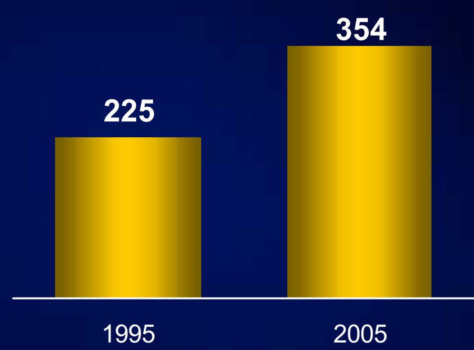
(1) CAGR for 2002-2004 only
(2) 2001-2004 only
Note: All per capita data based on total U.S. population of 296MM
Source: Veronis Suhler, Forrester, Arbitron, Booz Allen analysis

The amount of media content competing for consumers' attention has increased significantly

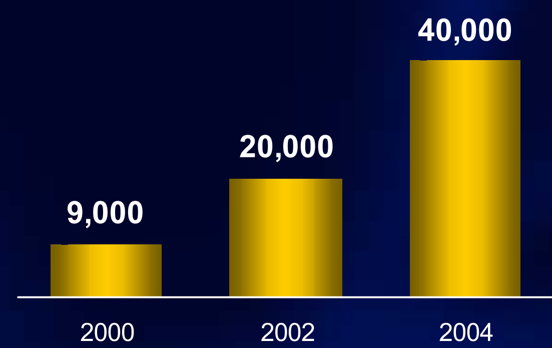
Nationally available US cable programming channels (1998-2004)



Number of UK radio stations (1995-2005)



Number of available US DVD titles (all formats: 2000-2004)



Sources: NCTA, DVD Entertainment Group, Media UK

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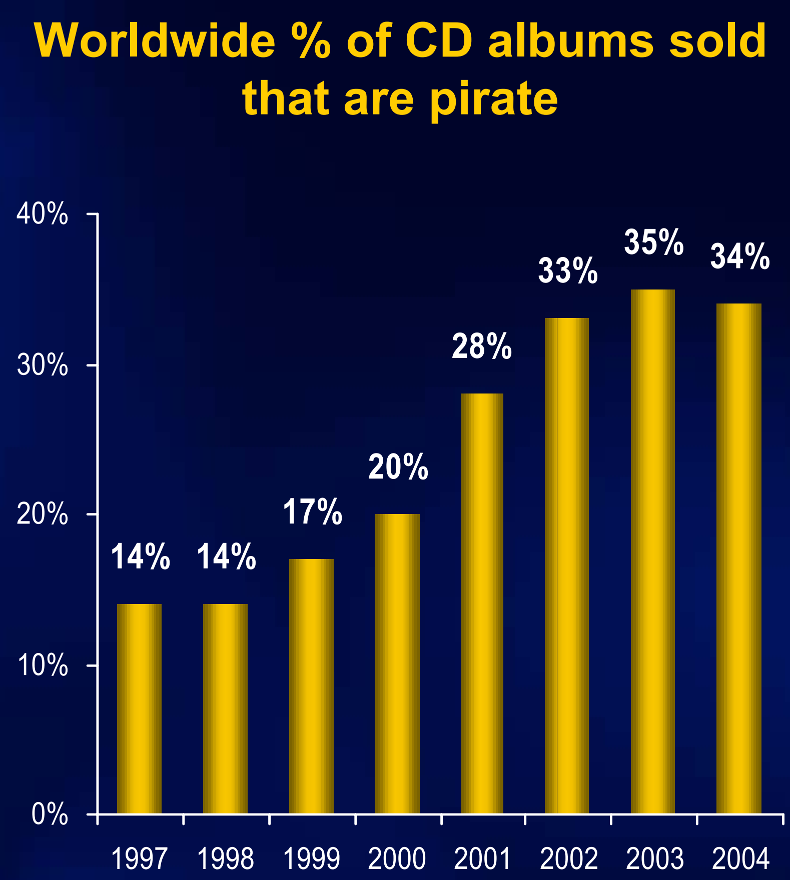
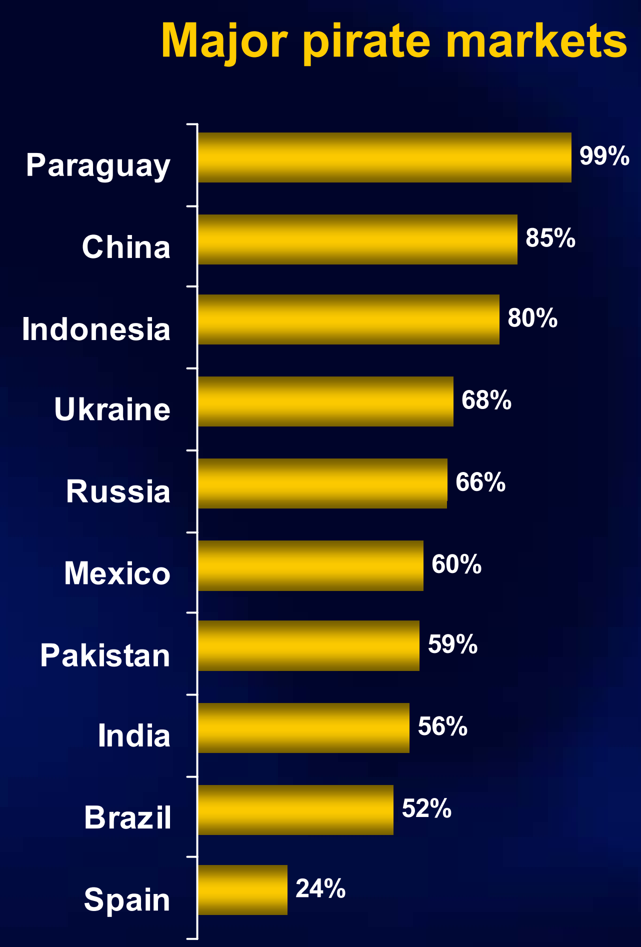
Physical piracy: pervasive





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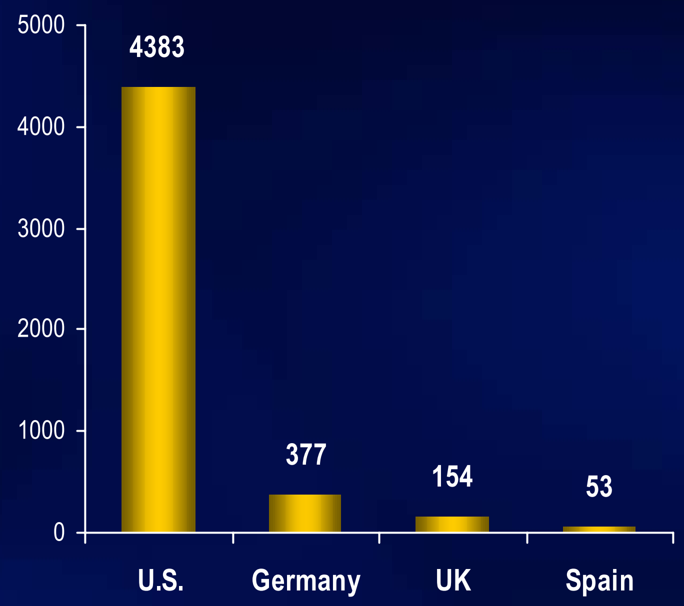
Digital piracy: in 2003, 80 million people were downloading music files from P2P networks

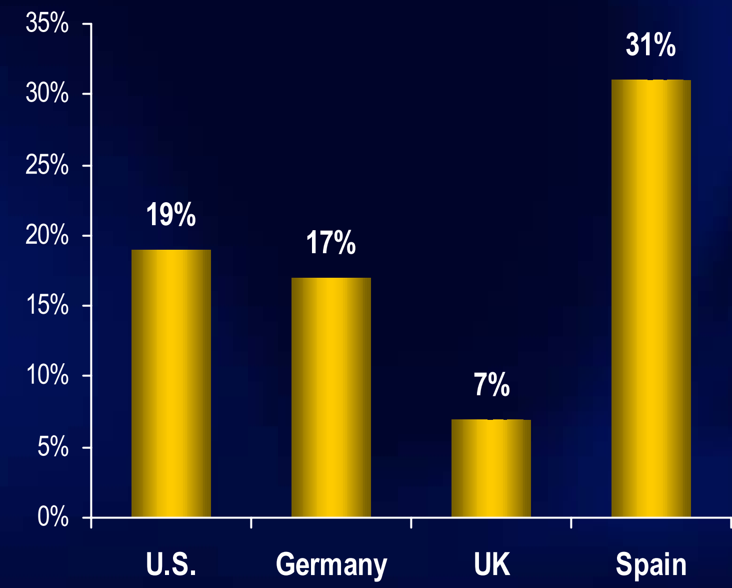
Songs downloaded - P2P networks 2003

(millions)



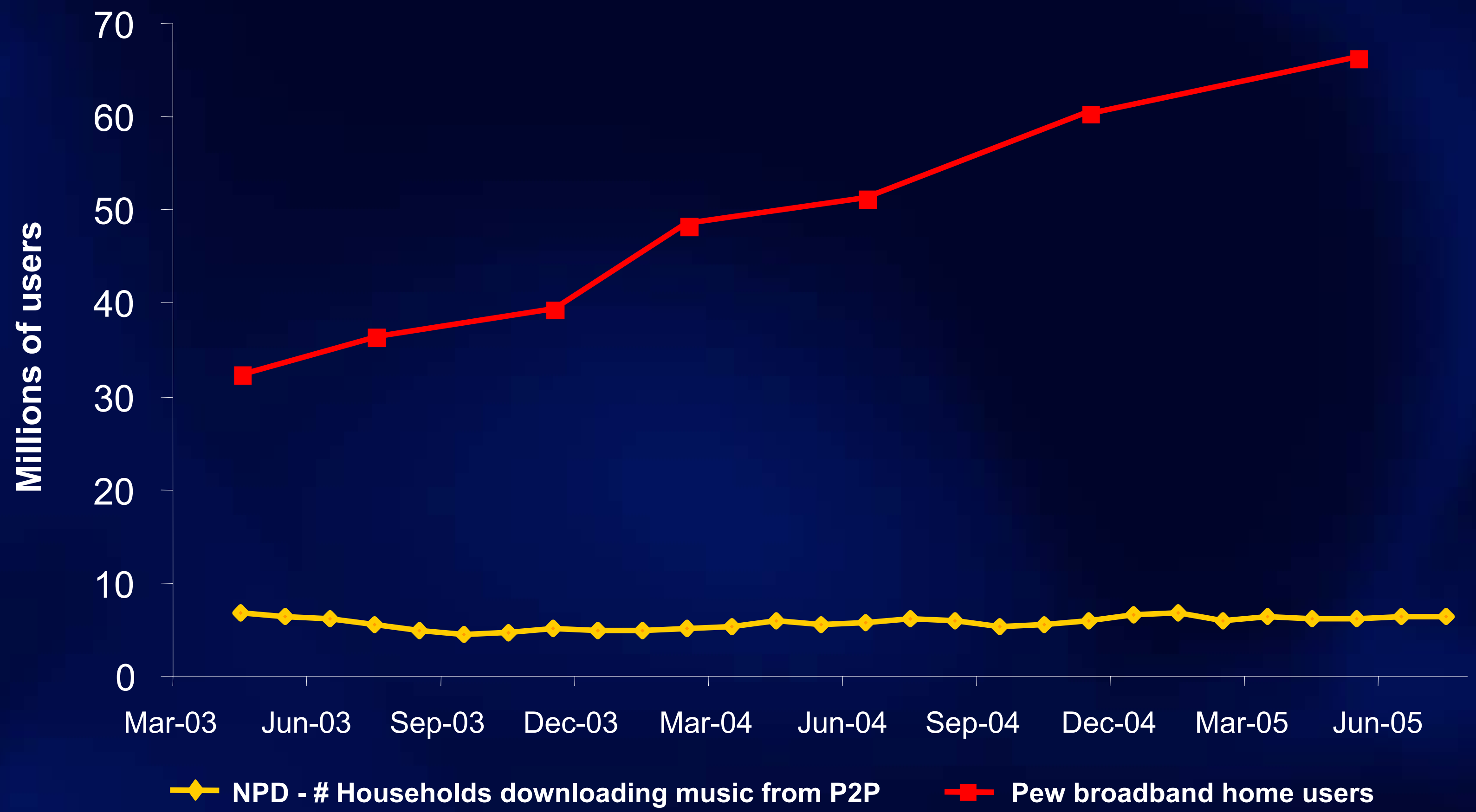
P2P penetration rate

of internet users



Source: IT Innovations & Concepts, Aug 2004

Number of illegal P2P users contained despite high broadband growth in US



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Progress in fight against piracy

- June 2005: Unanimous Supreme Court ruling in favour of the industry against Grokster
- September 2005: Australian Federal Court ruling in favour of industry against Kazaa
- Over 14,000 lawsuits filed against illegal file sharers to date

EMI Music transformation

- October 2001 – new management team
- Implemented cost reduction and restructuring programmes
  - Europe: combined Virgin and Capitol back offices, rationalised country and label structures
  - US: centralised management and marketing and created shared services for back office, restructured Virgin
  - Outsourced manufacturing: Europe, North America, Japan
  - Centralised international marketing and priority systems

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EMI Music transformation (contd)

- Added or enhanced new business functions
  - created anti piracy/content protection team
  - established government affairs team in US, EU and UK
  - strengthened strategy team and consumer research capability
  - initiated comprehensive technology change programme
  - expanded management training and people development

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EMI Music transformation (contd)

- Through this re-sizing and re-shaping of the business, we
  - reduced fixed costs by c.£150m
  - reduced staff by c.35%
  - cut artist roster by c.35%
- Drove culture shift
  - balance of business discipline and creative initiative
  - innovation
  - sharp consumer focus

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EMI: embracing digital music opportunity

We want to enable consumers to find and consume…

any music …

… in any form …

… at any time …

… in any place…

It is all about taking our music to the consumer

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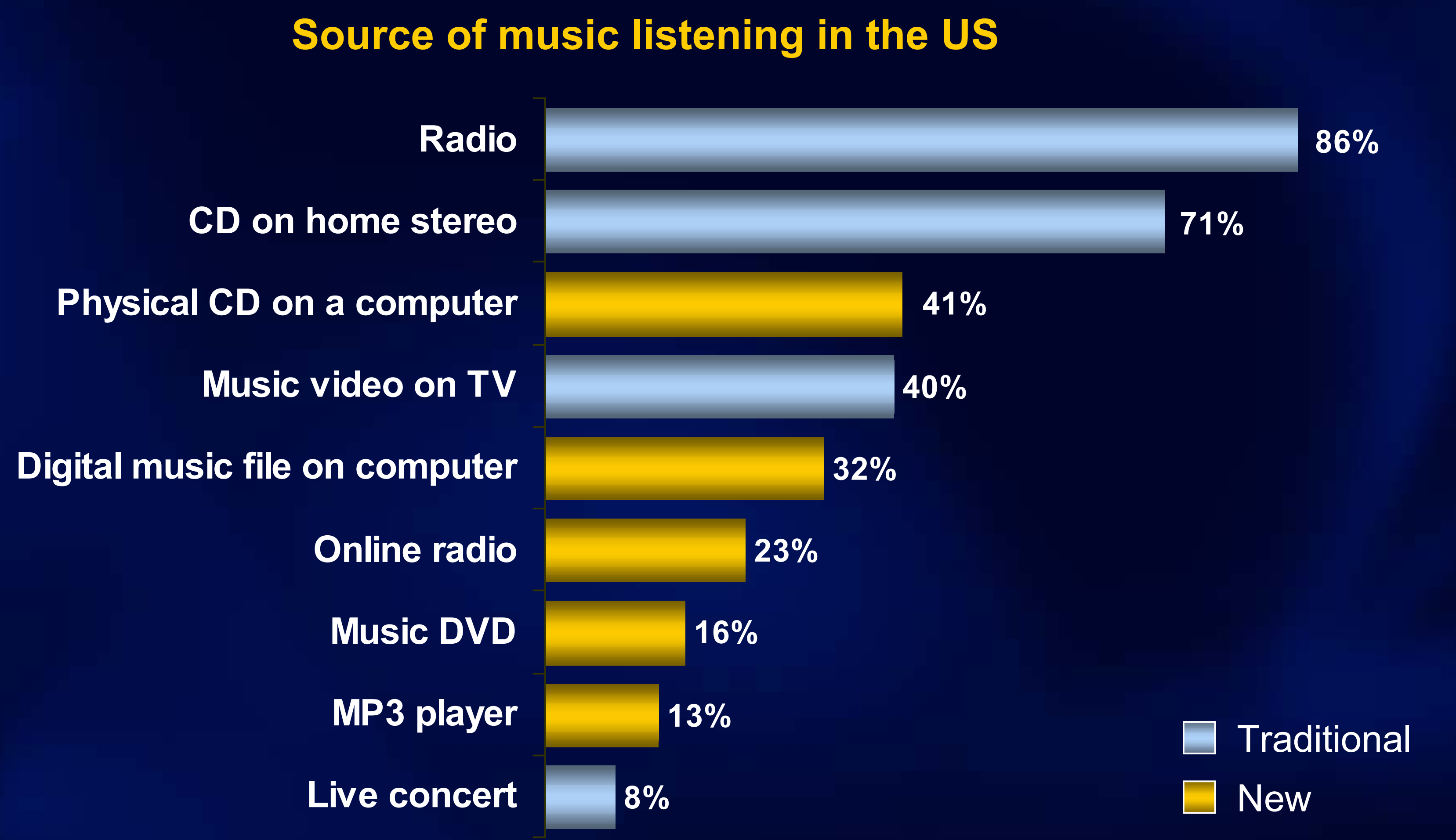
Consumers have been embracing new ways to listen to music



Source: NPD Music Lab, Online survey, February 2005, Ages 13+ n=4,700 Results projected to total U.S. population

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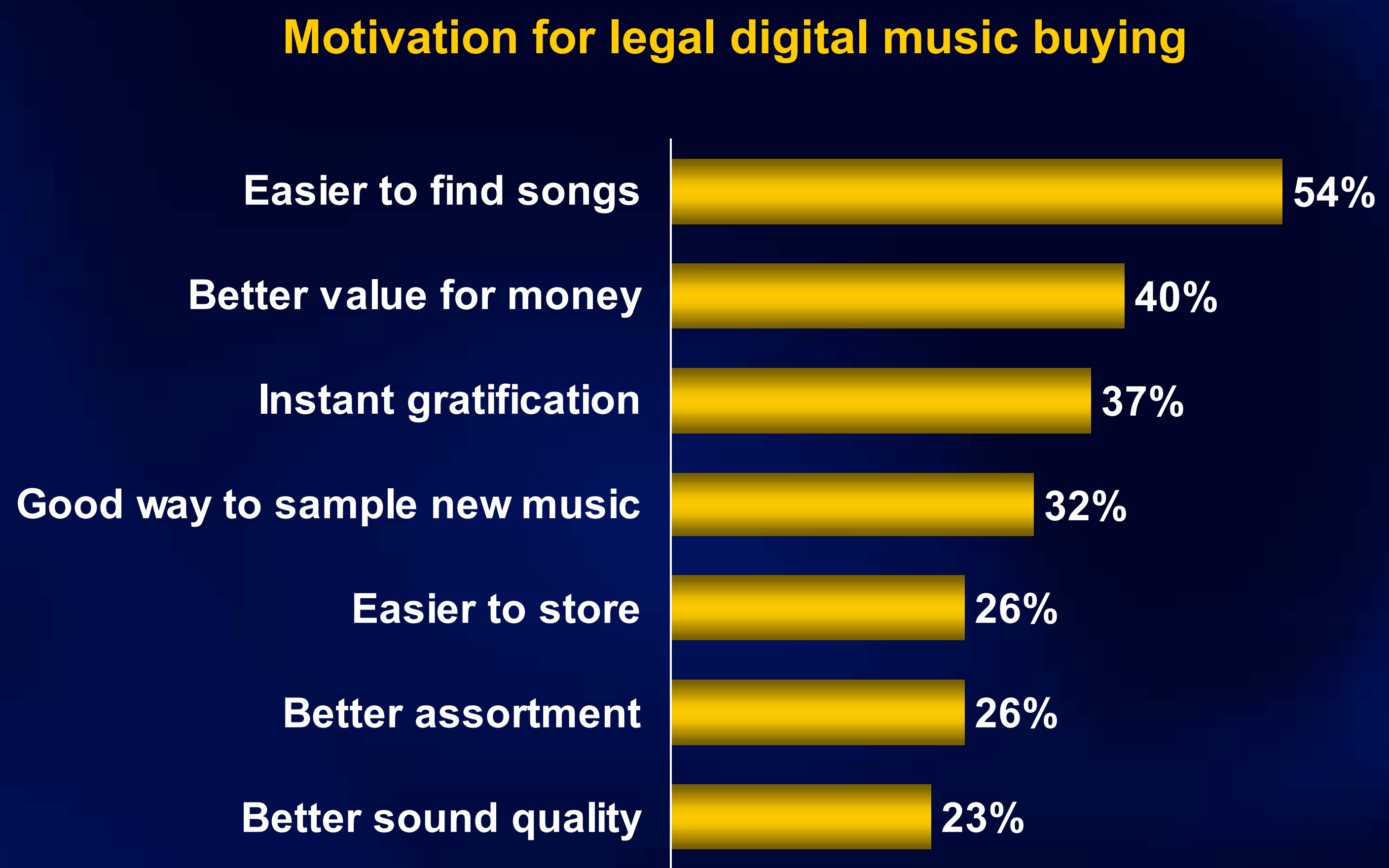
Consumers and legitimate music purchasing



Source: NPD

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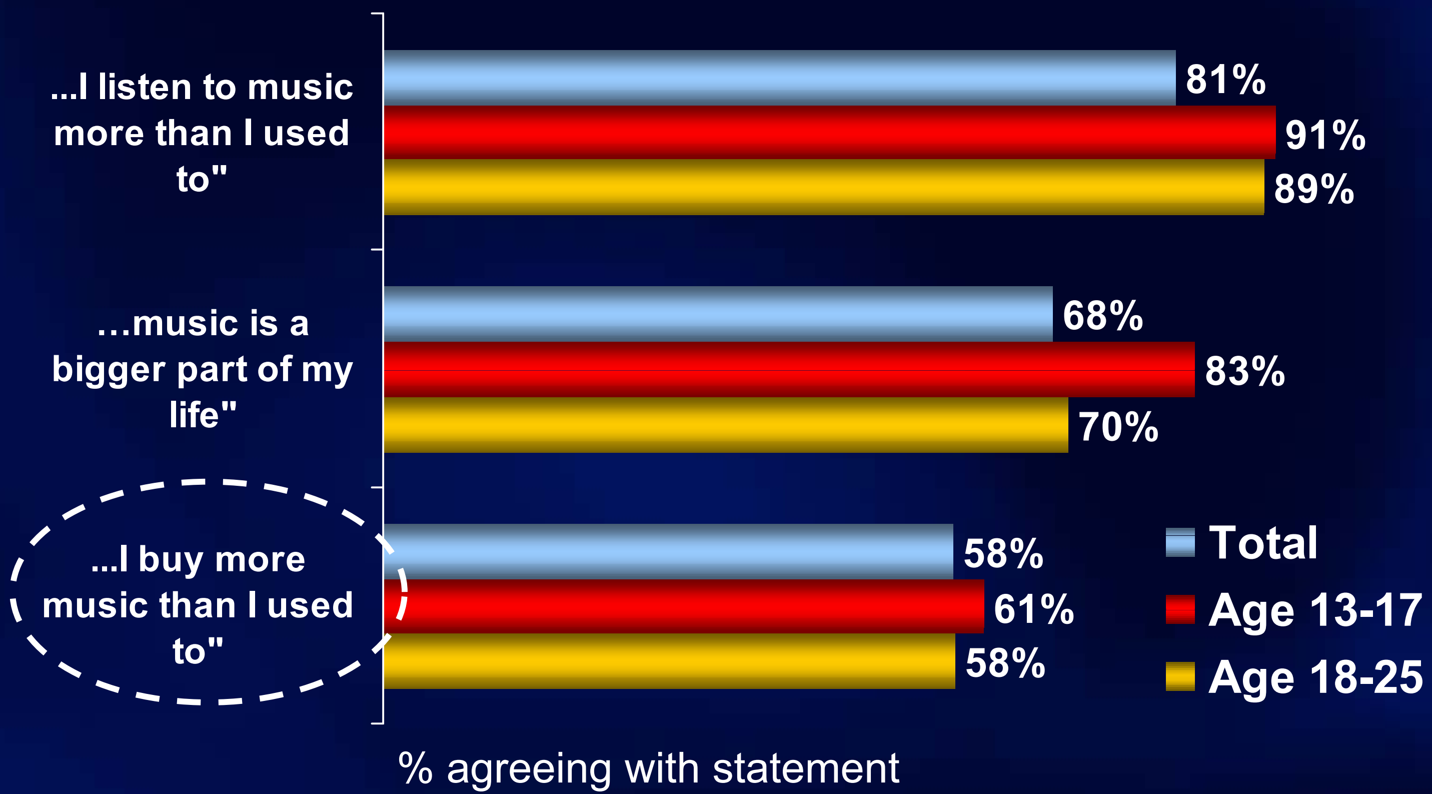
Digital buyers spend more

"Now that I own an iPod…



Source: NPD MusicLab December 2005, EMI analysis Base: Own an iPod

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EMI is working with all major players in the digital space

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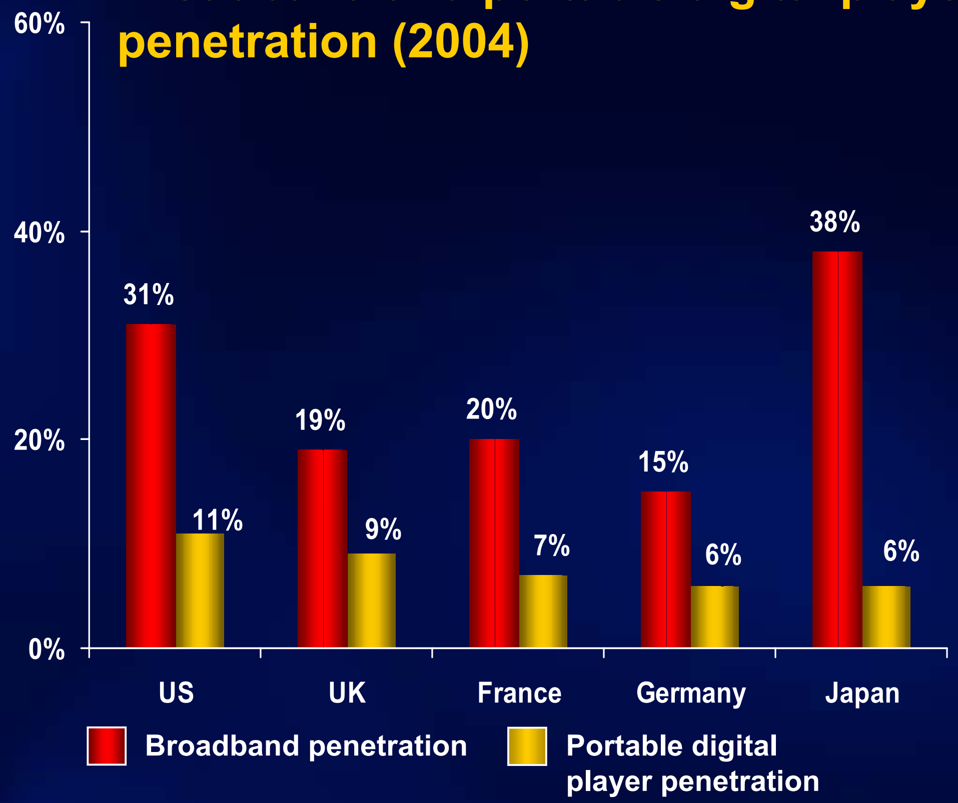
Growth of broadband & MP3 player penetration will facilitate wider uptake of digital services

Broadband and portable digital player penetration (2004)



- External predictions show broadband penetration doubling in these countries over the next 4 years[1]
- Researchers forecast that the US market for portable MP3 players will treble between 2004 and 2008[2]
- **As the technology develops and becomes more widespread, digital music demand should continue to benefit**

Source: Understanding & Solutions, 2004. MP3 penetration % population. Broadband % homes
Notes: [1]Carat 2005 [2]Jupiter 2004

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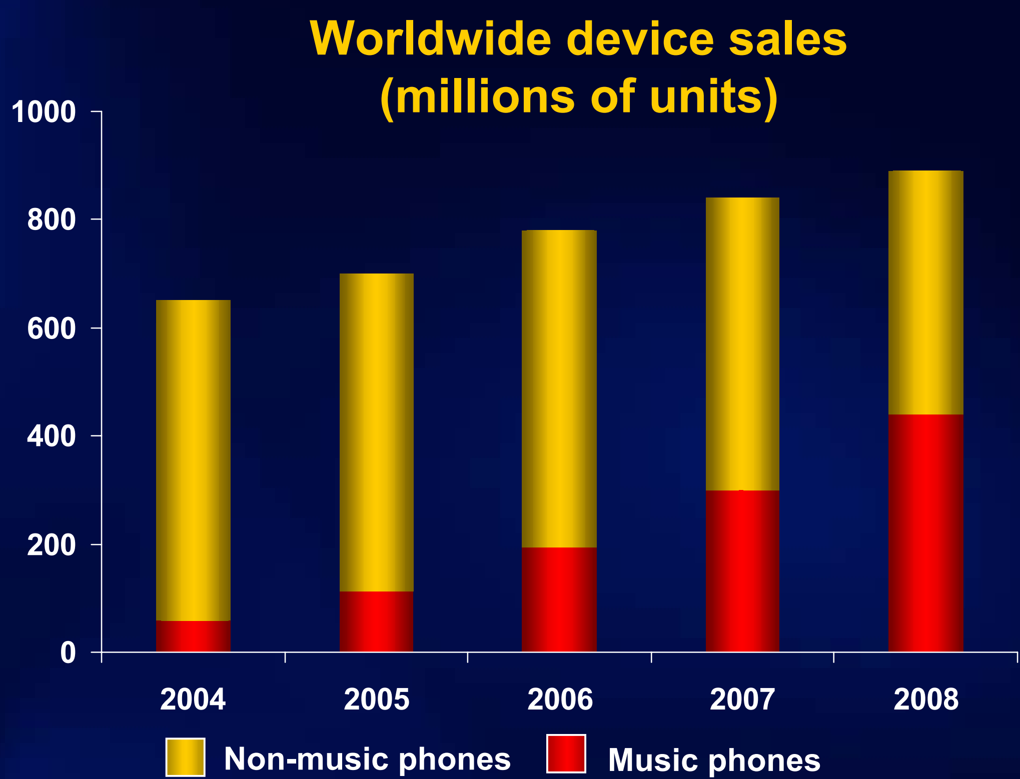
The development of mobile phone technology provides significant new opportunities for music consumption

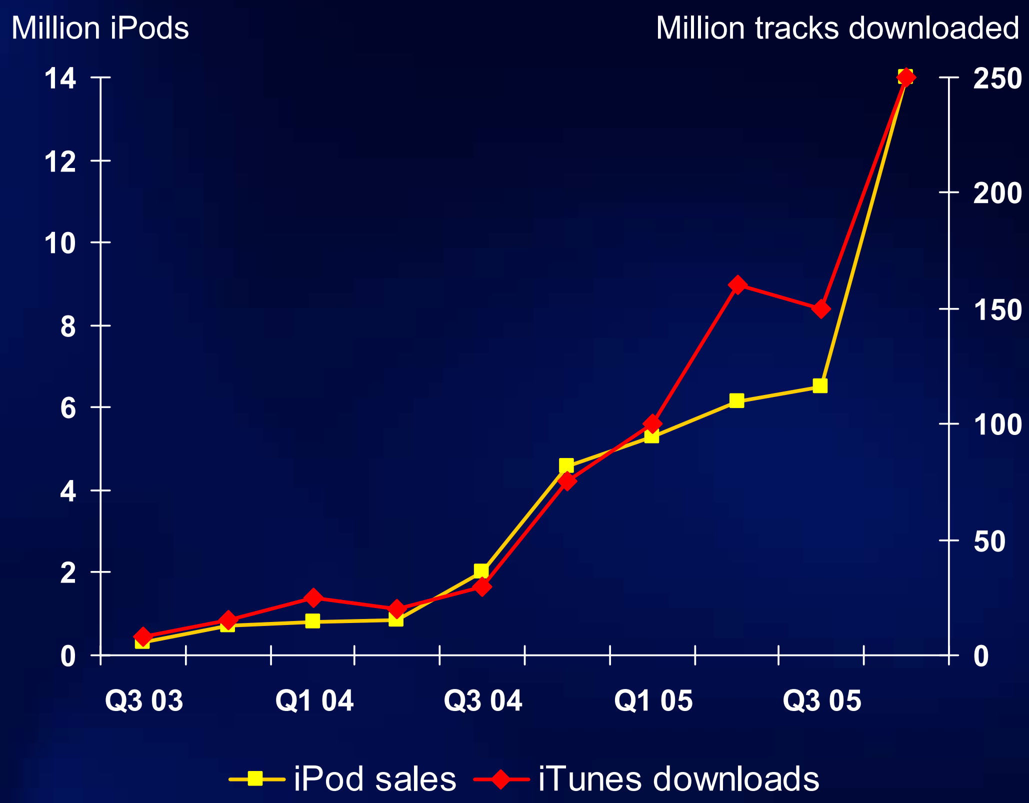


- Today, less than 10% of mobile phones are capable of playing music
- Forecast that 50% of mobile phones will be music phones in 2008
- The roll-out of 3G and wireless broadband technology will drive consumer uptake
- All major handset manufacturers and mobile service providers investing in mobile music opportunity

Source: Strategy Analytics

Accelerating device sales – accelerating digital track sales

iPod sales and iTunes tracks downloaded



- 14 million iPods were sold in Q4 05 – three times the number sold in the same period a year earlier
- Downloads on iTunes have been gathering pace – it will not be long before downloads reach 1 billion
- 42 million iPods shipped to date
- Over 12 million iTunes videos downloaded to date

Source : Apple, EMI estimates

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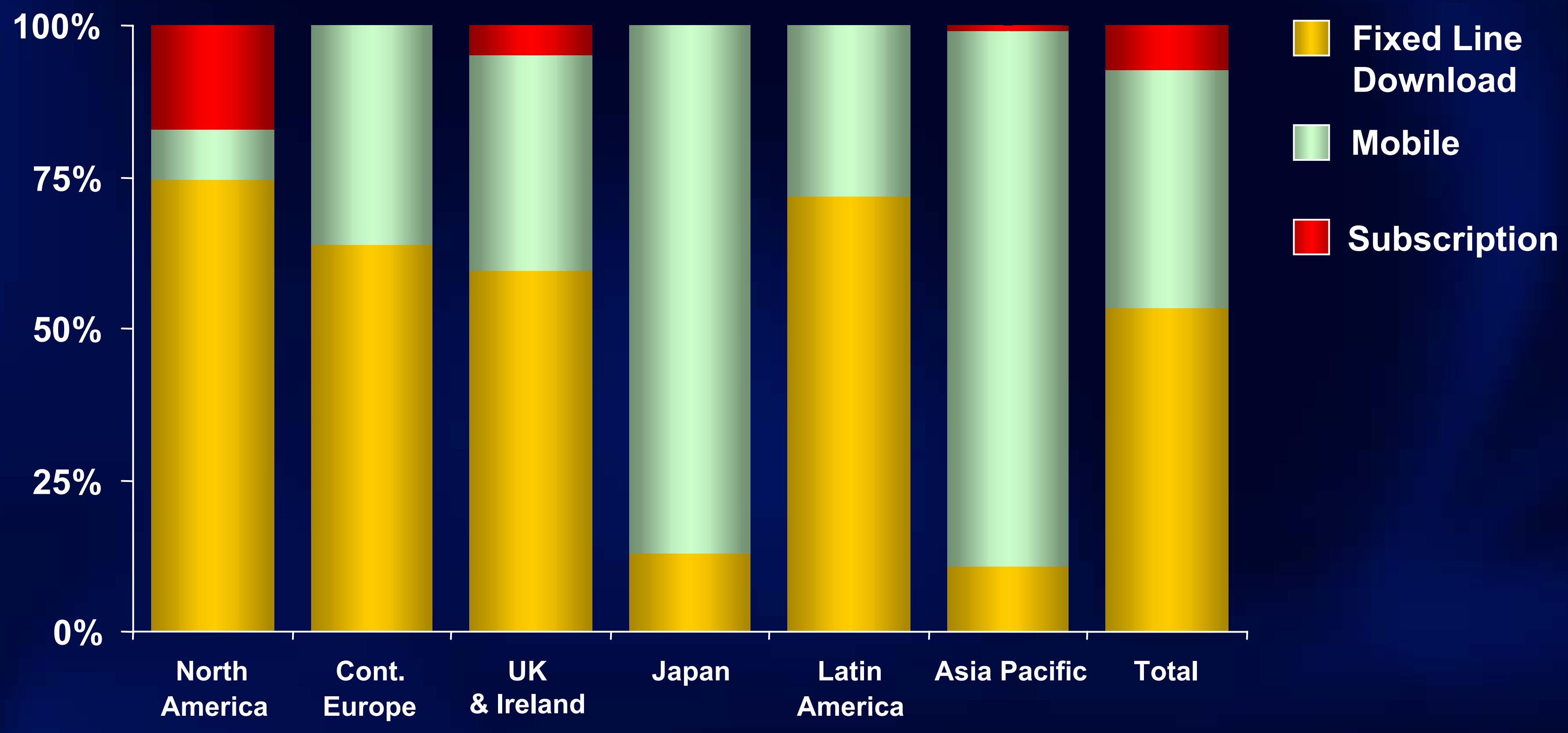
Digital development varies by region

EMI Music's digital revenues by type and region (H1 05/06)



Source: EMI Group

From where to here ...

- Over five years of significant industry challenges
  - technology fuelling explosion in piracy
  - rise in competing products
  - declining shelf space at retail
  - new business models slow to emerge
- We saw the threats – and the opportunities – and took action
  - radical restructuring of our global operations
  - increased investment in IT/systems, strategy, consumer research and anti piracy efforts
  - continued to focus on the music
  - embracing digital music – new products, new partners, new models

… and moving forward

- Industry prospects improving
  - piracy growth being contained
  - continued increase in new digital products and services
  - growth in broadband and mobile phone capabilities will spur consumer uptake of digital music and lead to even greater product expansion

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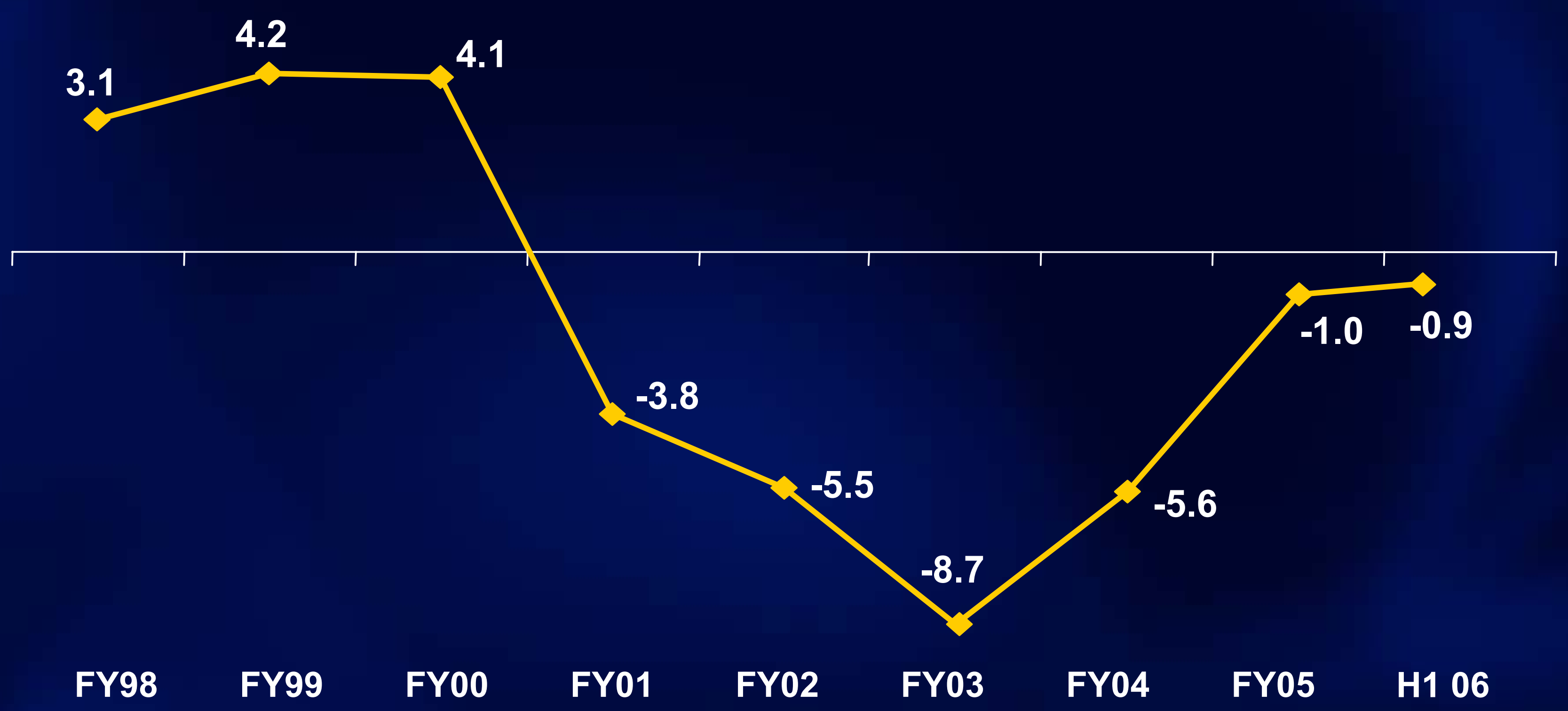
Digital sales drive further market trend improvement

% change in value of global music market



Source: Based on EMI Group estimates
Note: FY04 and H1 05 include digital sales

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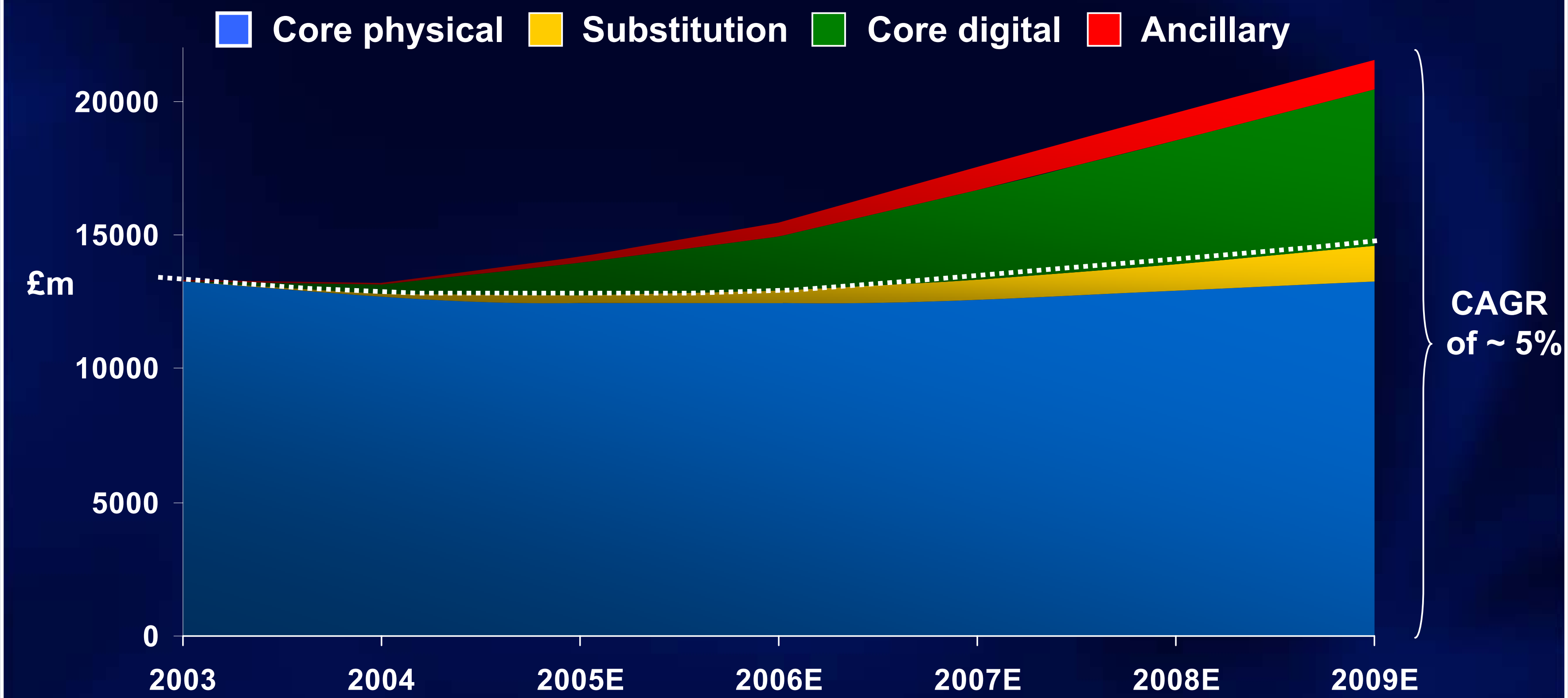
The future potential from digital is significant

- Digital sales are an appreciable contributor to revenues already
- Significant advances in broadband, music phone and portable MP3 penetration are still to come
- Digital could represent up to 25% of the global music industry by 2010
- Driving 5% CAGR in industry sales by 2010

Potential growth of the global wholesale recorded music market



Digital could represent approximately 25% of music industry in 5 years

LECG / EMI: Planning scenario – Digital Day, 1 July 2004
Not a forecast

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