EMI

CHAIRMAN'S STATEMENT
OPERATIONAL REVIEW
FINANCIAL OVERVIEW
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DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

1 INTRODUCTION

INTRODUCTION

ABOUT THIS REPORT

This Annual Review is a report on EMI Group ('EMI') (registered as Maltby Capital Limited 'Maltby Capital') and covers EMI's performance for the financial year ended 31 March 2010. It is being published in accordance with the Guidelines for Disclosure and Transparency in Private Equity, published by the Walker review panel in November 2007.

Maltby Capital acquired EMI, one of the world's leading independent music companies, on 17 August 2007. Maltby Capital is owned by funds managed by Terra Firma* and advised by Terra Firma Capital Partners Limited.

OVERVIEW OF EMI

EMI is organised into two core divisions: EMI Music which specialises in signing, developing and promoting recording artists and their recordings, and EMI Music Publishing which specialises in signing, developing and promoting songwriters and their songs.

In June 2010 EMI announced that it will reposition itself as a comprehensive rights management company that can take full advantage of global opportunities in all markets for music to the maximum benefit of its artists and songwriters. This will capitalise on the experience and skills which exist within both the Recorded Music business and the Music Publishing business.

EMI appointed Roger Faxon as Group Chief Executive in June 2010. He has been Chairman and Chief Executive of EMI Music Publishing since 2007, and has worked at EMI since 1994 in various senior management roles across the group. In his new position, he will lead EMI Music as well as continuing to be responsible for EMI Music Publishing. Roger will report to the Maltby Capital Board on behalf of the whole group.

Stephen Alexander was appointed Chairman of Maltby Capital in June 2010. Stephen has been a director of Maltby Capital for 18 months and was formerly an Operational Managing Director of Terra Firma Capital Partners Limited. He has been involved in various aspects of EMI since its acquisition by Terra Firma in 2007 and, in particular, for the past18 months, he has worked closely with Roger Faxon at EMI Music Publishing.

MUSIC AND PUBLISHING EXPLAINED

Both EMI Music and EMI Music Publishing have music discovery at their core – finding, nurturing and developing the best musical talent in the world. However, the divisions have different key drivers and business models.

EMI Music Publishing represents the interests of songwriters and their songs. Every commercial use of a musical composition requires a licence and compensation to the songwriter, and to his or her publisher. The music publisher's role is to ensure that the works it represents are used commercially, and to then ensure that proper remuneration is collected and distributed to the writers of those works.

EMI Music signs recording artists, working with them to produce and then market their recordings across an increasingly complex marketplace. It earns revenue on behalf of its artists for each sale or use of a recording.

* Terra Firma means Terra Firma Investments (GP) 2 Limited and Terra Firma Investments (GP) 3 Limited. Terra Firma raises funds from external investors, including pension funds, insurance companies, sovereign wealth funds and individuals from around the world.

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2 CHAIRMAN'S STATEMENT

Stephen Alexander
Chairman – Maltby Capital Limited

It gives me great pleasure to present EMI's Annual Review for the year to 31 March 2010. I was appointed as Chairman of Maltby Capital in June 2010 but have been a director of Maltby Capital since January 2009 and have been responsible for overseeing a number of EMI's operating activities since early 2008 so I am able to write with the benefit of some depth of experience in the business.

EMI had a successful year, particularly when set against a backdrop of continuing difficulties in the wider global economy in general and the music industry in particular. At a time when some other music groups are experiencing falling sales and reducing profitability, the Group delivered broadly flat revenues at £1.65 billion and, at £334 million, a year on year increase in EBITDA before restructuring costs of 14% (5.5% at constant currency).

The financing structure of the EMI Group, as well as relations between the Group's principal shareholder Terra Firma and the Group's lender Citigroup, have been the subject of a substantial amount of external noise about the company during the year.

It is important to recognise that despite the issues around the financing structure and the related public speculation, both divisions of EMI have shown marked progress in their underlying performance during the course of the last twelve months.

It should also be noted that while there is ongoing litigation in relation to certain matters relating to the acquisition of EMI between shareholders of the Group and the Group's lender, neither Maltby Capital nor any other member of the Group is party to these proceedings.

Both the EMI Music and EMI Music Publishing divisions contributed to this year's profit growth and both were able to capture significant market share gains – thanks to the skill and hard work of their staff.

This performance was a result of the efforts we have undertaken since 2007 to restructure the Group and make it more focused and relevant to both the creators of music and consumers of music alike.

I would like to pay tribute to the many dedicated and talented artists, songwriters and employees who have contributed to a marked improvement in our fortunes despite the turbulence in the marketplace and at our company. At EMI Music, the cost base of the business has been significantly reduced since acquisition, benefiting both earnings and cash flow but also resulting in more streamlined operations that have a greater focus on developing channels in the music market. At EMI Music Publishing, we have introduced new tools and ways of working to expand its reach in creating new and exciting opportunities for the use of the songs we represent. The recent flow of hits from EMI Music and EMI Music Publishing is testament to the strength of the creative spirit throughout the Group.

We list elsewhere in this report some of the key achievements since the acquisition of EMI by Terra Firma in 2007. I would just like to highlight the health of the business by mentioning some important achievements in the past year. In EMI Music, the release of the complete remastered Beatles catalogue of original albums was an unprecedented success selling over 10 million albums in the year and demonstrating EMI's capability to monetise a uniquely rich back catalogue. Among new artists, particular success was enjoyed by Katy Perry who has now sold approximately six million albums and is a true international star, and Lady Antebellum whose latest album, released in January 2010, is the top seller of the year in the US. Our labels and companies around the world have also delivered hit albums and broken new artists.

EMI Music Publishing's leading position in the industry was demonstrated by EMI being named US Publisher of the Year for the 12th consecutive time by Billboard magazine. EMI was also named Publisher of the Year at the ASCAP Pop Music Awards in the US for the eighth consecutive year and, in the UK, EMI was named Music Week's Publisher of the Year for the 14th consecutive year.

In June a new structure for the EMI Group was announced with the appointment of Roger Faxon as Group Chief Executive; he will lead both divisions as a comprehensive global music rights company. We believe this is the next step in bringing the Group closer to its key audiences and keeping it at the forefront of the dynamic changes occurring within the industry. I am looking forward to working with Roger as he develops this strategy.

EMI still faces considerable financial challenges. The Group has £3,038 million of debt outstanding that falls due for repayment between 2014 and 2017. Even though EMI generates more than enough cash to service the interest payments on its current borrowings, we need to address a set of banking covenants that tighten steadily over the coming years.

The debt has unlimited equity cure rights allowing our shareholders to inject additional funds when required to enable EMI to meet its covenants. In June, after the year end, the Terra Firma funds made a further £105 million in equity funding available to meet the March 2010 covenant tests in the EMI Music division; this is a sign of our shareholders' continued commitment to the business.

Further equity cures may well be required particularly in March 2011, as our report and accounts make clear. As well as maintaining ongoing communication with our shareholders in order to secure their support for the future of our business, we also maintain, together with Maltby Investments, an ongoing dialogue with our principal lender so that they are fully informed about our plans. In this way we seek to protect and enhance the value of EMI.

Conditions in the music industry do not get any easier, but we believe we have the strategic positioning, assets and people to take EMI to the forefront of the industry. The financial results outlined on the following pages provide evidence for that confidence.

Stephen Alexander
August 2010

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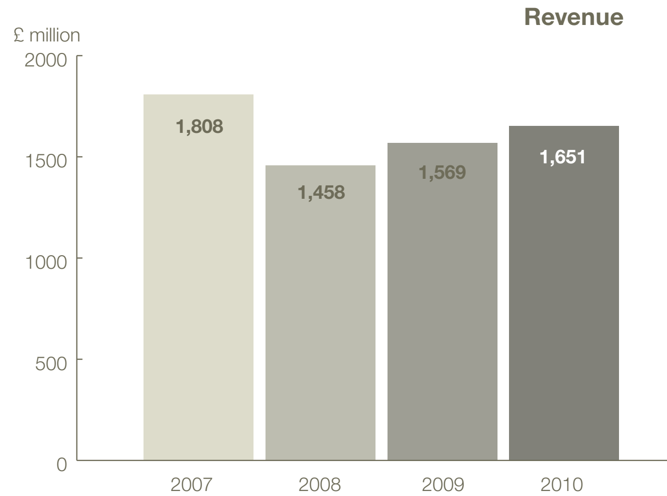
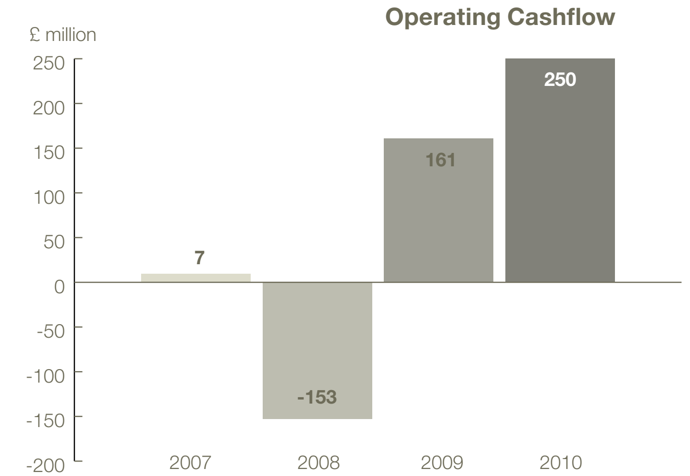
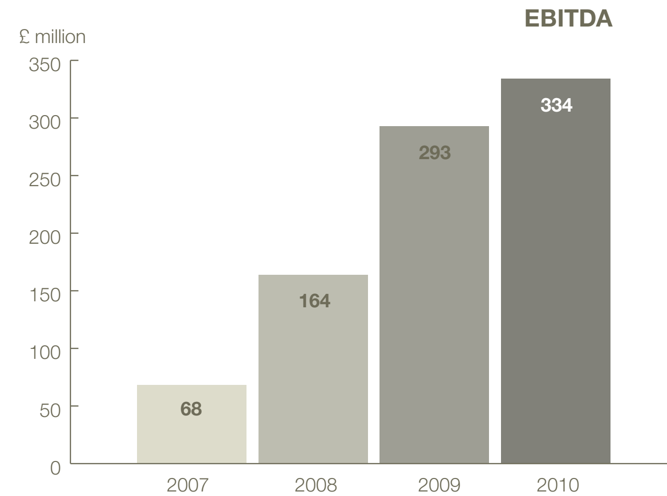
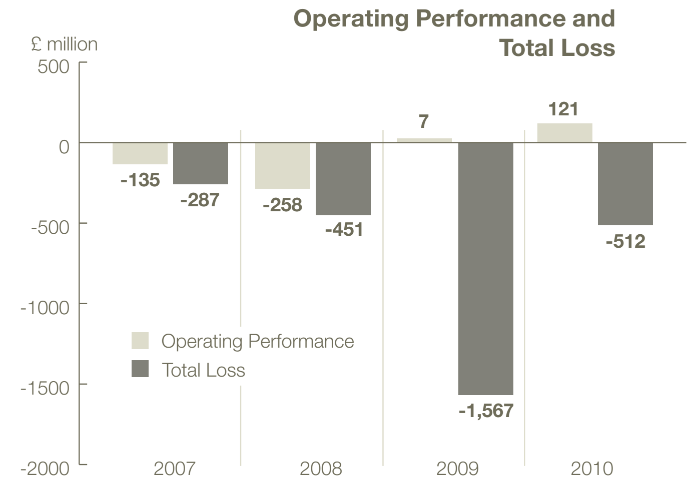
KEY FINANCIAL METRICS







(before restructuring and fair value adjustment upon acquisition by Terra Firma in financial year 2008)



Years above refer to EMI's financial reporting periods ending 31 March

EMI MUSIC

- Revenue up 6.5% to £1,173 million*
- EBITDA up 15% to £184 million*
- Operating margin up from 14.5% to 15.7%*
- Global recorded music market share up by 1.0% to 10.4%*

*compared to previous year

EMI Music is a leading global music business, active directly in 32 countries worldwide and through a network of licensees elsewhere. It owns some of the best-known record labels in the world, including Capitol, Parlophone, Virgin, Blue Note, Capitol Records Nashville, EMI Christian Music Group and EMI Classics and Virgin Classics. It represents a diverse roster of artists from almost every musical genre and owns the globally successful compilation brand Now That's What I Call Music! Headquartered in London, EMI Music also owns two iconic recording studios: Abbey Road Studios in London and Capitol Studios in Los Angeles.

In a world in which music has become truly ubiquitous, and demand from consumers and businesses is growing rapidly, EMI Music has a significant opportunity to grow its business and deliver greater outcomes for the recording artists it represents.

Katy Perry

The Beatles

Norah Jones

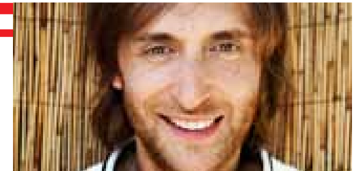
Photo of The Beatles © Apple Corps Ltd

EMI MUSIC

New music remains at the core of EMI Music's business, with the discovery and development of new recording talent being essential to the current and future growth of the business. EMI Music finds, signs and develops new artists, working in partnership with them to produce, market and sell their music and other products through the broadest possible range of channels. Artists on EMI labels include Lily Allen, Coldplay, Depeche Mode, David Guetta, Gorillaz, Iron Maiden, Norah Jones, Lady Antebellum, Kylie Minogue, Katy Perry, Sir Simon Rattle, 30 Seconds To Mars, KT Tunstall, Keith Urban and Robbie Williams.

The new music of today is EMI Music's catalogue of the future, with the Company working to create new and exciting opportunities for the output of all of the current and past artists that it represents. By creatively packaging their work to achieve maximum potential sales across all media, or licensing their recordings for the huge number of compilations produced by both EMI and other music companies, EMI Music works to ensure that its extensive catalogue of recordings reaches music fans across the world. Seminal albums in EMI Music's catalogue include 'Pet Sounds' (Beach Boys), 'Revolver' and 'Sgt. Pepper's Lonely Hearts Club Band' (The Beatles), 'Ziggy Stardust' and 'Aladdin Sane' (David Bowie), 'A Rush Of Blood To The Head' (Coldplay), 'Birth Of The Cool' (Miles Davis), 'Come Away With Me' (Norah Jones), 'Dark Side Of The Moon' (Pink Floyd), 'OK Computer' (Radiohead) and 'Songs For Swingin' Lovers' (Frank Sinatra).

One of EMI Music's key objectives is to maximise the commercial potential of its artists and their work. With this in mind, EMI offers comprehensive music services to both EMI artists and independent artists, to enable them to tap into and manage the increasingly diverse and growing demand for their music and other products. By working with artists in a modular fashion, EMI Music can help the creative community build new revenue streams through delivering their work to more consumers, via more channels, in more varied and creative ways.


David Guetta

Depeche Mode

EMI MUSIC

Artists represented by EMI Music have achieved notable successes during the financial year. The Beatles were the Company's best-selling artist with their newly remastered catalogue which was released in September 2009 and sold more than 10 million albums in the year. The division also enjoyed considerable success in the 2009/2010 financial year, with chart-topping releases from Lady Antebellum, Robbie Williams, David Guetta, Lily Allen and Depeche Mode amongst many others. The Company has an impressive release schedule for the 2010/2011 financial year, with major new album launches from artists including Good Charlotte, Kylie Minogue, Iron Maiden, Katy Perry, KT Tunstall, Robbie Williams (with his greatest hits) and debut albums from new signings Sky Ferreira, Tinie Tempah and Eliza Doolittle.

BEST SELLERS

To date the Beatles remastered sales have passed 13 million albums worldwide. This record-breaking project was one of the first to benefit from EMI's new consumer insight and marketing capability. The Beatles' September 2009 product range included individual albums, boxed sets in both stereo and mono, an apple-shaped USB stick, 'The Beatles: Rock Band' video game and other merchandise items.

Robbie Williams made a spectacular return with his 'Reality Killed The Video Star' which sold 2.5 million digital and physical albums.

Signed to EMI's Capitol Nashville label, Lady Antebellum's January 2010 release 'Need You Now' is America's biggest-selling album of 2010. To date it has sold 2.5 million digital and physical albums. Another US artist, multiple Grammy-winning Norah Jones, has sold over 2 million units of her new album 'The Fall'.

David Guetta, the French songwriter, artist, producer and DJ, sold 1.75 million copies of his 'One Love' album including a total of 6 million singles and digital tracks during the year on EMI Music, excluding his many collaborations with artists such as the Black Eyed Peas, Madonna and Kelis.

Also selling over a million album units in the period were Lily Allen (whose 'It's Not Me, It's You' was released in February 2009) and Depeche Mode, together with the 74th UK compilation of the EMI-owned brand 'Now That's What I Call Music' series.

Katy Perry continued to have a successful 12 months with her global hit album 'One of The Boys' which was released in June 2008 selling a further 3.8 million digital track downloads and nearly half a million full albums during the 2010 financial year.

Coldplay, whose 2008 album 'Viva La Vida' was the biggest selling album worldwide that year, passed another milestone in July 2009 when they became the first artist to sell more than one million full digital albums in the US and two million globally.

EMI MUSIC

AWARDS

In January 2010, EMI Music artists including The Beatles, Lady Antebellum, Keith Urban and David Guetta won a total of nine Grammy Awards.

At February's Brit Awards, Lily Allen, Robbie Williams and Spice Girls were all winners. Robbie won again at the Echo Awards in Germany in March, as did Depeche Mode and new EMI signing Helene Fischer.

The International Dance Awards in Miami in March saw David Guetta win four awards and Deadmau5 three. Deadmau5 also dominated the influential Beatport dance awards in May, winning five categories including Most Influential Artist for the second time in three years.

At Nashville's Academy of Country Music Awards in April, Lady Antebellum led with five wins while Luke Bryan won two.

Lily Allen won three awards at the Ivor Novello Awards for songwriting in May, while Mercury Prize nominee Bat For Lashes was also a winner.

At the Classical Brits, EMI Classics artists Dame Kiri Te Kanawa, Angela Gheorgiu, Thomas Ades and Antonio Pappano were all honoured.

EMI Music itself recently won the Marketing Society's 'Best Marketing Capabilities Award' in London for the work it did last year to improve the performance of individuals, teams and the Company as a whole to help drive sustainable organic growth.

Lily Allen

Robbie Williams

Lady Antebellum

EMI MUSIC

NEW SIGNINGS

During the last financial year, EMI Music signed new agreements with artists from around the world. These include, in the US and UK, AM Taxi, Deadmau5, Sky Ferreira, NERVO, Professor Green, The Japanese Popstars, Swedish House Mafia, Tinie Tempah and You Me At Six together with established artists Alice in Chains, Cypress Hill, Michael Franti, Snoop Dogg, 30 Seconds To Mars and Sir Simon Rattle as well as with Johnny Reid (Canada), Hindi Zahra (France), Mariza (Portugal), and Jessica Brando (Italy).

In February, EMI extended its successful exclusive licensing agreement with Walt Disney Records in Europe, the Middle East and Africa which delivered strong sales in the year, including over one million Hannah Montana albums in 2009.

EMI Label Services – which uniquely offers a range of global services to independent artists and labels including distribution, synchronisation and merchandising – signed artists such as Slash (ex-Guns n' Roses), The Automatic, Barenaked Ladies, Jet, Omarion, Raekwon, Twista, and labels Wind-Up, Century Media, Primary Wave and Eleven Seven. EMI Label Services has shown overall growth of 41%, including significant growth in key territories such as the US where it grew digital revenues by 27%.

DIVERSIFYING REVENUES

EMI continued its strategy of diversifying its revenues during the year. It acquired loudclothing.com, the second largest distributor of entertainment merchandise to retailers in Europe, and it launched Abbey Road Live which produced on-location live recordings, sold direct to fans, for artists such as Blur, Deadmau5, The Pixies as well as the City of Birmingham Symphony Orchestra.

DIGITAL MILESTONES

EMI Music is working at the forefront of digital music innovation, and we have developed an award-winning digital marketing capability to drive our expansion in this area. The consumer insight that this capability delivers enables us to identify potential release schedule opportunities and drive ongoing marketing efficiency and effectiveness.

During the past year, the company signed new digital agreements with iTunes, Microsoft, Sky, Rhapsody, Napster, Deezer, MOG, RDIO, Grooveshark, Stingray Digital (Canada), Australian telco AAPT, and Hungama Digital Media (South East Asia), among others.

EMI Music also expanded the reach and revenue streams for its artists' videos with a revamped YouTube Channel and a deal with popular France-based video site Dailymotion. It also became the only major music company to enter into deals for premium video content with both Hulu (US) and VEVO (worldwide). The company struck an agreement with video technology Brightcove for syndicating artist videos to websites, blogs and other sites and monetising them. Depeche Mode's 'Sounds Of The Universe' album was the first iTunes Pass launched on Apple's iTunes Store.

EMI's brand partnership team also entered into digital music deals with brands ranging from Nikon (featuring Robbie Williams in its 'I Am Alive' TV ad campaign), Fairmont Hotels and teen debit card company MYPLASH to global lottery marketing company Pollard Banknote.

EMI collaborated closely with its artists to strengthen their connection with fans by developing social networking and mobile applications, including mobile phone apps from artists including Depeche Mode, David Guetta, Air and Alice in Chains, as well as for our Now! brand.

EMI MUSIC PUBLISHING

EMI MUSIC PUBLISHING

- Revenue up 2.1% to £478 million*
- EBITDA up 12.8% to £150 million*
- EBITDA margin up from 28.4% to 31.4%*

*compared to previous year

OVERVIEW

EMI Music Publishing is the world's leading publisher of popular music, representing some of the most successful writers working in the music industry today, including Beyoncé, Drake, Jay-Z, Norah Jones, Alicia Keys, Pink, Scissor Sisters, Stargate, Usher, Kanye West, Pharrell Williams, and Amy Winehouse. Its remarkable catalogue of more than 1.3 million songs includes some of the most recognisable songs of all time, such as 'New York, New York', 'Bohemian Rhapsody', 'Every Breath You Take', 'You've Got A Friend', 'Over the Rainbow' and 'Santa Claus is Coming to Town'.

Songwriters and publishers are entitled to be paid every time that a piece of music is used commercially, with publishing companies collecting revenue from many different users and distributing royalties to the writer of each song they represent. EMI Music Publishing earns income from discovering and developing the best songwriters in the world, and then connecting their music with a commercial audience.

Alicia Keys

Pink

Stargate

EMI MUSIC PUBLISHING

EMI Music Publishing derives its revenues from the following areas:

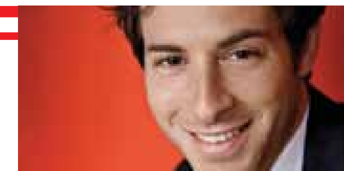
- **Mechanical royalties**, from the sale of CDs, DVDs, digital downloads and miscellaneous items such as music boxes and player pianos;
- **Performance royalties**, from the performance of a song on radio, TV, webcasts, concerts, sporting events and in commercial premises such as shops and restaurants;
- **Synchronisation royalties**, from the use of songs in visual works such as TV programmes, films, commercials, computer games and karaoke; and
- **Other uses**, including ringtones and other mobile products, stage productions, sheet music, merchandise and production library music.

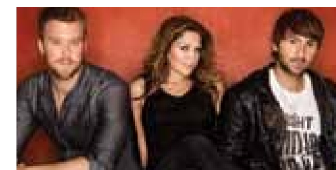
At the heart of EMI's success are the outstanding songwriters and songs that EMI represents. EMI Music Publishing continues to excel in new music discovery, with an unequalled ability to find and nurture the very best songwriting talent across the world.

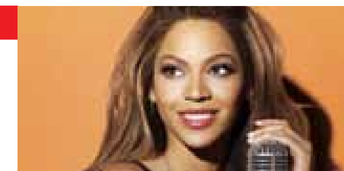
CREATIVE SUCCESS

Songwriters represented by EMI Music Publishing achieved notable success in charts around the world during the financial year. Hit albums by writer-artists including Arctic Monkeys, Alicia Keys, Beyoncé, Black Eyed Peas, Drake, Duffy, Gorillaz, Calvin Harris, Jay-Z, JLS, Norah Jones, Lady Antebellum, Pink, Rihanna, Take That and Train have dominated charts around the world, while the work of EMI Music Publishing songwriters has been heavily featured on albums by artists such as Christina Aguilera, Lily Allen, Eminem, Madonna, MIA, Michael Jackson, T.I., Brad Paisley, Carrie Underwood and Robbie Williams.

The commercial success of the writers represented by EMI has been reflected in the critical acclaim they have achieved during the course of the year. At this year's Grammy Awards in Los Angeles, Beyoncé set a new record for most wins by a female performer in a single night, while Jay-Z continued his incredible Grammy run by picking up wins in three categories. The Black Eyed Peas – whose singer Fergie is represented by EMI Music Publishing – won two awards, while there were also individual wins for a number of writers including Lady Antebellum, Judas Priest and Mary Mary. JLS won two awards at the 2010 BRIT Awards held in London in February picking up Best British Single


Mark Ronson


Lady Antebellum


Beyoncé

EMI MUSIC PUBLISHING

and Best British Breakthrough Act. Jay-Z won Best International Male Solo Artist, while the Spice Girls' performance of 'Wannabe/Say You'll Be There' picked up a special award for the Best Brits Performance of the Last 30 Years.

EMI's writers won numerous awards at the Country Music Association Awards, including the prestigious Song of the Year Award for the Jamey Johnson song 'In Color'.

Awards won by EMI writers at the Q Awards included Best Album ('West Ryder Pauper Lunatic Asylum' by Kasabian), Best Track ('The Fear' by Lily Allen, co-written by Greg Kurstin), Best Live Act (Arctic Monkeys), and Classic Songwriter (Yusuf Islam).

EMI Music Publishing UK won a major prize at The Licensing Awards, which recognise the products and properties which have stood out over the course of the year for their quality and ability to connect with consumers. EMI won the award for the Best Licensed Apparel Or Accessories Range, in recognition of a range of clothing created in partnership with leading UK retailer Sainsbury's TU Clothing division, featuring the lyrics to some of the biggest songs in our catalogue.

MARKET POSITION

In December, Billboard magazine named EMI the US Publisher of the Year for the 12th consecutive year, with EMI Music Publishing songwriters dominating the airplay charts during the course of the year. In the UK, Music Week named EMI Music Publishing their Publisher of the Year, reflecting the market-share leading performance of the writers represented by the Company in the British charts. This was the 14th consecutive year that EMI has been at the top of Music Week's rankings.

Additionally, the creative passion and efforts of EMI songwriters enabled the Company to pick up prestigious Publisher of the Year awards during the course of the financial year, at the BMI Country Awards, the ASCAP Pop Music Awards, the Canadian Music Industry Awards, the ASCAP Rhythm & Soul Awards and the ASCAP Country Music Awards.

Market share remains strong during the current financial year, with the hits of EMI Music Publishing songwriters ensuring that the Company led market share charts in both the US and UK during the most recently completed quarters.

EMI MUSIC PUBLISHING

STRONG RELEASE SCHEDULE

The 2011 financial year has already seen some major releases featuring songs by EMI Music Publishing writers, including albums by Arcade Fire, Avenged Sevenfold, 3OH!3, Drake, Gorillaz, Professor Green, Queen, Scissor Sisters, Scouting For Girls, Taio Cruz and Usher.

Forthcoming releases from EMI Music Publishing's performer-writers during the next few months include albums by Natasha Bedingfield, James Blunt, Diddy-Dirty Money, Duffy, The Feeling, Bryan Ferry, Calvin Harris, Ida Maria, Good Charlotte, The Last Shadow Puppets, Sean Paul, Mark Ronson, Take That and Kanye West.

WORLD CLASS SALES ORGANISATION

This ongoing creative excellence, and EMI's success in developing hits, enables EMI Music Publishing to establish new commercial relationships and develop valuable sources of revenue from businesses entering the music market for the first time. It is new music that expands demand and helps create new markets and so the success of EMI's songwriters is essential to further growth.

EMI Music Publishing's work with some of the world's best songs and songwriters has enabled EMI to create new relationships with brands and businesses that seek to put music at the heart of their products. The result has been sharp increases in licensing revenue from many different forms of media over recent years. The continued diversification of EMI Music Publishing's synchronisation revenue streams enabled growth to be maintained during the period, countering the effects of the current economic downturn on advertising spending.

Scouting for Girls

Take That

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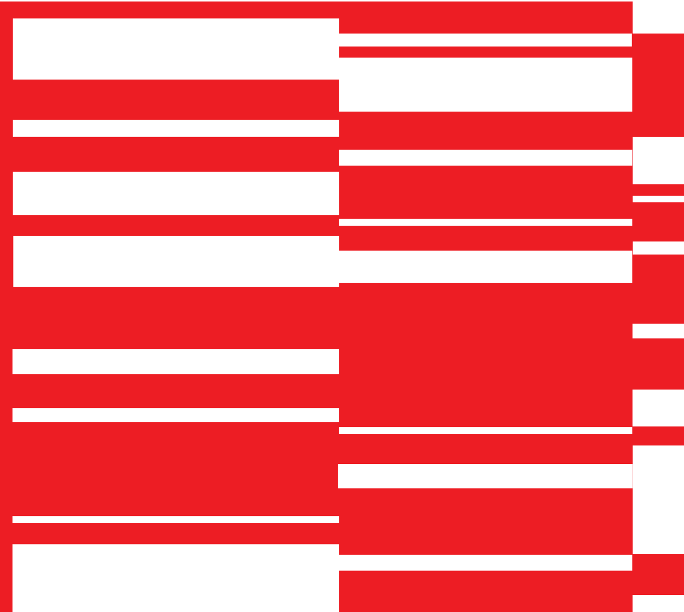

FINANCIAL OVERVIEW

FINANCIAL OVERVIEW

GROUP HISTORICAL FINANCIAL SUMMARY

£ million	2007	2008	2009	2010
Revenue	**1,808**	**1,458**	**1,569**	**1,651**
Overheads	**(445)**	**(402)**	**(399)**	**(392)**
EBITDA (before restructuring charges and fair value adjustment in 2008)*	**68**	**164**	**293**	**334**
% EBITDA / Revenue	3.8%	11.2%	18.7%	20.2%
Operating Performance (after restructuring, depreciation & amortisation but before impairment of goodwill and intangible assets)	(135)	(258)	7	121
Total Loss (after impairment of goodwill and intangible assets)	(287)	(451)	(1,567)	(512)
Cash flow generated from operating activities	**7**	**(153)**	**161**	**250**

* 2008 EBITDA figure is before the fair value charge of £192 million arising upon acquisition by Terra Firma in the financial year ended 31 March 2008

Note: Financial results reported at actual exchange rates for the relevant financial year

EMI's operational performance has improved significantly since its acquisition by Terra Firma on 17 August 2007.

Despite the intense pressures of the declining recorded music market and the deteriorating conditions of the worldwide economy during the period, EMI has maintained broadly flat revenues through market share growth in both of the Company's trading divisions. EMI Music has successfully launched a number of new artists in both domestic and international markets including Katy Perry, Lady Antebellum, and has continued to develop the careers of established artists such as Coldplay, Norah Jones and Robbie Williams. A series of new initiatives focused on the way the Company works with its catalogue assets has delivered excellent results, notably with the recent remastered campaign with The Beatles.

Following the acquisition, EMI Music Publishing has continued to lead the market in the discovery and development of the leading writers of popular music in the world, It has also undertaken a repositioning of its sales approach and procedures to create a more proactive licensing and sales operation that is building privileged relationships with high end commercial users of music across the world. A multi-year transformation project has modernised every one of EMI Music Publishing's systems and technologies, allowing the business to achieve greater efficiency and effectiveness in its work for the writers it represents.

FINANCIAL OVERVIEW

Across both divisions EBITDA prior to restructuring costs has improved markedly, reflecting a rigorous approach to both direct and indirect cost management. Initiatives have included the restructuring of our supply chains, the renegotiation of major supply and service contracts as well as the outsourcing and licensing of non-core activities. In EMI Music a structured approach to consumer insight and product development, coupled with a strong cost control process, has improved the efficiency of marketing and promotional (M&P) spend, the costs involved in the creative process, as well as the absolute cash amounts. Indirect costs have been significantly tightened through ongoing restructuring initiatives across the organisation.

Impairment charges have been incurred to amend the carrying values of assets as at the time of acquisition. These impairment charges have been driven by the global economic slowdown, a reduction in current market estimates of the growth of the digital and online markets, and the continuing decline of the physical market. Impairment charges are assessed on an annual basis and the charge of £602 million taken in the financial year ending March 2010 was significantly lower than that taken in 2009 (£1,038 million). These impairment charges are accounting costs rather than cash charges, and amend the carrying values of both the music catalogues and acquisition goodwill at the respective balance sheet dates.

A disciplined focus on cash and cash management cash flow is demonstrated in the reported figures. In 2010 the business generated £250 million of cash from operating activities, a significant increase from both the prior year's £161 million cash generated and the £7 million generated in 2007, the last full year of trading before EMI's acquisition by Terra Firma.

FINANCIAL OVERVIEW

GROUP FINANCIAL PERFORMANCE

£ million	Year ended 31 March 2010*	Year ended 31 March 2009*	% change
Net Revenue	**1,651**	**1,569**	**+5.2%**
Cost of sales	(925)	(877)	+5.5%
Gross margin	**726**	**692**	**+4.9%**
Overheads	(392)	(399)	-1.8%
EBITDA	**334**	**293**	**+14.0%**
Depreciation	(23)	(22)	+4.5%
Amortisation	(119)	(128)	-7.0%
Restructuring	(71)	(136)	-47.8%
Fair value adjustments	(602)	(1,038)	-42.0%
Loss from operations	**(481)**	**(1,031)**	**-53.3%**
Total finance charges	(143)	(722)	-80.2%
Loss before tax	**(624)**	**(1,753)**	**-64.4%**
Tax	112	186	-39.8%
Loss after tax	**(512)**	**(1,567)**	**-67.3%**

* stated at the relevant FY2009 and FY2010 statutory rates

EBITDA

The Maltby Group reported EBITDA of £334 million (before any significant non-recurring items) for the year ended 31 March 2010 which represents an increase of 14% from the £293 million reported in the previous year.

Depreciation and Amortisation

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 Group reported depreciation of £23 million for the year ended 31 March 2010 which represents an increase of 4.5% from the £22 million reported in the previous year.

FINANCIAL OVERVIEW

Intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives. Amortisation for the year ended 31 March 2010 totalled £119 million. This represents a decrease of 7% from the £128 million reported in the previous year and is primarily as a result of the impairment of the intangible assets in 2009.

RESTRUCTURING

From the date of the acquisition of EMI, the directors have been reviewing and analysing the operations, strategies and markets of both the EMI Music and EMI Music Publishing divisions. This fundamental and wide-ranging restructuring exercise was initiated immediately after the date of acquisition, and management will continue to review markets and strategies on an ongoing basis. Both divisions' management have implemented a wide range of cost saving initiatives including significant headcount reductions and, as with all businesses, EMI will continue to look at its organisational needs and cost-base to ensure that it has a structure that reflects the needs of its creative community and the realities of the marketplace. Debt and equity refinancing has also been investigated during the year, and management will continue to look for ways of easing the debt burden on the Company.

This year, restructuring initiatives included rationalising the property portfolio, outsourcing of certain non-core business areas and renegotiating contracts with suppliers, as well as security and capital reorganisation matters. The costs incurred in performing this strategic review, and the implementation of the resulting restructuring, totalled £71 million in the year ended 31 March 2010 (£136 million in the year ended 31 March 2009).

FAIR VALUE ADJUSTMENTS

In accordance with International Financial Reporting Standards, the directors have assessed whether there has been any indication that the carrying values of intangible assets are not supported by the present value of their future cash flows. As a result of the global economic slowdown, a reduction in market estimates of the growth of the digital and online music markets, and the continuing decline of the physical market, the directors concluded that there was sufficient doubt over the recoverability of the carrying value of certain intangible assets to warrant an impairment review of the music catalogues.

The directors performed a valuation exercise to determine the recoverable amount of the music catalogues of both divisions, which resulted in an impairment of £138 million to the music catalogues of the EMI Music Publishing division in the year ended 31 March 2010 (2009: £661 million) and an impairment of £165 million in the EMI Music division (2009: £nil).

In addition, the directors performed the annual impairment assessment of the goodwill of each division, and have recognised impairments of £195 million (2009: £202 million) and £104 million (2009: £175 million) to the carrying values of the goodwill of the EMI Music and EMI Music Publishing divisions respectively.

The details of the assumptions and methodologies used in these impairment reviews are set out in note 11 of the Maltby Capital financial statements.

FINANCIAL OVERVIEW

FINANCE AND OTHER CHARGES

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, net foreign exchange losses, losses on hedging instruments and interest payable on defined benefit pension scheme liabilities.
Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, dividend income, net foreign exchange gains, gains on hedging instruments and interest receivable on defined benefit pension scheme assets.

The Maltby Group reported finance costs of £143 million for the year ended 31 March 2010. This represented a significant decrease of 80.2% from the £722 million reported in the previous year. This difference is driven by the fair value gain on derivatives of £48 million (2009: loss of £155 million), the foreign exchange gain on foreign currency borrowings of £73 million (2009: loss of £297 million) and the interest payable on bank overdrafts and loans of £196 million (2009: £223 million).

FINANCIAL OVERVIEW

OPERATIONAL PERFORMANCE

£ million Revenue by segment	Year ended 31 March 2010	Year ended 31 March 2009	% change
Recorded Music	1,173	1,101	+6.5%
Music Publishing	478	468	+2.1%
Total Net Revenue	**1,651**	**1,569**	**+5.2%**

EMI Music continued to be challenged by the overall decline in physical sales, which has not yet been fully offset by growth in digital sales. However, over the year EMI's global market share increased by 1.0% to 10.4%. Given the underlying market decline, EMI Music continues to develop its strategy of diversifying revenue streams into areas such as merchandising, live recordings and new digital platforms, as well as developing the reach and income streams for its artists' videos through a range of new distribution partnerships.

Despite the difficult market conditions around the world, together with the absence of certain non-recurring items that featured during the previous financial year, Music Publishing revenues remained robust through the reported period. EMI Music Publishing continues to excel in new music discovery, with an unmatched ability to find and nurture the very best songwriting talent across the world.

£ million EBITDA	Year ended 31 March 2010	Year ended 31 March 2009	% change
Recorded Music	184	160	+15.0%
Music Publishing	150	133	+12.8%
EBITDA	**334**	**293**	**+14.0**

EMI Music reported an improvement in EBITDA of £184 million (2009: £160 million) whilst Music Publishing reported an increase from £133 million to £150 million. These divisional results and the trading performance of both businesses are discussed further in the following sections.

FINANCIAL OVERVIEW

RISKS

The Group's businesses face a number of other risks and uncertainties as is normal for a Group of its size, complexity and geographic spread. The directors consider that the principal risks faced by the business include:

- The market for recorded music products has been declining and may continue to decline;
- The current uncertainty in global economic conditions could adversely affect the prospects and results of the business;
- The downward pressure on the pricing of music products could lead to pressure on the margins;
- The dependence on identifying, signing and retaining artists with long-term potential, and the continued success of established artists;
- The reliance on identifying and exploiting new income streams;
- The continuing exposure of the music industry to illegal music downloads and file sharing;
- The eventual erosion of copyright protection leading to the potential exploitation of recordings or EMI Music Publishing assets by third parties;
- The substantial dependence on a limited number of online music stores, in particular the iTunes Store, for the online sale of music recordings, and the resultant significant influence that they can exert over the pricing structure for online music stores;
- The Group's operating results fluctuate seasonally and, in the event we do not generate sufficient net sales in our third financial quarter and subsequent quarters, we may not be able to meet our debt service and other obligations;
- Unfavourable currency exchange rate fluctuations could adversely affect the results of operations.
- Changes in assumptions underlying the carrying value of certain Group assets could result in impairment which would negatively affect our operating results and shareholder equity.
- The Group is subject to litigation, including intellectual property and royalty audit claims, which could adversely affect our business and the Group has engaged in substantial restructuring activities in the past and will need to implement certain further restructurings in the future and our restructuring efforts may not be successful or may have adverse effects.

RECORDED MUSIC

RECORDED MUSIC

£ million	Year ended 31 March 2010	Year ended 31 March 2009	% change
Total revenue	**1,173**	**1,101**	**+6.5%**
Cost of Sales	(669)	(620)	+7.9%
Total Gross Profit	504	481	+4.8%
Overheads	(320)	(321)	-0.3%
EBITDA	**184**	**160**	**+15.0%**

During the financial year, EMI Music successfully released a number of major worldwide hits from its roster of artists including Robbie Williams ('Reality Killed The Video Star'), Lady Antebellum ('Need You Now'), Norah Jones ('The Fall'), David Guetta ('One Love') and The Beatles ('Beatles Remastered'). 'Beatles Remastered' was EMI Music's best-selling project in the financial year. Launched in September 2009, the albums sold over 10 million units in the year. This project, which broke multiple chart records around the world including the most simultaneous titles by a single artist (18) on Billboard's Comprehensive Albums chart, was one of the first to benefit from EMI Music's new consumer insight and marketing engine. This approach has changed the way the Company develops and promotes music products in order to drive sales. EMI continued to invest in developing this approach during the year. The overall product range included individual albums, boxed sets in both stereo and mono, an apple-shaped USB stick and merchandise items.

Also selling over a million album units in the period were Lily Allen (whose 'It's Not Me, It's You' was released in February 2009) and Depeche Mode, together with the 'NOW 74' compilation. Katy Perry continued to have a successful 12 months with her global hit album 'One of the Boys' which was released in June 2008 selling a further 3.8 million digital track downloads and nearly half a million full albums during the EMI financial year. Coldplay, whose 2008 album 'Viva La Vida' was the biggest selling album worldwide that year, passed another milestone in July 2009 when they became the first artist to sell more than one million full digital albums in the US and two million globally.

A continuing commitment to both direct and indirect cost control enabled EBITDA to improve by 15% to £184 million in the year.

MUSIC PUBLISHING

MUSIC PUBLISHING

£ million	Year ended 31 March 2010	Year ended 31 March 2009	% change
Revenue	**478**	**468**	**+2.1%**
% of revenue from digital	8.1%	7.4%	
Gross Operating Profit	222	211	+5.2%
Overheads	(69)	(75)	-8%
Group Services	(3)	(3)	0%
EBITDA	**150**	**133**	**+12.8%**

During the financial year, songwriters represented by EMI Music Publishing achieved notable success in charts around the world. Hit albums by writer-artists including Alicia Keys ('The Element of Freedom'), Beyoncé ('I Am…Sasha Fierce'), Drake ('Thank Me Later'), Gorillaz ('Plastic Beach'), Jay-Z ('The Blueprint 3') and Train ('Save Me San Francisco') have achieved significant worldwide chart success, while the work of EMI Music Publishing songwriters has been heavily featured on albums by artists such as Christina Aguilera, Lily Allen, Eminem, Madonna, MIA, Michael Jackson, T.I., Brad Paisley, Carrie Underwood and Robbie Williams.

Working with some of the world's best songs and songwriters has enabled the Music Publishing division to create new relationships with brands and businesses that seek to put music at the heart of their products. The result has been sharp increases in licensing (or 'synchronisation') revenue from many different forms of media over recent years. The continued diversification of Music Publishing's synch revenue streams enabled growth to be maintained during the period, countering the effects of the current economic downturn on advertising spending.

EBITDA also benefited from good margin improvements, as well as Music Publishing's tight control on costs, where ongoing cost reduction programmes yielded savings over the previous year, and tighter deal management led to a decrease in provisions for advances.

EMI

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5 CORPORATE GOVERNANCE

The Maltby Capital board and its subsidiary Boards are committed to the highest standards of corporate governance as set out in the Combined Code on corporate governance.

MALTBY CAPITAL

The Maltby Capital Board believes that effective corporate governance is a fundamental aspect of a well run company and is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business.

The following paragraphs describe the key governance structures and internal controls operating within the Group. Through these mechanisms, EMI aims to apply the highest standards of corporate governance and to conform with the spirit of the Combined Code.

BOARD CONSTITUTION AND PROCEDURES

The Board comprises of seven members: a non-executive Chairman, five additional non-executive directors and one Executive Director (Roger Faxon).

The Chairman is responsible for the effective running of the Board and for communications with all directors and shareholders. The Executive Director is responsible for day-to-day operations and the development of strategic plans for consideration by the Board as a whole.

The Board meets regularly during the year, generally on a monthly basis, although in the 12 month period to 31 March 2010 a number of additional meetings were held to deal with particular matters. An agenda is established for all scheduled Board meetings and the Chairman ensures that all members of the board receive sufficient information prior to the Board meetings, including detailed financial information and regular presentations from executives on the business performance, relevant information relating to items requiring a Board decision and minutes of Board committees in advance of each Board meeting, whether they are able to attend or not. This enables the directors to make informed decisions on corporate and business issues under consideration.

The Board has adopted a formal schedule of delegated authorities. These delegated authorities are regularly reviewed and revised, as appropriate, to ensure appropriate controls are in place and were revised on the appointment of Roger Faxon as Group CEO on 18 June 2010. The principles enshrined in the delegated authorities determine internal policies by which the Group should operate, without restricting the legal independence of any Group company, and while ensuring that key policy and strategic decisions are made by the full Board.

The matters which must be brought to the Board for approval include, but are not limited to, the final approval of the annual accounts and budget, major acquisitions and disposals, and any changes to the Group's financing arrangements and financial policies. Regular updates on risk management, health and safety and other key company policies are also given to the Board.

Where urgent decisions are required on matters specifically reserved for the Board in between meetings, there is a process in place to facilitate discussion and decision making. The directors also have access to the advice and services of the secretary to the Board and external advisers, as appropriate.

BOARD COMMITTEES

The Board has established several committees, each with clearly defined terms of reference, procedures, responsibilities and powers.

FINANCE COMMITTEE

The Finance Committee is chaired by Julie Williamson and consists of three additional non-executive directors and the Executive Director. This committee is responsible for making recommendations to the Board on:

– funding strategy and capital structure, including raising of external financing;
– the granting of securities, guarantees and indemnities;
– management of financial risks and related internal policies and control procedures; and
– proposals by the Executive Director (beyond the authority levels delegated to the Executive Director) regarding any investments or divestments.

In certain specific circumstances the Board has delegated authorities to the committee to make decisions in these areas.

AUDIT COMMITTEE

The Audit Committee is chaired by Fraser Duncan and consists of three additional non-executive directors and the Executive Director. The Chief Financial Officers of EMI Music and EMI Music Publishing, the Director of Group Finance and external auditors are normally invited to attend the meeting. The committee meets at least four times during the financial year at appropriate times in the reporting and audit cycle.

The committee oversees the relationship with the external auditors. It reviews their audit plan and discusses audit findings with them. In addition, the committee reviews the effectiveness of the Group's internal controls and risk management systems and also ensures that there is proportionate and independent investigation of any matter brought to their attention. The committee is required to assist the Board to fulfil its responsibilities related to external financial reporting and associated announcements. During the year the committee reviewed, either as a committee or as part of the Board:

– the annual financial statements, including the requirements for financial reporting;
– changes proposed to the Group's accounting policies and practices;
– significant accounting issues;
– the audit plan and processes; and
– the Company's risk management process.

The committee is also responsible for the development, implementation and monitoring of the Group's policy on external audit. The committee has oversight responsibility for monitoring independence, objectivity and compliance with ethical and regulatory requirements. The committee recommends the appointment and reappointment of Maltby Capital's external auditors and annually reviews a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards.

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The committee also reviews the terms, areas of responsibility and scope of the audit (including schedules of unadjusted errors and representation letters) as set out in the external auditors' engagement letter; the overall work plan for the forthcoming year, together with the cost-effectiveness of the audit as well as the auditors' remuneration and performance; any major issues which arise during the course of the audit and their resolution; key accounting and audit judgements; the level of errors identified during the audit; and the recommendations made to management by the auditors and management's response.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee is chaired by Stephen Alexander and consists of two additional non-executive directors. The committee meets at least twice a year and at such other times as the board requires and its specific duties and responsibilities are as follows:

- to establish criteria to be used in selecting non-executive directors and senior executives and ensure the remuneration packages are designed to attract, motivate and retain staff of the highest calibre;
- to approve the remuneration of the Executive Director and senior executives and management, to provide independent and objective assessment of any benefits granted to such individuals; and
- to ensure that the pension arrangements throughout the Group are appropriate, well supervised and conform to applicable law.

The committee will also review the design of incentive and performance related pay plans for approval by the board and will review the Company's remuneration practices across the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS

Maltby Capital's aim is to manage risk and to control its business and financial activities cost-effectively and in a manner that enables it to exploit profitable business opportunity in a disciplined way.

The Board has overall responsibility for the systems of internal controls, which are designed to manage risk of failure to achieve the objectives of the business where such risk cannot be eliminated. The Board has considered the systems of internal control for the accounting year under review and is satisfied that they are appropriate. There is a programme of regular review and development which is monitored by the audit committee.

ROLE OF MALTBY INVESTMENTS LIMITED ('MALTBY INVESTMENTS')

Maltby Investments, the direct subsidiary of Maltby Capital, entered into financing arrangements with Citi in 2007. Maltby Investments has two directors including Roger Faxon, Chief Executive, as Chairman of the Board. Maltby Investments is subject to the same corporate governance structure and controls as the rest of the Group.

BOARD AND COMMITTEE COMPOSITION

	MCL Board	Finance Committee	Audit Committee	Remuneration Committee	MIL Board
Stephen Alexander	✔	✔		✔	
Roger Faxon	✔		✔		✔
André Bourbonnais	✔	✔	✔	✔	
Arjan Breure	✔	✔	✔		
Fraser Duncan	✔		✔		
Ruth Prior	✔	✔	✔	✔	✔
Julie Williamson	✔	✔			

BOARD DIRECTORS

Stephen Alexander

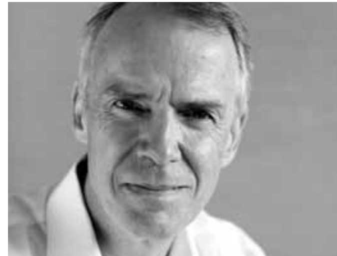
Stephen Alexander is Chairman of Maltby Capital, having been appointed to the role in June 2010. He had previously been deputy chairman of the Maltby Capital Board, as well as senior non-executive director of EMI Music Publishing.

As an Operational Managing Director at Terra Firma Capital Partners Limited between 2002 and 2008, Stephen took on a series of senior management roles within the private equity firm's portfolio businesses. These included the chairmanship of AWAS aircraft leasing, interim CEO of Odeon Cinemas and subsequently Chairman of the Odeon/UCI Group, Chairman of the Thresher Group, and Deputy Chairman and Chief Executive of Meridien Hotels.

Prior to joining Terra Firma Capital Partners Limited, Stephen was Chief Executive of Hicks, Muse, Tate and Furst's European food business, including Hillsdown Holdings. He had previously enjoyed a 17 year career with Allied Domecq, culminating in his role as Chief Executive of the retail division, and a member of the PLC Board.

Stephen has an MA in Law from Emmanuel College, Cambridge.

BOARD DIRECTORS



Roger Faxon

Roger Faxon is Group Chief Executive and Chairman and CEO of both EMI Music and EMI Music Publishing. He was appointed to his current role in June 2010.

Roger began his career in the entertainment industry as executive vice president/COO for LUCASFILM Ltd, guiding the operations of the Company including the motion pictures 'Raiders of the Lost Ark', 'Return of the Jedi', and 'Indiana Jones and the Temple of Doom'. He was a partner in the Mount Company movie and TV production company, producing hit movies 'Frantic', 'Bull Durham' and 'Tequila Sunrise,' before taking senior management roles at Tri-Star and Columbia Pictures.

In the early 1990s, Roger joined Sotheby's as Chief Operating Officer of its North and South American operations. He was later appointed Chief Executive of London-based Sotheby's Europe.

Roger joined EMI in 1994 as senior vice president, worldwide business development and strategy, before moving to EMI Music Publishing in 1999 as executive vice president and Chief Financial Officer. After a three year period as Chief Financial Officer of EMI Group, he was named president and Chief Operating Officer of EMI Music Publishing in 2005, before becoming Chairman and Chief Executive in March 2007.

Roger has a BA in International Relations & Political Economy from the Johns Hopkins University in Baltimore.

BOARD DIRECTORS

André Bourbonnais

André Bourbonnais is Senior Vice President of Private Investments at CPP Investment Board, responsible for leading private equity and infrastructure investments in the CPP portfolio. CPP have co-invested in EMI alongside Terra Firma.

Prior to joining CPP Investment Board, André managed a combined private equity portfolio in excess of $3 billion in financial services, telecommunications, media and entertainment sectors for another Canadian pension plan manager.

Before entering the private equity space, he spent several years with a leading telecommunications company mostly as a senior officer responsible for corporate development and legal affairs.

André started his career as a corporate lawyer with a major Canadian law firm and then a consultant for a European merger & acquisition consulting boutique.

André earned his degrees from the London School of Economics and the University of Ottawa.

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BOARD DIRECTORS

Arjan Breure
Arjan Breure is a Financial Managing Director at Terra Firma Capital Partners Limited, having joined the Company in early 2008.

Dutch-born Arjan has played an active role in deal origination and portfolio value optimisation during his time at Terra Firma Capital Partners Limited. He has a particular focus on potential transactions in Europe, notably in the commercial real estate, telecommunication and finance sectors.

Arjan has been involved with EMI since he joined Terra Firma Capital Partners Limited; in particular he has responsibility for financial restructuring.

Prior to joining Terra Firma Capital Partners Limited, Arjan was Head of Asset Management at Citi Property Investors. He has also worked for Cherokee Investment Partners, and in the New York offices of Prudential Securities Merchant Banking and Rabobank International.

Arjan has an MBA from INSEAD and a Masters in Economic History from the University of Utrecht.

BOARD DIRECTORS

Fraser Duncan

Fraser Duncan worked for Terra Firma Capital Partners Limited from 1997 to October 2009, most recently as Managing Director of Portfolio Businesses, and as a member of the Investment Advisory committee.

Fraser's responsibilities included pre- and post-acquisition operational change planning and implementation, performance monitoring and governance processes. He has held board seats on a number of the portfolio companies, providing him with a view of operational matters. Fraser was also a member of Terra Firma's General Partners' boards.

Since leaving Terra Firma Capital Partners Limited at the end of last year, he has held a number of non-executive director positions in addition to his work with Maltby Capital. He was appointed to the board of Maltby Capital in June 2010, having been chair of the audit committee since 2008.

Prior to joining Terra Firma Capital Partners Limited, Fraser held positions within Rentokil Initial, Cameron Consultants and Unilever.

Fraser is a Chartered Management Accountant and holds a degree in Economics and Statistics from York University.

BOARD DIRECTORS

Ruth Prior

Ruth Prior is a Finance Director at Terra Firma Capital Partners Limited, having joined the company in 2002. She focuses on operational, financial and commercial due diligence for new deals, as well as the implementation of operational and strategic agendas within portfolio companies.

Ruth's work at Terra Firma Capital Partners Limited has resulted in her appointment to the board of a number of portfolio companies including the Waste Recycling Group (WRG) and Infinis. She played a key role in the process to demerge Infinis from WRG, helping to create the largest standalone UK renewable energy company and enabling the subsequent sale of WRG to Spanish construction company Fomento de Construcciones y Contratas.

She has been involved with the EMI business since 2008 when she was first appointed to the Maltby Capital Board. After resigning in late 2009 to focus on the birth of her third child, Ruth returned to the Board in 2010 on her return to work.

Before joining Terra Firma Capital Partners Limited, Ruth held a number of finance and commercial roles at Unilever, Whitbread and Bass.

Ruth is a Chartered Management Accountant and holds a degree in Biochemistry from Birmingham University.

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BOARD DIRECTORS

Julie Williamson

Julie Williamson is a Financial Managing Director at Terra Firma Capital Partners Limited, and has been with Terra Firma Capital Partners Limited since 1998. As well as being heavily involved in the Group's pub businesses, Julie led the team advising on Terra Firma's investment in the German motorway service station business Tank & Rast. She was subsequently responsible for its refinancing in 2006 and Terra Firma's partial exit.

From September 2007 to October 2009, she was seconded on a full-time basis into the EMI Music business as Group Chief Investment Officer.

Prior to joining Terra Firma Capital Partners Limited, Julie worked for Nomura heading the legal team that provided legal risk analysis and transaction execution support for the Group. Prior to that, she was a partner in the banking department with the law firm of Winthrop & Weinstine.

Julie has a Bachelor of Business Administration, majoring in Finance from the University of Iowa, and has a Juris Doctor also from the University of Iowa. She is a member of the Minnesota State Bar Association.

CORPORATE AND SOCIAL RESPONSIBILITY

CORPORATE AND SOCIAL RESPONSIBILITY

As a music company, EMI is very fortunate to work with an art form that has a positive effect on people and makes a significant contribution to communities all around the world.

EMI aims to have a beneficial impact on the community, both through the way the business is managed and through the wider role it plays in society. Within its operations the Company works hard to understand the expectations of different stakeholders and demonstrate responsible business practices.

Decisions about community investment and charitable giving are made locally by our business units around the world. These decisions are determined by local needs and local issues which are of direct concern or interest to our employees, within a community support framework which focuses on youth, music and community. Two particular examples – one in the UK and one in the US – illustrate how EMI and our employees contribute in these important areas.

EMI MUSIC SOUND FOUNDATION

The EMI Music Sound Foundation ('EMI MSF') was established by EMI in 1997. It is an independently governed music education charity which to date has awarded over £3.5 million to support schools, teachers and students in all things musical. Today it is the single largest sponsor of **specialist** performing arts colleges in the UK and has created vital bursaries at seven music colleges to assist music students in need of financial support. EMI MSF has also helped hundreds of schools and individual students to improve their access to music through the purchase or upgrade of instruments and musical equipment.

One such recipient of EMI MSF funds is Smithills School, Bolton, whose Senior Brass Band have won the National Festival of Music For Youth on 11 occasions, the UK National Youth Brass Band Championships seven times and four consecutive Gold Medals at the World Music Contest in Kerkrade, The Netherlands.

EMI MSF also supported the 2008 winner of BBC Young Musician of the Year, Peter Moore, who won the prestigious competition with a trombone that EMI MSF helped to purchase.

Smithills School Bolton Senior Brass Band

CORPORATE AND SOCIAL RESPONSIBILITY

EMI CHRISTIAN MUSIC GROUP & FEED MY STARVING CHILDREN

Members of the EMI Christian Music Group ('EMI CMG') have a history of 'giving away' their Christmas, by devoting the time they would have spent on the company Christmas celebration to those in greater need. Most recently they partnered with the successful EMI-released Christian music compilation series 'WOW' and named their Christmas initiative "WOW Shares". For the third year running US charity Feed My Starving Children, which provides food to severely malnourished children in over 60 countries, benefited from the event.

On 9 December 2009, on the campus of local Nashville, Tennessee college Belmont University, 750 EMI CMG employees, artists, songwriters, industry colleagues and Belmont students packed more than 200,000 meals for children in Haiti.

This effort proved to be even more important than expected as the meals packed arrived after the devastating Haiti earthquake in January 2010.

EMI CMG employees and colleagues prepare to pack meals for Feed My Starving Children

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DIRECTORS' REPORT

The directors present their directors' report and financial statements for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The Company, through its indirect, wholly-owned subsidiary Maltby Acquisitions Limited, acquired the EMI Group of companies ("EMI") on 17 August 2007. EMI Group comprises two distinct businesses; EMI Music and EMI Music Publishing.

EMI Music is one of the oldest, largest and best known music businesses in the world. It is the fourth largest recorded music business globally and is active in more than 40 countries worldwide. EMI Music's business primarily focuses on monetising its extensive catalogue, the discovery and development of artists, and the related marketing, distribution and licensing of recorded music produced by such artists.

EMI Music Publishing is in the business of acquiring, protecting, administering and exploiting rights in musical compositions, while at the same time servicing both songwriters and licensors of music alike. It is a business based on the songs themselves as distinct from the recordings or media in which they are used.

BUSINESS REVIEW

EMI's operational performance has improved since its acquisition by the Company. Whilst revenue has declined slightly compared to reported revenue in 2007, EBITDA excluding restructuring has increased from £68 million to £334 million this year. Operating result before non-cash impairment charge has increased from a reported loss of £135 million in 2007 to a profit of £121 million in this year. This improvement has been achieved despite the global economic crisis.

The full results of the Group are set out on page 56 of the financial statements.

REVIEW OF OPERATIONS

	2007* £m	2008* £m	2009 £m	2010 £m
Revenue	1,808	1,458	1,569	1,651
EBITDA excluding restructuring	68	(28)	293	334
Operating profit / (loss) before impairment of goodwill and intangible assets	(135)	(258)	7	121
Loss from operations	(157)	(258)	(1,031)	(481)

*The Company acquired EMI Group Limited on 17 August 2007. The result above represents the consolidated result of EMI Group Limited for the year ended 31 March 2007 and 2008.

DIRECTORS' REPORT

EMI MUSIC

During the financial year the Recorded Music Division successfully released a number of major worldwide hits from its roster of artists including Robbie Williams ('Reality Killed The Video Star'), Lady Antebellum ('Need You Now'), Norah Jones ('The Fall'), David Guetta ('One Love') and The Beatles ('Beatles Remastered'). 'Beatles Remastered' was EMI Music's best-selling project in the financial year. Launched in September 2009, the albums sold over 10 million units in the year. This record-breaking project was one of the first to benefit from EMI Music's new consumer insight and marketing capability that inform the way the company develops and promotes music products in order to drive sales and which EMI continued to invest in during the year. The overall product range included individual albums, boxed sets in both stereo and mono, an apple-shaped USB stick, clothing and other merchandise.

Also selling over a million album units in the period were Lily Allen (whose 'It's Not Me, It's You' was released in February 2009) and Depeche Mode, together with the 'NOW 74' compilation. Katy Perry continued to have a successful 12 months with her global hit album 'One of the Boys' which was released in June 2008 selling a further 3.8 million digital track downloads and nearly half a million full albums during the EMI financial year. Coldplay, whose 2008 album 'Viva La Vida' was the biggest selling album worldwide that year, passed another milestone in July 2009 when they became the first artist to sell more than one million full digital albums in the US and two million globally.

Recorded Music sales continue to be challenged by the continued overall market decline in physical sales that are not currently being fully offset by growth in digital sales, although over the year EMI's global market share increased by 1.0% to 10.4%. Given the underlying market decline, EMI continues to develop its strategy of diversifying its revenues and, during the year, EMI acquired loudclothing.com, Europe's largest independent music merchandise company, and launched 'Abbey Road Live', which produced and sold direct to fans on-location live recordings for artists such as the Pixies, Blur and Deadmau5.

In addition the company continued to expand into new digital platforms as well as developing the reach and income streams for its artists' videos through a range of new distribution partnerships.

EMI MUSIC PUBLISHING

At the heart of the Music Publishing Division's success are the outstanding songwriters and songs that the business represents. EMI Music Publishing continued to excel in new music discovery, with an unmatched ability to find and nurture the very best songwriting talent across the world. EMI Music Publishing was the leading publisher in the UK in the first three calendar quarters of the year while, in December 2009, Billboard magazine named EMI the top US publisher of the year for the 13th consecutive time. This creative excellence and continued success in developing hits continues to enable the Division to establish new commercial relationships and develop valuable sources of revenue from businesses entering the music market for the first time. It is new music that expands demand and helps create new markets and so the success of our songwriters is essential to further growth.

Work with some of the world's best songs and songwriters has enabled the Music Publishing Division to create new relationships with brands and businesses that seek to put music at the heart of their products. The result has been sharp increases in

DIRECTORS' REPORT

licensing (or "synchronisation") revenue from many different forms of media over recent years. The continued diversification of its synch revenue streams enabled growth to be maintained during the period, countering the effects of temporary labour issues on film and TV income and of the current economic downturn on advertising spending.

RESTRUCTURING INITIATIVES

From the date of the acquisition of EMI, the directors have been reviewing and analysing the operations, strategies and markets of both the EMI Music and EMI Music Publishing divisions. This fundamental and wide-ranging restructuring exercise was initiated immediately after the date of acquisition, continued through the year ended 31 March 2010 and will continue for the foreseeable future. In addition, across both divisions management have implemented a wide range of cost saving initiatives, including significant headcount reductions and investigating debt and equity refinancing this year.

This year restructuring initiatives included rationalising the property portfolio, outsourcing of certain non-core business areas, and renegotiating contracts with suppliers, as well as security and capital reorganisation issues. The costs incurred in performing this strategic review, and the implementation of the resulting restructuring, totalled £71 million in the year ended 31 March 2010 (£136 million in the year ended 31 March 2009).

KEY PERFORMANCE INDICATORS

The directors and management of the Group use a number of key performance indicators (KPIs) to assess the ongoing performance of the business. The principal financial KPIs used by the directors are revenue and EBITDA. The directors define EBITDA as the profit from operations stated before depreciation, amortisation, impairment, and exceptional items (including restructuring costs). Non-financial KPIs include market share, market growth and chart performance.

DIRECTORS' REPORT

The EBITDA, by division for each of the two periods is calculated as follows:

YEAR ENDED 31 MARCH 2010

£ million	EMI Music division	EMI Music Publishing division	Total Group
Revenue	1,173	478	1,651
Loss from operations	(331)	(150)	(481)
Add back: Restructuring costs	76	(5)	71
Depreciation	20	3	23
Amortisation of music catalogues and other intangibles	59	60	119
Impairment of intangible assets and goodwill	360	242	602
EBITDA excluding restructuring	**184**	**150**	**334**

YEAR ENDED 31 MARCH 2009

£ million	EMI Music division	EMI Music Publishing division	Total Group
Revenue	1,101	468	1,569
Loss from operations	(249)	(782)	(1,031)
Add back: Restructuring costs	131	5	136
Depreciation	19	3	22
Amortisation of music catalogues and other intangibles	57	71	128
Impairment of intangible assets and goodwill	202	836	1,038
EBITDA excluding restructuring	**160**	**133**	**293**

DIRECTORS' REPORT

BALANCE SHEET

In accordance with IFRSs the directors have assessed whether there has been any indication that the carrying values of intangible assets are not supported by the present value of their future cash flows. As a result of the global economic slowdown, and the uncertainty and general reduction to the current market estimates of the growth of the digital and on-line music markets, and the continuing rapid decline of the physical market, the directors have concluded there was sufficient doubt over the recoverability of the carrying value of certain intangible assets to warrant an impairment review of the music catalogues.

The directors performed a valuation exercise to determine the recoverable amount of the music catalogues of both divisions, which resulted in an impairment of £138 million to the music catalogues of the EMI Music Publishing division in the year ended 31 March 2010 (2009: £661 million) and an impairment of £165 million in the EMI Music division (2009: £nil). The details of the assumptions and methodologies used in the impairment reviews are set out in note 11 of these financial statements.

In addition the directors performed the annual impairment assessment of the goodwill of each division, and have recognised impairments of £195 million (2009: £202 million) and £104 million (2009: £175 million) to the carrying values of the goodwill of the EMI Music and EMI Music Publishing divisions respectively.

The total carrying value of the goodwill and intangible assets as at 31 March 2010 of the EMI Music division and the EMI Music Publishing division were £1,806 million (2009: £2,315 million) and £2,466 million (2009: £2,900 million) respectively. The carrying values of the goodwill and intangible assets have been reduced by amortisation and impairment charges.

Financial liabilities (excluding trade payables) of the Group totalled £3,662 million (2009: £3,811 million). This comprised bank term loans and overdrafts of £3,044 million (2009: £3,186 million), (the decrease being partly as a result of foreign exchange), a shareholder loan of £398 million (2009: £346 million), (the increase being a result of accrued interest charges) (see note 23), and other financial liabilities (being primarily interest rate swaps) of £220 million (2009: £279 million). Financial risk management objectives and policies and the Group's exposure to financial risks are set out in note 23 of the financial statements.

At 31 March 2010 borrowings have been classified as current because at that date the Group did not have an unconditional right to defer settlement of the liability for at least 12 months.

GOING CONCERN

The operating performance of EMI has improved markedly over the period since its acquisition by its current shareholders. The Group's Profit before impairment and restructuring costs has increased from £143 million for the financial year ended March 2009 to £192 million for the financial year ended March 2010. The Group's cash generated from operations has increased from £192 million for the financial year ended March 2009 to £273 million for the financial year ended March 2010. This represents a 34% increase in profit before impairment and restructuring costs and a 42% increase in cash generated from operations over the last financial year.

This enhanced operational performance, together with equity injections provided to date by the Company's shareholders, means the Group is able to meet its ongoing working capital needs and its current debt service obligations under the facilities agreements to which the Company's indirect subsidiary Maltby Investments Limited ('Maltby Investments') and a number of its

subsidiaries are party. However, the banking facilities contain a financial covenant for each division based on Debt/EBITDA which has been tightening over the same period to a greater extent than can be covered by the improvement in the Group's performance (especially within the EMI Music division). The covenant steps down significantly each March year end making it progressively harder to achieve the required ratio.

The covenants are tested quarterly in respect of rolling one year periods ending on 31 March, 30 June, 30 September and 31 December. The breach of a financial covenant (or any other covenant or the occurrence of an event of default) renders all of the facilities repayable on demand at the option of the lender. As the financial covenant ratios have tightened over this period, shortfalls to the financial covenant have occurred and (due to the continued tightening of the financial covenants in future periods) are anticipated to occur going forward, notwithstanding the operational improvements. The requirement for further equity cures is discussed in more detail below.

The principal uncertainty for the Group is whether additional equity funding will be available in future periods to enable it to comply with the financial covenant under the banking facilities. Due to the sound operating performance of the business, the directors believe that it would be in the interests of the Group's lender to maintain the Group's business as a going concern and to minimise any disruption to its ongoing operations if the covenant were breached.

In order to meet financial covenant tests in respect of several quarterly periods ended since 30 September 2008 the Group applied funds originally provided by the Company's shareholders under equity cure provisions within the banking facilities as follows:

Quarter ended	2008 £m	2009 £m	2010 £m
31 March	–	39.25	87.5
30 June	–	37.0	–
30 September	16.0	–	–
31 December	12.75	–	–

DIRECTORS' REPORT

The equity cure in relation to the quarter ended 31 March 2010 was effected on 10 June 2010 out of new equity raised from the Company's shareholders of £78.1 million together with £9.4 million already held by the Company. These equity cures were made to ensure that the EMI Music division remained compliant with the covenants relating to its financing facilities. No cure was required for the EMI Music Publishing division.

The financial statements are prepared on a going concern basis. In preparing the financial statements on this basis the directors have taken account of the following matters.

1. The Group meets its day to day working capital requirements and medium term funding requirements through its banking facilities which are repayable from 2014 and 2015.

The directors have prepared base case trading and cash flow forecasts for a period in excess of one year from the date of approval of these financial statements which project that the total amount of each of the facilities is not exceeded. However, there are a number of risks attached to these projections including the current general economic climate, inherent risks that exist in the music market of market growth or decline varying from the rates expected and the nature of the Group's business is such that there can be considerable unpredictable variation in the timing of earnings and cash inflows if there is a change in the forecast release date for key projects.

2. The latest projections for the Group indicate that funds of up to £26.9 million in aggregate will be required for cure purposes in respect of the 12 month test periods ending on 30 June 2010, 30 September 2010 and 31 December 2010. The Company has received a commitment from its shareholders to provide it with further injections up to this amount provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection and (ii) at least three business days' notice of the cure amount required is given by the Company to its shareholders. In turn, the Company will make funds of up to £26.9 million in aggregate available to Maltby Investments in relation to the test periods remaining in 2010, provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection; (ii) the provision of such funds would result in the financial covenants being complied with; and (iii) at least five business days' notice of the cure amount required is given by Maltby Investments to the Company.

In agreeing the amount of funds to be committed, no headroom in excess of the expected level of further cure requirements for the three 12 month periods referred to above has been included and there are uncertainties associated with the forecasts and projections for the business which could result in earnings and cash flows being below their forecast levels without mitigating factors occurring. The Group has already factored into its projections assumptions around tight cash management over this period so as to minimise the quantum of cure payments it is required to make, so efforts to mitigate the impact of any trading shortfall by further cash conservation measures is likely to be challenging. There is therefore no certainty that the committed funds will be sufficient to effect any cures which are required in relation to periods ended up to 31 December 2010.

3. The directors together with the directors of Maltby Investments continue to engage with the Company's shareholders and debt provider to ensure continued operations. The current forecasts for the Group indicate that it is likely there will be a further significant shortfall when the covenants under its banking facilities are tested as at 31 March 2011. Current indications are that in the absence of other initiatives additional funds in an

DIRECTORS' REPORT

amount that could be substantially in excess of the total amount of equity cure payments provided by the Company's shareholders to cure covenant breaches for test periods ended during the financial year to 31 March 2010 would be required from shareholders to fund the cure payment for the test period ending 31 March 2011. The directors have been exploring various strategic options which may be available to the Group but, even though the strategic options are expected to reduce the quantum of the further equity injection, they consider that it is unlikely that the financial covenants tested as at 31 March 2011 will be met without a further substantial equity injection. In addition further smaller cures may also be required in relation to the other test periods ending in 2011.

Accordingly the directors will need to engage, together with Maltby Investments, in discussions with the Company's shareholders for additional funding in respect of the above as they did for the additional equity raised to cure the covenant for the test period ended 31 March 2010. However, there is no certainty that an agreement for further equity injections will be reached, or will be reached within the time available under the Group's banking facilities.

Consequently, should the conditions attached to the additional funding which the Company's shareholders have undertaken to provide in relation to the June, September and December 2010 test periods not be met or should the consent of the Company's shareholders to the provision of further equity cure funding required in respect of the test period ending 31 March 2011 not be forthcoming, or not be forthcoming within the applicable period, the outcome for the Group of a breach of financial covenants in respect of these periods would be dependent upon discussions with the Group's lender. This would also be the case if any equity cure funding provided by the Company's shareholders was insufficient to prevent breaches of financial covenants in relation to subsequent test periods, and consent of the Company's shareholders to any subsequent request for the provision of further equity cure funding was not forthcoming, or not forthcoming within the applicable period.

In these circumstances, the directors consider that it would be in the interests of the Group's lender to maintain the Group's business as a going concern and to minimise any disruption to its ongoing operations. In coming to this view, the directors have taken account of the improvement in the Group's operating cash flow, which means that based on current forecasts the Group has sufficient cash flow to meet its current debt service obligations under its banking facilities absent any breach of covenants which would render all facilities repayable on demand at the option of the lender.

The directors also recognise that existing forecasts indicate further significant shortfalls in respect of the covenant test periods to the end of March in each year until the facilities expire in 2014 and 2015.

The directors are aware of the ongoing litigation in respect of certain matters relating to the acquisition of the Company's subsidiary, EMI Group Limited (formerly EMI Group plc), between, amongst others, shareholders of the Company and the Group's lender. Neither the Company nor any other members of the Group is party to these proceedings.

EMI Group Limited has been in discussions with the Trustees of the EMI Group Pension Fund regarding the cash contributions under the scheme funding regime. Agreement has not been able to be reached regarding a long-term funding policy for the Fund and absent such agreement the Pensions Regulator has referred

the matter to the Determinations Panel for resolution. The Group's current lending arrangements require the deficit existing at the date of acquisition of EMI Group Limited to be met by additional equity investment. Under proposals put forward to the Determinations Panel, the scheme funding deficit could fall somewhere in a range between £115 million and £217 million based on a valuation at 31 March 2008. Absent any prior agreement with the Trustees, the size of this deficit and the number of years over which the deficit is removed will be resolved by the Determinations Panel.

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the ability of the Group to continue as a going concern. The Group may therefore be unable to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern due to a withdrawal of the Group's banking facilities by the Group's lender.

Nevertheless, after making enquiries and considering the uncertainty described above, the directors have concluded that they have a reasonable expectation that the Group as a whole has adequate resources to continue as a going concern for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Risks

The Group's business faces a number of other risks and uncertainties as is normal for a Group of its size, complexity and geographic spread. The directors consider that the principal risks faced by the business include:

- The market for recorded music products has been declining and may continue to decline;
- The current uncertainty in global economic conditions could adversely affect the prospects and results of the business;
- The downward pressure on the pricing of music products leading to pressure on the margins;
- The dependence on identifying, signing and retaining artists with long-term potential, and the effect of results of successful artists;
- The continuing exposure of the music industry to illegal music downloads and file sharing;
- The seasonal fluctuation of the results of the business means that much of the revenue is generated in the third quarter of each financial year, affecting the operating cash flow requirements; and
- Unfavourable currency exchange rate fluctuations could adversely affect the results of operations.

Employees

The Group has continued to further its employee involvement policies. These include the provision of information to employees and consultation with their employee representatives on matters affecting them, as well as regular communication of financial information and details of the Group's performance. Full consideration is given to applications for employment made by disabled persons. Wherever possible the employment of members of staff who become disabled will be continued under normal terms and conditions, and appropriate training and career development will be offered.

PROPOSED DIVIDEND

The directors do not recommend the payment of a dividend (2009: £nil).

DIRECTORS' REPORT

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made charitable donations of £488,000 (2009: £900,000) during the year and made no political donations (2009: £nil).

DIRECTORS

The directors who held office during the year were as follows:

Arjan Breure	(appointed 22 June 2010)
Ruth Prior	(resigned 31 July 2009, reappointed 22 June 2010)
Fraser Duncan	(appointed 28 June 2010)
Lord Birt	(resigned 22 June 2010)
Andrew Chadd	(resigned 22 June 2010)
Julie Williamson	
Andre Bourbonnais	
Stephen Alexander	
Roger Faxon	
Elio Leoni-Sceti	(resigned 31 March 2010)
Patricia O'Driscoll	(resigned 22 June 2010)

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Roger Faxon
Director
27 Wrights Lane
London W8 5SW

28 July 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law - and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALTBY CAPITAL LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALTBY CAPITAL LIMITED

We have audited the financial statements of Maltby Capital Limited for the year ended 31 March 2010 set out on pages 56 to 156. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's web-site at **www.frc.org.uk/apb/scope/UKNP**

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of £512 million during the year ended 31 March 2010 and, at that date, the Group's current liabilities exceeded its current assets by £3,255 million much of which is the result of the reclassification of the Bank term loans from Non-current liabilities to Current liabilities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALTBY CAPITAL LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MALTBY CAPITAL LIMITED (CONTINUED)

The ability of the Group to continue as a going concern is dependent upon the continued availability of existing banking facilities, which require the Group to comply with the covenants set out in those facilities. The ability of the Group to comply with its covenants is dependent upon the outcome of the actions described in note 1, in particular the agreement of the Company's shareholders to the provision of equity cure funding on the basis described, as well as the Group's ability to generate earnings and cash flows substantially in line with its forecasts. However, as described in note 1, notwithstanding the conditional commitment received from the Company's shareholders to provide certain equity cure funding relating to the covenant test periods to 31 December 2010, there is no certainty that such funding will be sufficient to effect all the cures required in relation to those test periods. Furthermore, current indications are that further funds will be required from the shareholders for cure payments in respect of the test periods ending in 2011.

No agreement has yet been reached with the Company's shareholders for such further equity injections, nor is there any certainty that such an agreement will eventually be reached, or will be reached within the time available under the Group's banking facilities.

Furthermore, a satisfactory funding agreement with the Trustees of the EMI Group Pension Fund has not been reached. As described in note 1, should contributions to remove any deficit in the Fund be required prior to the expiry of the Group's existing banking facilities, it is expected that, absent agreement from the lender, funding for these contributions, which would be likely to be spread over a number of years, will need to be met by additional funds from the shareholders. There is no certainty that such funds will be available.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

H Green (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
28 July 2010
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

GROUP CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

£ million	Note	2010	2009
Revenue	2	**1,651**	**1,569**
Cost of sales and distribution costs	2	(925)	(877)
Gross profit	2	**726**	**692**
Operating expenses	2	(1,209)	(1,726)
Share of profit from associates	2	2	3
Loss from operations, analysed as:			
Profit before impairment and restructuring costs		**192**	**143**
Impairment	2,11	(602)	(1,038)
Restructuring costs	2,7	(71)	(136)
		(481)	**(1,031)**
Loss from operations		**(481)**	**(1,031)**
Net finance charges:			
Finance income		161	67
Finance costs		(304)	(789)
Total net finance charges	6	**(143)**	**(722)**
Loss before taxation		(624)	(1,753)
Taxation:			
Overseas		(10)	(31)
UK		122	217
Total taxation	8	112	186
Loss for the year		**(512)**	**(1,567)**
Attributable to:			
Equity holders of the parent		**(512)**	**(1,567)**
Minority interest		**–**	**–**
Loss for the year		**(512)**	**(1,567)**

The notes on page 63 to 151 form part of these consolidated financial statements.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2010

£ million	Note	2010	2010	2009	2009
Loss for the year			**(512)**		**(1,567)**
Other comprehensive (loss) / income					
Foreign exchange movements		(114)		576	
Actuarial loss arising in the pension schemes	24	(167)		(62)	
Tax in relation to components of other comprehensive income	21	49		20	
Other comprehensive (loss) / income for the year, net of related tax			(232)		534
Total comprehensive loss for the year			**(744)**		**(1,033)**
Attributable to:					
Equity holders of the parent			(744)		(1,034)
Minority interest			–		1
Total comprehensive loss for the year			**(744)**		**(1,033)**

The notes on page 63 to 151 form part of these consolidated financial statements.

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2010

£ million	Note	2010	2009
Assets			
Non-current assets			
Music catalogues and other intangibles	9	3,086	3,660
Goodwill	10	1,186	1,555
Property, plant and equipment	12	182	186
Investments in associates	13	29	29
Financial assets	14	11	11
Pension assets	24	–	54
Deferred taxation	21	58	33
Other receivables	15	11	9
		4,563	**5,537**
Current assets			
Trade receivables	15	277	249
Advances	15	190	217
Corporation tax recoverable	15	17	20
Other receivables	15	69	82
Inventories	16	25	27
Cash and cash equivalents	17	343	336
		921	**931**
Total assets		**5,484**	**6,468**
Liabilities			
Current liabilities			
Trade and other payables	18	(951)	(1,083)
Corporation tax payable	18	(33)	(53)
Financial liabilities	19	(3,116)	(88)
Other provisions for liabilities	22	(76)	(115)
		(4,176)	**(1,339)**
Non-current liabilities			
Other payables	18	(144)	(7)
Shareholder loan	19	(398)	(346)
Other financial liabilities	19	(148)	(3,377)
Pension liabilities	24	(174)	(49)
Deferred taxation	21	(1,080)	(1,252)
		(1,944)	**(5,031)**
Total liabilities		**(6,120)**	**(6,370)**
Net (liabilities) / assets		**(636)**	**98**
Equity			
Capital and reserves			
Share capital	25	704	704
Foreign exchange reserve		670	784
Other reserve		521	559
Retained earnings		(2,534)	(1,952)
Equity attributable to equity holders of the parent		**(639)**	**95**
Minority interests		**3**	**3**
Total equity		**(636)**	**98**

The notes on page 63 to 151 form part of these consolidated financial statements.

These financial statements were approved by the board of directors on 28 July 2010 and were signed on its behalf by:

Roger Faxon
Director

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 31 MARCH 2010

Current year £ million	Attributable to equity holders of the Company						
	Share capital	Foreign exchange reserve	Other reserve	Retained earnings	Total	Minority interest	Total equity
At 31 March 2009	**704**	**784**	**559**	**(1,952)**	**95**	**3**	**98**
Loss for the year	–	–	–	(512)	(512)	–	(512)
Other comprehensive income:							
Actuarial loss arising in the pension scheme	–	–	–	(167)	(167)	–	(167)
Exchange difference on retranslation of foreign operations	–	(114)	–	–	(114)	–	(114)
Tax in relation to components of other comprehensive income	–	–	–	49	49	–	49
Total comprehensive loss for the year	–	(114)	–	(630)	(744)	–	(744)
Reserves transfer resulting from unwind of gain on shareholder loan-related tax	–	–	(38)	38	–	–	–
Equity-settled share-based payment charge	–	–	–	10	10	–	10
Total transactions with owners	–	–	(38)	48	10	–	10
At 31 March 2010	**704**	**670**	**521**	**(2,534)**	**(639)**	**3**	**(636)**

The notes on page 63 to 151 form part of these consolidated financial statements.

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GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

AT 31 MARCH 2010

Prior year £ million	Attributable to equity holders of the Company						
	Share capital	Foreign exchange reserve	Other reserve	Retained earnings	Total	Minority interest	Total equity
At 31 March 2008	**704**	**209**	**–**	**(370)**	**543**	**2**	**545**
Loss for the year	–	–	–	(1,567)	(1,567)	–	(1,567)
Other comprehensive income:							
Actuarial loss arising in the pension scheme	–	–	–	(62)	(62)	–	(62)
Exchange difference on retranslation of foreign operations	–	575	–	–	575	1	576
Tax in relation to components of other comprehensive income	–	–	–	20	20	–	20
Total comprehensive loss for the year	–	575	–	(1,609)	(1,034)	1	(1,033)
Gain on shareholder loan recognised directly in equity	–	–	809	–	809	–	809
Deferred tax impact of gain on shareholder loan recognised directly in equity	–	–	(226)	–	(226)	–	(226)
Reserves transfer resulting from unwind of gain on shareholder loan	–	–	(24)	24	–	–	–
Equity-settled share-based payment charge	–	–	–	3	3	–	3
Total transactions with owners	–	–	559	27	586	–	586
At 31 March 2009	**704**	**784**	**559**	**(1,952)**	**95**	**3**	**98**

The notes on page 63 to 151 form part of these consolidated financial statements.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2010

FOR THE YEAR ENDED 31 MARCH 2010

£ million	Note	2010	2009
Loss before taxation		**(624)**	**(1,753)**
Net finance charges	6	143	722
Share of post tax earnings of associates	13	(2)	(3)
Impairment	11	602	1,038
Depreciation	12	23	22
Amortisation	9	119	128
Profit on sale of subsidiaries		–	(2)
Gain on sale of property, plant and equipment		1	–
Equity settled share-based payments charge		10	3
Change in inventories		2	5
Change in receivables		9	49
Change in payables		29	(7)
Change in provisions		(39)	(10)
Cash generated from operations		**273**	**192**
Tax paid		(23)	(31)
Net cash generated from operating activities		**250**	**161**

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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2010

FOR THE YEAR ENDED 31 MARCH 2010

£ million	Note	2010	2009
Cash flows from investing activities			
Purchase of businesses, net of cash acquired		(2)	–
Purchase of property, plant and equipment	12	(25)	(13)
Purchase of music catalogues and other intangibles	9	(4)	(8)
Disposal of subsidiaries		–	5
Proceeds from sale of property, plant and equipment		4	–
Dividends received from investments		2	2
Interest received	6	1	13
Net cash used in investing activities		**(24)**	**(1)**
Cash flows from financing activities			
Financing:			
Loans repaid		(7)	(102)
Capital element of finance lease repayments		(4)	(1)
Interest paid		(179)	(215)
Net cash used in financing activities		**(190)**	**(318)**

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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2010

FOR THE YEAR ENDED 31 MARCH 2010

£ million	Note	2010	2009
Net increase / (decrease) in cash and cash equivalents		36	(158)
Cash and cash equivalents at the beginning of the year		312	450
Exchange (losses) / gains on cash and cash equivalents in the year		(11)	20
Cash and cash equivalents at the end of the year		**337**	**312**
Cash and cash equivalents at the end of the year are comprised of:			
Cash at bank and in hand	17	343	336
Overdrafts	19	(6)	(24)
Cash and cash equivalents at the end of the year		**337**	**312**

The notes on page 63 to 151 form part of these consolidated financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Maltby Capital Limited (the "Company") is a limited liability company incorporated and domiciled in the UK and registered in England and Wales. The Company was incorporated on 11 July 2007. On 17 August 2007, Maltby Acquisitions Limited, an indirect subsidiary of the Company, acquired the entire share capital of EMI Group Limited (formerly EMI Group plc).

These consolidated financial statements of the Company and its subsidiaries (together the "Group") and its equity accounted associates present the results of the Group and associates for the year ended 31 March 2010, together with comparative financial information for the year ended 31 March 2009.

The parent company financial statements present information about the Company as a separate entity and not about its Group.

Basis of preparation

The financial statements are prepared on the historical cost basis, except for certain areas where fair value measurement is required, as identified in the accounting policies below. The consolidated financial statements are presented in sterling (£), which is also the Company's functional currency. The functional currency of subsidiaries, joint ventures and associated companies is the currency of the primary economic environment in which they operate. All financial information is presented in sterling in Group accounts rounded to the nearest £1 million.

The accounting policies set out below have, unless otherwise stated, been applied consistently to the period presented in these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs").

In these financial statements the following Adopted IFRSs which are effective for the first time based on EU effective dates, have impacted on the financial statement disclosures:

- Amendments to IAS 1 'Presentation of Financial Statements'
- Amendment to IFRS 7 'Improving Disclosures about Financial Instruments'

The effect on the financial statements of the adoption of these standards and interpretations has been described under the 'Change in accounting policy' heading below.

Change in accounting policy

Starting as of 1 April 2009, the Group has changed its accounting policies in the following areas:
Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation'

The revised version of IAS 1 is mandatory for the first time this financial year. The standard provides that all owner changes in equity may be presented in the consolidated statement of changes in equity and non-owner changes in equity in the consolidated statement of comprehensive income.

The standard includes non-mandatory changes to the titles of some of the financial statements, which has resulted in a number of changes in presentation.

As a result of the adoption of this revised IAS 1, the Group has changed the titles of its 'consolidated balance sheet' to 'consolidated statement of financial position' and its 'consolidated cash flow statement' to 'consolidated statement of cash flows'.

The Group has elected to present a consolidated income statement and consolidated statement of comprehensive income. Comparative information has been represented so that it is also in conformity with the revised standard.

Amendments to IFRS 7, 'Improving Disclosures about Financial Instruments'

In March 2009, the IASB issued amendments to IFRS 7 which require enhanced disclosures about fair value measurements and liquidity risk. The amendments include the introduction of a three-level hierarchy for fair value measurement disclosures and require additional disclosures about the relative reliability of fair value measurements. This has been included in note 23.

There have been no further alterations made to the accounting policies as a result of considering all amendments to IFRS and IFRIC interpretations that became effective during the financial period as these were considered to be immaterial to the Group's operations or were not relevant.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern

The operating performance of EMI has improved markedly over the period since its acquisition by its current shareholders. The Group's Profit before impairment and restructuring costs has increased from £143 million for the financial year ended March 2009 to £192 million for the financial year ended March 2010. The Group's Cash generated from operations has increased from £192 million for the financial year ended March 2009 to £273 million for the financial year ended March 2010. This represents a 34% increase in Profit before impairment and restructuring costs and a 42% increase in Cash generated from operations over the last financial year.

This enhanced operational performance, together with equity injections provided to date by the Company's shareholders, means the Group is able to meet its ongoing working capital needs and its current debt service obligations under the facilities agreements to which the Company's indirect subsidiary Maltby Investments Limited ("Maltby Investments") and a number of its subsidiaries are party. However, the banking facilities contain a financial covenant for each division based on Debt/EBITDA which has been tightening over the same period to a greater extent than can be covered by the improvement in the Group's performance (especially within the EMI Music division). The covenant steps down significantly each March year end making it progressively harder to achieve the required ratio.

The covenants are tested quarterly in respect of rolling one year periods ending on 31 March, 30 June, 30 September and 31 December. The breach of a financial covenant (or any other covenant or the occurrence of an event of default) renders all of the facilities repayable on demand at the option of the lender. As the financial covenant ratios have tightened over this period, shortfalls to the financial covenant have occurred and (due to the continued tightening of the financial covenants in future periods) are anticipated to occur going forward, notwithstanding the operational improvements. The requirement for further equity cures is discussed in more detail below.

The principal uncertainty for the Group is whether additional equity funding will be available in future periods to enable it to comply with the financial covenant under the banking facilities. Due to the sound operating performance of the business, the directors believe that it would be in the interests of the Group's lender to maintain the Group's business as a going concern and to minimise any disruption to its ongoing operations if the covenant were breached.

In order to meet financial covenant tests in respect of several quarterly periods ended since 30 September 2008 the Group applied funds originally provided by the Company's shareholders under equity cure provisions within the banking facilities as follows:

Quarter ended	2008 £m	2009 £m	2010 £m
31 March	–	39.25	87.5
30 June	–	37.0	–
30 September	16.0	–	–
31 December	12.75	–	–

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The equity cure in relation to the quarter ended 31 March 2010 was effected on 10 June 2010 out of new equity raised from the Company's shareholders of £78.1 million together with £9.4 million already held by the Company. These equity cures were made to ensure that the EMI Music division remained compliant with the covenants relating to its financing facilities. No cure was required for the EMI Music Publishing division.

The financial statements are prepared on a going concern basis. In preparing the financial statements on this basis the directors have taken account of the following matters.

1. The Group meets its day to day working capital requirements and medium term funding requirements through its banking facilities which are repayable from 2014 and 2015.

The directors have prepared base case trading and cash flow forecasts for a period in excess of one year from the date of approval of these financial statements which project that the total amount of each of the facilities is not exceeded. However, there are a number of risks attached to these projections including the current general economic climate, inherent risks that exist in the music market of market growth or decline varying from the rates expected and the nature of the Group's business is such that there can be considerable unpredictable variation in the timing of earnings and cash inflows if there is a change in the forecast release date for key projects.

2. The latest projections for the Group indicate that funds of up to £26.9 million in aggregate will be required for cure purposes in respect of the 12 month test periods ending on 30 June 2010, 30 September 2010 and 31 December 2010. The Company has received a commitment from its shareholders to provide it with further injections up to this amount provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection and (ii) at least three business days' notice of the cure amount required is given by the Company to its shareholders. In turn, the Company will make funds of up to £26.9 million in aggregate available to Maltby Investments in relation to the test periods remaining in 2010, provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection; (ii) the provision of such funds would result in the financial covenants being complied with; and (iii) at least five business days' notice of the cure amount required is given by Maltby Investments to the Company. In agreeing the amount of funds to be committed, no headroom in excess of the expected level of further cure requirements for the three 12 month periods referred to above has been included and there are uncertainties associated with the forecasts and projections for the business which could result in earnings and cash flows being below their forecast levels without mitigating factors occurring. The Group has already factored into its projections assumptions around tight cash management over this period so as to minimise the quantum of cure payments it is required to make, so efforts to mitigate the impact of any trading shortfall by further cash conservation measures is likely to be challenging. There is therefore no certainty that the committed funds will be sufficient to effect any cures which are required in relation to periods ended up to 31 December 2010.

3. The Directors together with the Directors of Maltby Investments continue to engage with the Company's shareholders and debt provider to ensure continued operations. The current forecasts for the Group indicate that it is likely there will be a further significant shortfall when the covenants under its banking facilities are tested as at 31 March 2011.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current indications are that in the absence of other initiatives additional funds in an amount that could be substantially in excess of the total amount of equity cure payments provided by the Company's shareholders to cure covenant breaches for test periods ended during the financial year to 31 March 2010 would be required from shareholders to fund the cure payment for the test period ending 31 March 2011. The directors have been exploring various strategic options which may be available to the Group but, even though the strategic options are expected to reduce the quantum of the further equity injection, they consider that it is unlikely that the financial covenants tested as at 31 March 2011 will be met without a further substantial equity injection. In addition further smaller cures may also be required in relation to the other test periods ending in 2011.

Accordingly the directors will need to engage, together with Maltby Investments, in discussions with the Company's shareholders for additional funding in respect of the above as they did for the additional equity raised to cure the covenant for the test period ended 31 March 2010. However, there is no certainty that an agreement for further equity injections will be reached, or will be reached within the time available under the Group's banking facilities.

Consequently, should the conditions attached to the additional funding which the Company's shareholders have undertaken to provide in relation to the June, September and December 2010 test periods not be met or should the consent of the Company's shareholders to the provision of further equity cure funding required in respect of the test period ending 31 March 2011 not be forthcoming, or not be forthcoming within the applicable period, the outcome for the Group of a breach of financial covenants in respect of these periods would be dependent upon discussions with the Group's lender. This would also be the case if any equity cure funding provided by the Company's shareholders was insufficient to prevent breaches of financial covenants in relation to subsequent test periods, and consent of the Company's shareholders to any subsequent request for the provision of further equity cure funding was not forthcoming, or not forthcoming within the applicable period.

In these circumstances, the directors consider that it would be in the interests of the Group's lender to maintain the Group's business as a going concern and to minimise any disruption to its ongoing operations. In coming to this view, the directors have taken account of the improvement in the Group's operating cash flow, which means that based on current forecasts the Group has sufficient cash flow to meet its current debt service obligations under its banking facilities absent any breach of covenants which would render all facilities repayable on demand at the option of the lender.

The directors also recognise that existing forecasts indicate further significant shortfalls in respect of the covenant test periods to the end of March in each year until the facilities expire in 2014 and 2015.

The directors are aware of the ongoing litigation in respect of certain matters relating to the acquisition of the Company's subsidiary, EMI Group Limited (formerly EMI Group plc), between, amongst others, shareholders of the Company and the Group's lender. Neither the Company nor any other members of the Group is party to these proceedings.

EMI Group Limited has been in discussions with the Trustees of the EMI Group Pension Fund regarding the cash contributions under the scheme funding regime. Agreement has not been able

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to be reached regarding a long-term funding policy for the Fund and absent such agreement the Pensions Regulator has referred the matter to the Determinations Panel for resolution. The Group's current lending arrangements require the deficit existing at the date of acquisition of EMI Group Limited to be met by additional equity investment. Under proposals put forward to the Determinations Panel, the scheme funding deficit could fall somewhere in a range between £115 million and £217 million based on a valuation at 31 March 2008. Absent any prior agreement with the Trustees, the size of this deficit and the number of years over which the deficit is removed will be resolved by the Determinations Panel.

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the ability of the Group to continue as a going concern. The Group may therefore be unable to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern due to a withdrawal of the Group's banking facilities by the Group's lender.

Nevertheless, after making enquiries and considering the uncertainty described above, the directors have concluded that they have a reasonable expectation that the Group as a whole has adequate resources to continue as a going concern for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Maltby Capital Limited and its subsidiaries, and their interests in associates and joint ventures, for the year ended 31 March 2010.

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 Maltby Capital Limited has control.

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

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 changes in equity.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of financial position.

Foreign currency translation

At an entity level, 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. 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.

On consolidation, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the period. The exchange differences arising on the retranslation 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.

The average and period end exchange rates of the principal currencies used in preparing these financial statements are as follows:

	As at 31 March 2010	Year ended 31 March 2010	As at 31 March 2009	Year ended 31 March 2009
US Dollar to £1	1.52	1.59	1.43	1.69
Euro to £1	1.12	1.12	1.08	1.20
Yen to £1	142	146	142	169

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. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For an asset, such as goodwill, that does not generate largely independent cash flows, the recoverable amount, which is the higher of fair value less cost to sell and value in use, 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 are carried at cost less accumulated amortisation and impairment losses.

Intangible assets acquired separately from a business are capitalised at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights, and its fair value can be measured reliably.

Following initial recognition, intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives. These lives are estimated on an individual asset by asset basis, and are as follows:

Music catalogues	Up to 50 years
Artist and songwriters' contracts	Over the duration of the contract
Trade names	30 years
Other contractual arrangements	Between 3 and 25 years
Software	4 to 7 years

Intangible assets are tested for impairment at each balance sheet date if events or changes in circumstances indicate that the carrying value may not be recoverable. 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 useful lives used are:

Freehold buildings	Up to 50 years
Property held under finance leases and leasehold improvements	Lower of lease term and useful life
Plant, equipment and vehicles	3 to 10 years

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, which is the higher of the asset's fair value less cost to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 de-recognition 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.

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 and 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.

Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, being the transaction price and in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale investments are held on the balance sheet at fair value, with any changes in value being recognised in equity. When available-for-sale equity instruments do not have a quoted market price in an active market and where the fair value cannot be reliably measured, the available-for-sale investments are held on the balance sheet at cost less any impairment in value and loans and receivables are held on the balance sheet at amortised cost.

Those investments classified as fair value through profit and loss, including derivatives, 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.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories, production and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 consolidated cash flow statement, cash and cash equivalents consist of cash at bank and in hand and short-term deposits net of outstanding bank overdrafts.

Financial liabilities

Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of directly attributable transaction 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 directly attributable transaction costs associated with issuing the liability, as well as any discount or premium on settlement. Gains and losses on de-recognition are recognised in finance charges.

A substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss on extinguishment is recognised in profit or loss except to the extent that it arises as a result of transactions with shareholders acting in their capacity as shareholders when it is recognised directly in equity. The terms are considered to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

The Group primarily has financial liabilities that are on a floating basis (variable), that are denominated in sterling (GBP), US dollars (USD), as well as Euros (EUR). The financial liabilities have been economically hedged using financial derivatives, including interest rate swaps and interest rate caps, to manage the exposure to fluctuations in interest rates across the three primary operational currencies although hedge accounting has not been applied. Foreign exchange financial derivatives are not used by the Group to manage the exposure of financial liabilities to fluctuations. Foreign currency denominated financial liabilities are used to fund subsidiary operations where the foreign currency is the primary currency used for operational activity.

Borrowings are classified as current when the borrowings are due to be settled within the next 12 months after the reporting date or when the Company does not have the unconditional right to defer settlement for at least 12 months after the reporting date. All other borrowings are classified as non-current.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial derivatives

The Group uses derivative financial instruments such as interest rate swaps and caps to economically hedge risks associated with interest rate fluctuations. Such derivative financial instruments are measured at fair value on the balance sheet at inception and at subsequent reporting periods. The fair values of interest rate swaps and caps are determined by reference to market rates for similar instruments.
Interest rate derivatives used to hedge floating rate financial liabilities are not designated as cash flow hedges and so gains or losses arising from changes in the measurement of the fair value of financial derivatives are taken directly to the income statement.

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 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 a number of major defined benefit pension schemes, plus a number of smaller defined benefit pension schemes.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of (i) an unconditional right to a refund from the plan or (ii) reductions in future contributions to the plan as measured by the estimated future service cost less the estimated minimum funding contributions required in respect of the future accrual of benefits in that year. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. In addition a provision for future minimum funding contributions is recorded to the extent that such payments are required to cover an existing shortfall as measured on a minimum funding contribution basis and having been paid will not be available as a refund or a reduction in future contributions to the plan.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. All actuarial gains and losses are recognised in the period they occur directly in equity through the statement of changes in equity.

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.

Share-based payments

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions') and share appreciation units, which can only be settled in cash ('cash-settled transactions').

Certain awards are settled in cash by Terra Firma Investments Limited, the parent company of Maltby Capital Limited; these are treated as equity-settled in the consolidated financial statements of Maltby Capital Limited.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate valuation methodology; further details are given in note 28.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where 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 and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a Monte Carlo simulation option pricing model, further details of which are given in note 28. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

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, i.e. on despatch, 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;
- Copyright, royalty, licence and other income: revenue is recognised based on the contractual arrangements entered into with third parties, which allow them to exploit the Group's intellectual property in return for a fee. Where the fees due to the Group are dependent upon usage, revenue is recognised based upon that usage. Where no reliable basis is available for estimating such usage, revenue is recognised when reported to the Group by third parties. When revenue relates to a long-term contract, revenue is recognised over the life of the contract as revenue is earned.

Where an agreement is, in substance, an outright sale, income is recognised as revenue immediately. For an outright sale to have occurred, the licensee must have signed a non-cancellable contract, paid a fixed fee which is not subject to adjustment based on future usage, been provided with the means to freely exploit their contractual rights, and have no significant ongoing reliance on the Group (as the Licensor) to perform any other delivery obligations. In addition, the artist royalty cost associated with the income must have been accurately quantified.

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

Finance charges

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, net foreign exchange losses, losses on hedging instruments and interest payable on defined benefit pension scheme liabilities.

Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, dividend income, net foreign exchange gains, gains on hedging

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

instruments and interest receivable on defined benefit pension scheme assets.

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 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 substantively 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.

Divisional analysis

A divisional segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

ADOPTED IFRS NOT YET APPLIED

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

Amendments to IAS 27 'Consolidated and Separate Financial Statements'

The revised IFRS 3 and amended IAS 27 are the outcomes of the second phase of the IASB's and the US Financial Accounting Standards Board's (FASB) joint business combination project. The more significant changes from the revised IFRS 3 include:

- The immediate expensing of acquisition-related costs rather than inclusion in goodwill; and
- recognition and measurement at fair value of contingent consideration at acquisition date with subsequent changes to income.

The amendments to IAS 27 reflect changes to the accounting for non-controlling (minority) interests.

The revised IFRS 3 and amended IAS 27 are effective for business combinations occurring in accounting periods beginning on or after 1 July 2009.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IFRS 2 'Group Cash-Settled Share-based payments transactions'
In June 2009, the IASB issued further amendments to IFRS 2 which sets out the accounting requirements for share-based payments. These amendments clarified existing guidance, in particular by specifying that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction and no matter whether the transaction is settled in shares or cash. The Group is still assessing the impact of the standard but it is not expected to have a material impact on the Group's financial statements.

Improvements to IFRSs (2009)
In April 2009, the IASB published amendments to a number of standards as part of its annual improvements projects. These amendments are effective for the Group's 2011 financial statements. The Group is currently assessing the impact of these improvements to its financial statements.

IFRS 9 'Financial Instruments'
In November 2009, the IASB issued a new standard which altered the classification and measurement of financial instruments. Under the new standard only two possible classifications arise, rather than the four existing classifications currently available under IAS 39, and will result in all financial assets being valued at amortised cost or fair value through profit and loss. Financial liabilities are excluded from the scope of the standard. The standard is not mandatory before 2013 year-ends and is yet to be endorsed by the European Union. The Group is still assessing the full impact of this standard.

Amendments to IFRIC 14 IAS 19 'The limit on a defined benefit – assets, minimum funding requirements and their interaction
In November 2009, the IASB issued an amendment to its requirements on accounting for pension plans. The amendment is to IFRIC 14, which is itself an interpretation of IAS 19 Employee Benefits. The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment, Prepayments of a Minimum Funding Requirement, has an effective date for mandatory adoption of 1 January 2011. The Group is currently assessing the impact of these improvements to its financial statements.

INTRODUCTION

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FOR THE YEAR ENDED 31 MARCH 2010

2. DIVISIONAL ANALYSIS

From 1 April 2009, the Group has presented some divisional analysis based on information which is provided internally to the Executive Board as it is this Board that makes the key operating decisions of the Group.

The Directors consider there to be two reporting divisions, that of Recorded Music and Music Publishing.

Recorded Music's business primarily focuses on monetising its extensive catalogue, the discovery and development of artists, and the related marketing, distribution and licensing of recorded music produced by such artists. Music Publishing is in the business of acquiring, protecting, administering and exploiting rights in musical compositions, while at the same time servicing both songwriters and licensors of music alike.

The reportable divisions engage in business activities from which the Group may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. The strategic business units offer different products and services, and are managed separately.

There is no inter-divisional trading between the two divisions.

During the year ended 31 March 2009 and 2010, the Music Publishing division was charged £3 million by the Recorded Music division which represented a fair charge for group services performed by it on behalf of the Music Publishing division. This amount was invoiced and paid during the period.

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

2. DIVISIONAL ANALYSIS (CONTINUED)

£ million	Recorded Music		Music Publishing		Total	
	Year ended 31 March 2010	Year ended 31 March 2009	**Year ended 31 March 2010**	Year ended 31 March 2009	**Year ended 31 March 2010**	Year ended 31 March 2009
Sales revenue	1,173	1,101	–	–	1,173	1,101
Royalty revenue	–	–	478	468	478	468
Total revenue	**1,173**	1,101	**478**	468	**1,651**	**1,569**
Cost of sales	(627)	(572)	(256)	(257)	(883)	(829)
Distribution costs	(42)	(48)	–	–	(42)	(48)
Gross profit	**504**	481	**222**	211	**726**	692
Administrative expenses	(320)	(321)	(72)	(78)	(392)	(399)
EBITDA excluding restructuring	**184**	160	**150**	133	**334**	293
Restructuring costs	(76)	(131)	5	(5)	(71)	(136)
Administrative expenses	(320)	(321)	(72)	(78)	(392)	(399)
Depreciation of tangible fixed assets	(20)	(19)	(3)	(3)	(23)	(22)
Amortisation of copyrights and other intangibles	(59)	(57)	(60)	(71)	(119)	(128)
Impairment of intangible assets	(360)	(202)	(242)	(836)	(602)	(1,038)
Add back: Share of profit from associates	(1)	(2)	(1)	(1)	(2)	(3)
Operating expenses	**(836)**	(732)	**(373)**	(994)	**(1,209)**	(1,726)
Share of profit from associates	1	2	1	1	2	3
Loss from operations	(331)	(249)	(150)	(782)	(481)	(1,031)
Net cash generated from operating activities	124	41	126	120	250	161

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

3. PROFIT FROM OPERATIONS

The directors believe that distribution costs are largely variable in nature and as such are considered to be part of the gross margin of the business.

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

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Staff costs (see note 5)	271	317
Cost of inventories recognised as an expense (included in cost of sales)	10	19
Depreciation of property, plant and equipment:		
Owned assets	22	21
Leased assets	1	1
Amortisation of music catalogues and other intangibles	119	128
Impairment of music catalogues and other intangibles (see note 9)	303	661
Impairment of goodwill (see note 10)	299	377
Operating lease rentals payable	27	27

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

4. FEES TO AUDITORS

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Audit of these financial statements	1	1
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	4	4
Services relating to taxation	1	1
All other services	7	–
Total fees paid to auditors	**13**	**6**

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis. Fees paid to the auditors in relation to other services relate principally to work on projects to finance or refinance the Group's operations including assistance in relation to potential disposals.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

5. DIRECTOR AND EMPLOYEE COSTS

£ million Director and employee costs:	Year ended 31 March 2010	Year ended 31 March 2009
Wages and salaries	209	209
Social security costs	29	28
Defined contribution pension cost	1	2
Defined benefit pension cost	9	6
Termination payments (including curtailment gain of £2.5 million (2009: £3 million)	13	66
Share-based payments – equity settled (non-cash)	10	3
Share-based payments – cash settled	–	3
	271	**317**
Director costs:		
Directors' emoluments	6	1
Compensation for loss of office	1	–
Amounts paid to third parties in respect of directors' services	3	3
Amounts related to long-term incentive schemes – equity settled	10	1
Amounts related to long-term incentive schemes – cash settled	–	–
	20	**5**

The regular emoluments of the highest paid director were £2.8 million (2009: £0.8 million) and company pension contributions of £nil (2009: £nil) were made to a money purchase scheme on his behalf.

Payments made to directors included that for compensation for loss of office, comprising cash charges of £1.5 million. Additionally, under the accounting rules of IFRS 2, Share Based Payments following the director's loss of office, non-cash charges relating to rights under the long-term equity settled incentive scheme of £9.4 million were also crystallised. These non-cash charges are based on a theoretical calculation of the value of the rights on the date they were originally granted, being 4 July 2008, and not their value at the time of leaving the company which the directors consider to be very substantially less.

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

5. DIRECTOR AND EMPLOYEE COSTS (CONTINUED)

	Number of directors	
	Year ended 31 March 2010	Year ended 31 March 2009
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was:	2	2

Directors' rights to subscribe for shares in or debentures of the Company and its subsidiaries are indicated below:

Number of options	At start of year 000	Forfeited during the year 000	At end of year 000	Exercise price £/p
Ordinary shares	2	–	2	–
Preference shares	11,198	1,600	9,598	–

Certain directors benefited from qualifying third party indemnity provisions.

The average number of persons employed by the Group (including directors) during the period, analysed by division was as follows.

Number	Year ended 31 March 2010	Year ended 31 March 2009
EMI Music	2,831	3,221
EMI Music Publishing	549	571
	3,380	**3,792**

The Company had no employees during the year (2009: nil).

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

5. DIRECTOR AND EMPLOYEE COSTS (CONTINUED)

Key management personnel

The aggregate cost of the key management of the Group is as follows:

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Salaries, short-term employee benefits and third party interim costs	19	10
Post-employment benefits	–	1
Share-based payments – equity settled (non-cash)	10	3
Share-based payments – cash settled	–	–
Termination benefits	2	–
	31	**14**

Key management personnel totalled 24 (2009: 22) at the year end and included the board of directors and the operating boards of both EMI Music and EMI Music Publishing.

The share-based payments charge of £10 million includes £9 million relating to the highest paid director. The basis for calculating this charge is explained above.

Employee benefits

For details regarding the Group's long-term incentive plans, and share-based payment transactions, see note 28.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

6. NET FINANCE CHARGES

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Finance costs:		
Fair value loss on derivatives	–	(155)
Total net losses	–	(155)
Interest payable on bank overdrafts and loans	(196)	(223)
Interest on shareholder loan	(52)	(56)
Interest payable on finance leases	(1)	(1)
Total interest expense on financial liabilities measured at amortised cost	(249)	(280)
Interest payable on defined benefit pension scheme liabilities	(55)	(57)
Foreign exchange loss on foreign currency borrowings	–	(297)
Total finance costs	**(304)**	**(789)**

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

6. NET FINANCE CHARGES (CONTINUED)

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Finance income:		
Fair value gain on derivatives	48	–
Total net gains	48	–
Interest receivable on bank balances	1	11
Other interest receivable	–	3
Total interest income on financial assets not at fair value through profit or loss	1	14
Expected return from defined benefit pension scheme assets	39	53
Foreign exchange gain on foreign currency borrowings	73	–
Total finance income	161	67
Total net finance charges	**(143)**	**(722)**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

7. RESTRUCTURING COSTS

The restructuring costs included within loss before taxation are as follows:

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Restructuring costs	**71**	**136**

Restructuring costs

During the year ended 31 March 2010, the restructuring initiatives included redundancy costs, addressing the debt and equity financing structure and continuing rationalisation of the property portfolio and security and capital reorganisation issues. Management anticipate that restructuring initiatives will continue for the foreseeable future.

During the year ended 31 March 2009, the Group engaged experts and consultants in order to understand more fully the commercial and geographical markets in which the Group operates, assess and redefine the strategic objectives of the Group, and start to implement a wide-ranging restructuring exercise to fundamentally reshape the business.

Costs recognised in restructuring included repositioning EMI Music's labels to ensure Artists and Repertoire are a primary focus, developing new partnerships with artists that are based on transparency and trust moving to a global functional structure for each of the Group's key activities including marketing, manufacturing, sales and distribution, rationalising the property portfolio, outsourcing non-core business areas, capital reorganisation and eliminating significant duplications to simplify processes.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

8. TAXATION

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Current tax for the period	4	8
Total current tax charge	4	8
Deferred tax credit (Note 21)	(116)	(194)
Total taxation credit	**(112)**	**(186)**

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

£ million	Year ended 31 March 2010	Year ended 31 March 2009
Loss before tax	(624)	(1,753)
Tax calculated at the UK tax rate applicable to profits in the respective countries at 28%	(174)	(491)
Expenses not deductible for tax purposes	71	187
Origination of tax losses	4	132
Other credits	(3)	(4)
Tax rate differences	11	(10)
Prior year adjustments	(21)	–
Total tax credit in the income statement	**(112)**	**(186)**

On 21 June 2010 it was announced that Corporation tax rates in the United Kingdom will reduce to 27% from 1 April 2011 and a further 1% per year down to 24% from 1 April 2014. This legislation has not yet been substantially enacted and hence has no impact on the deferred tax calculations within these financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

9. MUSIC CATALOGUES AND OTHER INTANGIBLE ASSETS

£ million	Music catalogues	Artists' & Songwriters' contracts	Software	Other	Total
Cost					
At 31 March 2008	3,248	299	29	46	3,622
Additions	8	–	–	–	8
Currency retranslation	872	51	–	2	925
At 31 March 2009	**4,128**	**350**	**29**	**48**	**4,555**
Additions	3	1	–	–	4
Currency retranslation	(182)	(11)	–	–	(193)
At 31 March 2010	**3,949**	**340**	**29**	**48**	**4,366**
Amortisation and impairment					
At 31 March 2008	56	7	4	2	69
Impairment charge (see note 11)	625	36	–	–	661
Amortisation charge for the year	106	12	6	4	128
Currency retranslation	34	3	–	–	37
At 31 March 2009	**821**	**58**	**10**	**6**	**895**
Impairment charge (see note 11)	294	9	–	–	303
Amortisation for the year	97	12	6	4	119
Currency retranslation	(32)	(7)	1	1	(37)
At 31 March 2010	**1,180**	**72**	**17**	**11**	**1,280**
Net book value					
At 31 March 2010	2,769	268	12	37	3,086
At 31 March 2009	3,307	292	19	42	3,660
At 31 March 2008	3,192	292	25	44	3,553

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

10. GOODWILL

£ million	Year ended 31 March 2010
Cost	
Cost at 1 April 2008	1,511
Currency retranslation	421
At 31 March 2009	**1,932**
Acquisitions	2
Currency retranslation	(88)
At 31 March 2010	**1,846**
Impairment	
At 1 April 2008	–
Impairment charge	377
At 31 March 2009	**377**
Impairment charge (see note 11)	299
Currency retranslation	(16)
At 31 March 2010	**660**
Net book value	
At 31 March 2010	**1,186**
At 31 March 2009	**1,555**
At 31 March 2008	**1,511**

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

10. GOODWILL (CONTINUED)

Goodwill acquired through the business combination has been allocated for impairment testing purposes to two cash-generating units ("CGUs"), being EMI Music and EMI Music Publishing representing the lowest level within the Group at which goodwill is monitored for internal management purposes. The allocation of the goodwill acquired on the purchase of the EMI Group is detailed below:

£ million	31 March 2010	31 March 2009
EMI Music	530	757
EMI Music Publishing	656	798
Goodwill	**1,186**	**1,555**

Goodwill impairment is calculated on a local currency basis and is translated to sterling by applying closing statutory exchange rates as at the end of the financial year.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

11. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

The impairment charges recognised in the financial statements within administrative expenses in the income statement are as follows:

£ million	Year ended 31 March 2010			Year ended 31 March 2009		
	Intangible assets	Goodwill	Total	Intangible assets	Goodwill	Total
EMI Music	165	195	360	–	202	202
EMI Music Publishing	138	104	242	661	175	836
Goodwill	**303**	**299**	**602**	**661**	**377**	**1,038**

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, and tests the intangible assets for impairment if there are indications that the assets might be impaired.

As a result at 31 March 2010, the directors performed impairment tests on the goodwill in the EMI Music and EMI Music Publishing CGUs and the music catalogues of the two divisions and concluded that the goodwill and intangible assets were impaired as detailed in the above table.

The principal assumptions used in those tests were the long-term growth rates and the discount rates. These are discussed, by CGU, below.

EMI MUSIC

Goodwill:

31 March 2010

The recoverable amount of the EMI Music division is determined based on a value-in-use calculation, using the discounted cash flow projections for the whole EMI Music division derived from the latest financial budgets and long-term plan for the period ending 2015, which is approved by the board. A terminal value approach has been used to determine the net present value of the cash flows of the CGU into perpetuity; a growth rate of 0% (consistent with management's expectations and external sources of information) has been used for the EMI Music division. All estimated cash flows for the CGU have been discounted at a pre-tax discount rate of 16.8% (post-tax discount rate of 12%). An impairment of £195 million has been identified, and the goodwill has been written down by this amount to its value-in-use.

If the post-tax discount rate used had been increased by 1%, a further impairment of £86 million would have been recognised against the goodwill of EMI Music. If the terminal growth rate used had been decreased by 1%, a further impairment of £58 million would have been recognised against the goodwill of EMI Music.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

11. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The impairment charge arose as a result of the downturn in the outlook for the music market which has resulted in reduced growth assumptions in relation to new music (as distinct from catalogue) in both the short and longer term, leading to a fall in the value of goodwill.

31 March 2009

The recoverable amount of the EMI Music division is determined based on a value-in-use calculation, using the discounted cash flow projections for the whole EMI Music division derived from the latest financial budgets and long-term plan for the period ending 2014, approved by the board. A terminal value approach has been used to determine the net present value of the cash flows of the CGU into perpetuity; a growth rate of 0% (consistent with management's expectations and external sources of information) has been used for the EMI Music division. All estimated cash flows for the CGU have been discounted at a pre-tax discount rate of 33% (post-tax discount rate of 14%). An impairment has been identified, and the goodwill has been written down to its value-in-use.

If the discount rate used is increased by 1%, a further impairment of £118 million would be recognised against the goodwill of EMI Music. If the terminal growth rate used is decreased by 1%, a further impairment of £76 million would be recognised against the goodwill of EMI Music.

The impairment charge arose as a result of the downturn in the outlook for the music market which is an area highly exposed to the general downturn in the economy, leading to a significant fall in the value of goodwill.

Intangible assets:

31 March 2010

The recoverable amount of the EMI Music catalogue is determined based on a value-in-use calculation, using discounted cash flow projections derived from data for the year to 31 March 2010 with the application of growth rates and decay rates which are specific to the type of income derived and territory in which the recording is exploited over the expected life of the asset. A forecasting period of more than five years has been used as the catalogue has relatively stable income and the outcome is more accurate than applying a terminal value to the fifth year of cash flows. A terminal value has been applied to the forecasts after 10 years. The forecasts used are based on management's view of the long-term performance of the catalogue, based upon industry survey analysis for each type of revenue for each territory. Specific growth rates have been used for 2016 to the end of the forecast ranging from annual growth rates of 1% to a decline rate of 12%.

Country specific discount rates have been applied to each geographical cash flow, resulting in an overall pre-tax discount rate of 13.2% (post-tax discount rate of 9%). An impairment of £165 million has been identified, and the intangible assets have been written down by this amount to their value-in-use.

The impairment charge arose as a result of the downturn in the outlook for the music market which is an area highly exposed to the general downturn in the economy, leading to a significant fall in the value of goodwill.

If post-tax discount rates used had been increased by 1% across each territory, a further impairment of £89 million would have been recognised against the value of intangible assets.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

11. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

31 March 2009

The recoverable amount of the EMI Music catalogue is determined based on a value-in-use calculation, using discounted cash flow projections derived from data for the year to 31 March 2009 with the application of growth rates and decay rates which are specific to the type of income derived and territory in which the recording arises for the next 10 years. A forecasting period of more than five years has been used as the catalogue has relatively stable income (although not as stable as the EMI Music Publishing catalogue) and the outcome is more accurate than applying a terminal value to the fifth year of cash flows. A terminal value has been applied to the forecasts after 10 years. The forecasts used are based on management's view as to the long-term performance of the catalogue, based upon industry survey analysis for each sub-type of revenue for each territory. Specific growth rates have been used for 2015 to 2019 which differ from the long-term growth rates of the territories, ranging from a growth rate of 7.6% to a decline rate of 12.7%.

Country specific discount rates have been applied to each geographical cash flow, at a pre-tax discount rate of 12.9% (post-tax discount rate of 9.2%). No impairment was identified. If discount rates used are increased by 1% across each territory, an impairment of £70 million would be recognised against the value of intangible assets.

EMI Music Publishing

Goodwill:

31 March 2010

The recoverable amount of the EMI Music Publishing division is determined based on a value-in-use calculation, using the discounted cash flow projections for the whole EMI Music Publishing division derived from the latest financial budgets and long-term plan for the period ending 31 March 2015, which was approved by the board. A terminal value approach has been used to determine the cash flows of the CGU into perpetuity; a growth rate ranging from 2.5% to 3.5% (consistent with past experience and external sources of information) has been used for the EMI Music Publishing division. All estimated cash flows for the CGU have been discounted at a pre-tax discount rate of 11.3% (post-tax discount rate of 10%). An impairment of £104 million has been identified, and the goodwill has been written down by this amount to its value in use.

If the post-tax discount rate used had been increased by 1%, a further impairment of £242 million would have been recognised against the goodwill of EMI Music Publishing. If the terminal growth rate used had been decreased by 1%, a further impairment of £197 million would have been recognised against the goodwill of EMI Music Publishing.

The impairment charge arose as a result of the downturn in the outlook for the music market which has resulted in reduced growth assumptions across all areas (including the catalogue) in the short to longer term leading to a fall in the value of goodwill.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

11. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

31 March 2009
The recoverable amount of the EMI Music Publishing division is determined based on a value-in-use calculation, using the discounted cash flow projections for the whole EMI Music Publishing division derived from the latest financial budgets and long-term plan for the period ending 31 March 2014, approved by the board. A terminal value approach has been used to determine the cash flows of the CGU into perpetuity; a growth rate of 1.6% (consistent with past experience and external sources of information) has been used for the EMI Music Publishing division. All estimated cash flows for the CGU have been discounted at a pre-tax discount rate of 10.7% (post-tax discount rate of 9%). An impairment has been identified, and the goodwill has been written down to its value in use.

If the discount rate used is increased by 1%, a further impairment of £246 million would be recognised against the goodwill of EMI Music Publishing. If the terminal growth rate used is decreased by 1%, a further impairment of £194 million would be recognised against the goodwill of EMI Music Publishing.

The impairment charge arose as a result of the downturn in the outlook for the music market which has resulted in reduced growth assumptions across all areas (including the catalogue) in the short to longer term leading to a fall in the value of goodwill.

Intangible assets:

31 March 2010
The recoverable amount of the EMI Music Publishing catalogues is determined based on a value-in-use calculation, using discounted cash flow projections derived from data for the year to 31 March 2010 with the application of growth rates and decay rates which are specific to the type of income derived and territory in which the copyright is exploited over the expected life of the asset. A forecasting period of more than five years before applying a terminal value is considered appropriate as future income is likely to be affected by particular considerations in the long-term (e.g. copyright reversion). The forecasts used are based on management's view of the long-term performance of the catalogues, based upon industry survey analysis for each sub-type of revenue for each territory. Specific growth rates have been used for 2016 to the end of the forecast ranging from annual growth rates of 5% to a decline rate of 5%.

Country specific discount rates have been applied to each geographical cash flow, resulting in an overall pre-tax discount rate of 10.9% (post-tax discount rate of 9.5%). An impairment of £138 million has been identified, and the intangible assets have been written down by this amount to their value in use.

The impairment charge has arisen as a result of the downturn in the outlook for the music market which has resulted in reduced growth assumptions in the short to longer term and increased decay assumptions on the catalogue, leading to a significant fall in the value of intangible assets.

If post-tax discount rates used had been increased by 1% across each territory, a further impairment of £201 million would have been recognised against the value of the EMI Music Publishing catalogues.

11. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

31 March 2009

The recoverable amount of the EMI Music Publishing catalogues is determined based on a value-in-use calculation, using discounted cash flow projections derived from data for the year to 31 March 2009 with the application of growth rates and decay rates which are specific to the type of income derived and territory in which the copyright arises for the next 20 years. A forecasting period of more than five years has been used as the catalogue has relatively stable income and the outcome is more accurate than applying a terminal value to the fifth year of cash flows. A terminal value has been applied to the forecasts after 20 years. The forecasts used are based on management's view as to the long-term performance of the catalogues, based upon industry survey analysis for each sub-type of revenue for each territory. Specific growth rates have been used for 2015 to 2029 which differ from the long-term growth rates of the territories, ranging from a growth rate of 10.0% to a decline rate of 5.0%.

Country specific discount rates have been applied to each geographical cash flow, with a pre-tax discount rate of 9.2% (post-tax discount rate of 8.9%). An impairment has been identified, and the intangible assets have been written down to their value in use.

The impairment charge has arisen as a result of the reduction in future growth assumptions in the last 12 months primarily from changes in the economic environment affecting both short-term growth and longer-term trends and increased decay assumptions on the catalogue, leading to a significant fall in the value of intangible assets.

If discount rates used are increased by 1% across each territory, a further impairment of £272 million would be recognised against the value of the EMI Music Publishing catalogues.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

12. PROPERTY, PLANT AND EQUIPMENT

£ million	Freehold property	Leasehold property	Plant, equipment and vehicles	Total
Cost				
Cost at 1 April 2008	53	64	46	163
Additions	–	2	22	24
Disposals	(4)	(5)	(11)	(20)
Currency retranslation and reclassification	(8)	4	33	29
At 31 March 2009	**41**	**65**	**90**	**196**
Additions	2	2	21	25
Disposals	(5)	(1)	(13)	(19)
Currency retranslation and reclassification	–	(2)	(6)	(8)
At 31 March 2010	**38**	**64**	**92**	**194**
Accumulated depreciation and impairment				
At 1 April 2008	–	2	–	2
Depreciation charge for the period	1	4	17	22
Disposals	(1)	(4)	(8)	(13)
Currency retranslation and reclassification	–	(1)	–	(1)
At 31 March 2009	**–**	**1**	**9**	**10**
Depreciation charge for the year	2	5	16	23
Disposals	(1)	(1)	(13)	(15)
Currency retranslation and reclassification	–	–	(6)	(6)
At 31 March 2010	**1**	**5**	**6**	**12**
Net book value				
At 31 March 2010	**37**	**59**	**86**	**182**
At 31 March 2009	**41**	**64**	**81**	**186**
At 31 March 2008	**53**	**62**	**46**	**161**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The carrying values of property, plant and equipment include the following:

				31 March 2010
£ million	Freehold property	Leasehold property	Plant, equipment and vehicles	Total
Finance lease assets	–	21	–	**21**
Assets in the course of construction	–	–	5	**5**

				31 March 2009
£ million	Freehold property	Leasehold property	Plant, equipment and vehicles	Total
Finance lease assets	–	23	–	**23**
Assets in the course of construction	–	1	10	**11**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

13. INVESTMENTS IN ASSOCIATES

£ million	2010	2009
At beginning of the year	29	25
Share of profit for the year	2	3
Dividends received	(2)	(2)
Currency translation	–	3
At end of the year	**29**	**29**

Investments in associates as at 31 March 2010 include goodwill of £2 million (2009: £2 million). None of the Group's associates are listed. The principal investments in associates are detailed in note 35.

The summarised financial information of the associates is as follows:

£ million	2010	2009
Share of associates' balance sheet:		
Gross assets	37	34
Gross liabilities	(30)	(20)
Share of net assets	**7**	**14**
Share of associates' income		
Revenue	14	12
Net profit	**2**	**3**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

14. FINANCIAL ASSETS

£ million	2010	2009
Available-for-sale investments	11	11
Interest rate caps at fair value through profit or loss	–	–
	11	**11**

Available-for-sale investments
The available-for-sale investments above represent unlisted equity investments which offer the Group the opportunity of return through dividend income. They are valued at cost as their fair value cannot be reliably measured.

Interest rate caps at fair value through profit or loss
The interest rate caps at fair value through the profit or loss represent financial derivatives which are used to manage the Group's exposure to fluctuations in interest rate movements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

15. RECEIVABLES

£ million	2010	2010	2009	2009
Current receivables:				
Trade receivables		277		249
Advances		190		217
Corporation tax recoverable		17		20
Other receivables:				
Amounts owed by associates	–		1	
Other debtors	49		45	
Prepayments and accrued income	20		36	
		69		82
Total current receivables		**553**		**568**
Non current receivables:				
Prepayments and accrued income		11		9
Total		**564**		**577**

Included within advances of £190 million at 31 March 2010 (2009: £217 million) are advances of £47 million (2009: £32 million) which are recoupable immediately (either from existing releases or from albums expected to be released in the future) from royalty earnings and therefore may be recovered more than 12 months after the balance sheet date.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

16. INVENTORIES

£ million	2010	2009
Raw materials and consumables	2	3
Finished goods	23	24
Total	**25**	**27**

During the year, the Group has written down inventories by £10 million (2009: £19 million).

17. CASH AND CASH EQUIVALENTS

£ million	2010	2009
Cash at bank and in hand	336	332
Short-term deposits	4	4
Cash and cash equivalents	**343**	**336**

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 £168 million (2009: £209 million) held with banks within the UK and £137 million (2009: £98 million) held with banks outside, but freely transferable to, the UK. The Group has balances of cash and cash equivalents totalling £38 million (2009: £29 million) held with banks outside the UK, but not freely transferable back to the UK. This amount is made up of a large number of individually insignificant balances in a wide range of territories.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

18. TRADE AND OTHER PAYABLES

£ million	2010	2009
Current payables:		
Trade payables	170	213
Royalties and fees payable	644	675
Current taxation payable	33	53
Other taxes including VAT and social security costs	8	8
Other payables	77	54
Interest payable	8	3
Accruals and deferred income	44	130
Total current payables	**984**	**1,136**
Non current payables:		
Other payables	144	7
Total payables	**1,128**	**1,143**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

19. FINANCIAL LIABILITIES

£ million	2010	2009
Non-current		
Bank term loan	–	3,162
Shareholder loan	398	346
Finance leases (note 20)	15	18
Interest rate swaps	133	197
	546	**3,723**
Current		
Bank term loan	3,038	–
Bank overdrafts	6	24
Finance leases (note 20)	2	2
Interest rate swaps	70	62
	3,116	**88**
Total financial liabilities	**3,662**	**3,811**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

19. FINANCIAL LIABILITIES (CONTINUED)

Bank term loans

In August 2007, the Group signed three facility agreements. The facilities comprised a £1,175 million senior debt facility, a £1,410 million securitised bridge facility and a £155 million mezzanine facility, which have a maturity ranging from five years to seven years. The loans are secured on certain assets and shares of certain Group companies and are on a floating interest rate basis.

At 31 March 2010 borrowings have been classified as current because at that date the Group did not have an unconditional right to defer settlement of the liability for at least 12 months for the reasons set out below.

Under the terms of the Group's borrowing agreements an equity cure of £87.5 million was required in order to enable Maltby Investments Limited to meet covenant tests applied for the quarter ended 31 March 2010. Funds to enable the cure to be made are required under the facility agreements to be or have previously been provided out of new equity. At 31 March 2010 the Group did not have sufficient qualifying funds and no certainty that such funds would be provided by the shareholder to effect the cure for the quarter then ended.

As set out in note 1, Going concern, the equity cure in relation to the quarter ended 31 March 2010 was effected on 10 June 2010 out of funds of £78.1 million provided by the Company's shareholders together with £9.4 million already held by the Company. Following this cure being effected, as at the date of approval of these financial statements, the directors consider that the Group once again currently has unconditional right to defer settlement of these borrowings for at least 12 months

Shareholder loan

The shareholder loan was provided in the year ended 31 March 2008 by Terra Firma Capital Partners II and III (note 30) at a fixed interest rate of 8% (with the option to add interest to the principal), is repayable in August 2017 and was used to finance the acquisition of EMI. In June 2008 the interest rate on this loan was changed to 0% although the principal amount due in 2017 remains unchanged. This change of terms triggered the derecognition rules in IAS 39 Financial Instruments: Recognition and Measurement. As a result the carrying value of the loan was derecognised in June 2008 and a new loan was recognised at its fair value in June 2008. The resulting gain of £809 million together with the related deferred tax impact of £226 million was recognised directly within shareholders' equity as this was a transaction with shareholders acting in their capacity as shareholders. The loan has subsequently been measured at its amortised cost and will be increased to its principal value by August 2017 via interest charged through the finance costs line in the income statement. The amortised cost of the loan was £398 million at 31 March 2010 (2009: £346 million). The unwinding of £52 million (2009: £34 million) of the principal value has been recognised in the finance cost line in the income statement, whilst interest payable via payment in kind notes of £21 million was charged during the year ended 31 March 2009 prior to the change in terms.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

19. FINANCIAL LIABILITIES (CONTINUED)

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2010 were £1,783 million and 2009 were £1,869 million. At 31 March 2010 and 2009, the fixed interest rates varied from 4.5268% to 5.4912% and the main floating rates were three month USD LIBOR, three month GBP LIBOR and three month EURIBOR. The fair value of the interest rate swaps was equal to the book value being £203 million as at 31 March 2010 (2009: £259 million). Details are shown in note 23.

Interest rate caps

The notional principal amounts of the outstanding interest rate cap contracts at 31 March 2010 were £795 million and 2009 were £825 million. At 31 March 2010 and 2009, the capped interest rates varied from 4.38% to 5.55%. The fair value of the interest rate caps was equal to the book value being £nil as at 31 March 2010 (2009: £nil). Details are shown in note 23.

Other financial liabilities

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 20.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

20. OBLIGATIONS UNDER FINANCE LEASES

£ million	Minimum lease payments 2010	Minimum lease payments 2009
Amounts payable under finance leases:		
Within one year	2	2
Between one and five years	7	8
After more than five years	8	10
Present value of lease obligations	17	20
Less: current portion (shown under current liabilities)	(2)	(2)
Non-current portion	**15**	**18**

Included in finance leases at 31 March 2010 is a sale and leaseback scheme relating to a property in Rue Mont Cenis, Paris. 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 present value of the minimum lease payments is not significantly different to the above analysis.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

21. DEFERRED TAXATION

The major deferred tax assets and liabilities recognised by the Group, and the movements thereon, are as follows:

£ million	Property, plant and equipment	Tax losses	Pension assets	Other	Total
Deferred tax assets					
At 1 April 2008	**2**	**221**	**10**	**12**	**245**
Credit/(charge) to income statement for the year	2	(66)	–	3	(61)
Credit direct to equity	–	–	2	–	2
Currency retranslation	–	49	–	–	49
At 31 March 2009	**4**	**204**	**12**	**15**	**235**
Charge to income statement for the year	**(1)**	**(39)**	**–**	**(6)**	**(46)**
Credit direct to equity	–	–	35	–	35
Currency retranslation	–	(8)	(1)	–	(9)
At 31 March 2010	**3**	**157**	**46**	**9**	**215**

In the Group consolidated balance sheet at 31 March 2010, the deferred tax asset of £157 million relating to tax losses has been offset against the deferred tax liability (2009: £202 million). This results in an asset on the balance sheet of £58 million (2009: £53 million) and a liability of £1,080 million (2009: £1,252 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

21. DEFERRED TAXATION (CONTINUED)

£ million	Property, plant and equipment	Pension liailities	Intangible assets	Financial instruments	Total
Deferred tax liabilities					
At 1 April 2008	(4)	(32)	(1,115)	–	(1,151)
(Charge)/credit to profit or loss for the year	(4)	–	249	10	255
Credit/(charge) direct to equity	–	18	–	(226)	(208)
Currency retranslation	(3)	–	(347)	–	(350)
At 31 March 2009	**(11)**	**(14)**	**(1,213)**	**(216)**	**(1,454)**
(Charge)/credit to profit or loss for the year					
Credit/(charge) direct to equity	2	–	146	14	162
Currency retranslation	–	14	–	–	14
At 31 March 2010	–	–	41	–	41
At 31 March 2010	**(9)**	**–**	**(1,026)**	**(202)**	**(1,237)**

At the balance sheet date the Group had tax losses of £1,827 million (2009: £1,076 million) and other deductible temporary differences of £98 million (2009: £60 million). No deferred tax has been recognised on these amounts due to the unpredictability of future profit streams and there are no further taxable temporary differences relating to the same taxation authority and the same taxable entity arising against which these can be utilised.

Temporary differences for which deferred tax liabilities have not been recognised arising in connection with interests in subsidiaries, associates and jointly controlled operations are not significant.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

22. OTHER PROVISIONS FOR LIABILITIES AND CHARGES

£ million	Restructuring	Trading	Total
Current			
At 1 April 2008	50	51	101
Provisions utilised	(30)	(11)	(41)
Charged in the year	31	–	31
Currency retranslation	14	10	24
At 31 March 2009	**65**	**50**	**115**
Provisions utilised	(28)	(14)	(42)
Charged in the year	15	4	19
Provision released in the year	(6)	(7)	(13)
Currency retranslation	(3)	–	(3)
At 31 March 2010	**43**	**33**	**76**

Trading provisions include royalty audit claims and legal provisions charged through profit from operations which are expected to be incurred within the next year. The restructuring provision relates primarily to employee termination costs all of which are expected to be incurred within the next year.

Phillips Corporation commenced legal proceedings against EMI Music, Inc and Capital-EMI Music, Inc in April 2007. During the year the Group reached a full and final settlement for the legal proceedings and agreed to pay a sum reflecting the amount provided in the prior year. The Group did not accept, and continues to deny, any liability in relation to the settlement claim.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS

Investments in debt and equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets are determined by reference to market price where available at the balance sheet date.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand, the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date, if material.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Derivative financial instruments

The fair value of interest rate swaps and caps is based on Bloomberg calculations generated using observable market inputs (based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date).

The interest rates used in fair value calculations, where applicable, are based on market rates and the weighted averages were as follows:

£ million	2010 %	2009 %
Loans and borrowings	**10.84**	**12.42**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

Financial assets and liabilities recognised at fair value through profit and loss, comprise of derivative financial instruments. The derivative financial instruments are measured at fair value, using a market based information system that provides a valuation model that uses quoted market price and yield information to calculate cash flows and the total net present value (aggregated of discounted cash flows).

Financial assets and liabilities recognised at amortised cost only require disclosure of the fair value when they are at a fixed rate. The financial liability that falls into this category is measured at fair value using market based quoted price information.

The fair value of the shareholder loan has been calculated using a discounted cash flow (DCF) model. The DCF model uses quoted market price information for the risk free rate (UK gilts) in addition to the credit risk rate for the parent company in order to derive the discount rate applicable to the Group.

There has been no change in valuation technique over the financial period.

The fair values for each class of financial asset and financial liabilities, together with their carrying amounts shown in the balance sheet are as follows:

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

£ million	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Bank overdrafts (note 19)	(6)	(6)	(24)	(24)
Shareholder loan (note 19)	(398)	(522)	(346)	(418)
Bank term loans (note 19)	(3,038)	(3,038)	(3,162)	(3,162)
Obligations under finance leases (note 20)	(17)	(17)	(20)	(20)
Total borrowings	(3,459)	(3,583)	(3,552)	(3,624)
Trade and other payables (note 18)	(1,087)	(1,087)	(1,082)	(1,082)
Total financial liabilities measured at amortised cost	(4,546)	(4,670)	(4,634)	(4,706)
Interest rate swaps at fair value through profit or loss (note 19)	(203)	(203)	(259)	(259)
Total financial liabilities	(4,749)	(4,873)	(4,893)	(4,965)
Cash and cash equivalents (note 17)	343	343	336	336
Trade and other receivables (note 15)	326	326	295	295
Total loans and receivables	669	669	631	631
Available for sale investments (note 14)	11	11	11	11
Interest rate caps at fair value through profit or loss (note 14)	–	–	–	–
Total financial assets	680	680	642	642
Net financial liabilities	**(4,069)**	**(4,193)**	**(4,251)**	**(4,323)**

23. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial instruments	–	(203)	–	(203)

At 31 March 2010 the Group did not have any liabilities classified at level 3 of the fair value hierarchy.

A 25 basis point increase in the yield curve used in the fair value calculation of the financial derivatives would decrease the fair value by an aggregated £25 million (2009: £31 million).

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk including interest rate and currency risk

This note presents information about the Group's exposure to the above risks, as well as outlining the Group's objectives, policies and processes for measuring and managing financial risk, and the Group's management of capital.

Credit risk

Credit or counterparty risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

Group Treasury policy and objectives in relation to credit risk is to minimise the likelihood that the Group will experience financial loss due to counterparty failure and to ensure that in the event of a single loss, the failure of any single counterparty would not materially impact the financial well-being of the Group.

23. FINANCIAL INSTRUMENTS (CONTINUED)

The Group limits its exposure to credit risk by only depositing surplus funds on a short-term basis and by only investing in liquid securities and only with counterparties that have been given a strong credit rating by both Standard & Poor's and Moody's. Surplus cash investments are only made with banks with whom the Group has a relationship. Occasionally deposits are made with banking counterparties that provide financing arrangements, reducing the credit exposure of the Group.

Trade receivables are assessed for risk of default by customers and terms of trade are adjusted accordingly. Receivables are insured on risk and cost grounds.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £680 million (2009: £642 million) being the total of the carrying amount of financial assets, excluding equity investments, shown in the table on the previous page.

The ageing of trade receivables at the balance sheet date was as follows:

£ million	Gross receivables 2010	Provision 2010	Gross receivables 2009	Provision 2009
Not past due	235	(1)	203	(1)
Past due 0 – 30 days	20	–	13	(1)
Past due 31 – 120 days	8	(1)	10	(1)
More than 120 days	50	(34)	57	(31)
Total	**313**	**(36)**	**283**	**(34)**

23. FINANCIAL INSTRUMENTS (CONTINUED)

The movement in the provision for bad debts in respect of the trade receivables during the year was as follows:

	2010 £m	2009 £m
At beginning of the period	34	32
Charged to the income statement during the period	2	2
At end of period	**36**	**34**

The maximum exposure to credit risk of the trade receivables at 31 March 2010 by geographic region was as follows:

	Net 2010 £m	Net 2009 £m
United Kingdom and Ireland	19	39
North America	95	86
Rest of Europe	79	76
Other	84	48
	277	**249**

23. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group.

The Group is reliant on committed funding from a variety of sources at Group and subsidiary company level to meet the anticipated needs of the Group for the period covered by the Group's budget.

The Group forecasts on a regular basis the expected cash flows that will occur on a weekly and monthly basis. This information is used in conjunction with the weekly reporting of actual cash balances at bank in order to calculate the level of funding that will be required in the short and medium term. On a monthly basis the level of headroom on existing facilities is reported and forecast forward until the end of the financial period.

The Group's committed facilities and lines of credit are as follows:

	Total facility 2010 £m	Undrawn facility 2010 £m	Total facility 2009 £m	Undrawn facility 2009 £m
Senior facility	1,175	269	1,175	258
Securitisation bridge facility	1,410	–	1,410	–
Mezzanine facility	155	–	155	–
	2,740	**269**	**2,740**	**258**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

The Securitisation bridge facility is drawn down in Euros, US dollars and UK sterling. The Mezzanine facility has only been drawn down in UK sterling. The Senior facility includes a Revolving Credit Facility that can be drawn at short notice and can be drawn in any currency. At the balance sheet date, the Revolving Credit Facility was drawn down in Euros, US dollars, UK sterling and Japanese Yen. The Senior facility also includes term loans which are drawn down in Euros and US dollars.

The contractual cash flows of financial liabilities on an undiscounted basis, including interest payments is shown in the table below.

2010	Carrying amount £m	Total contractual cash flows £m	1 year or less £m	1 to 2 years £m	2 to 5 years £m	5 years and over £m
Bank overdrafts	6	6	6	–	–	–
Shareholder loan	398	1,120	–	–	–	1,120
Bank term loans	3,038	3,722	108	102	476	3,036
Obligations under finance leases	17	17	2	2	5	8
Trade and other payables	1,087	1,087	943	144	–	–
Interest rate swaps	203	216	78	58	80	–
Total financial liabilities	**4,749**	**6,168**	**1,137**	**306**	**561**	**4,164**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

2009	Carrying amount £m	Total contractual cash flows £m	1 year or less £m	1 to 2 years £m	2 to 5 years £m	5 years and over £m
Bank overdrafts	24	24	24	–	–	–
Shareholder loan	346	1,120	–	–	–	1,120
Bank term loans	3,162	4,110	121	122	367	3,500
Obligations under finance leases	20	20	2	2	6	10
Trade and other payables	1,082	1,082	1,075	7	–	–
Interest rate swaps	259	278	67	62	46	103
Total financial liabilities	**4,893**	**6,634**	**1,289**	**193**	**419**	**4,733**

The cash flows relating to the interest rate swaps and floating rate debt included in the above analysis are based on floating rates applicable at the period end.

In order to meet financial covenant tests in respect of periods ending 30 September 2008, 31 December 2008, 31 March 2009 and 30 June 2009 the Group applied funds originally provided by the Company's ultimate shareholder of £16 million, £12.75 million, £39.25 million and £37 million respectively under equity cure provisions within the facilities. Following the 31 March 2010 covenant test, only £9 million of funds remain or can be made available for equity cure purposes. On 10 June 2010 £78.1 million was received from the ultimate shareholder together with the £9.4 million already held by the Company which will enable the Group to meet its covenant obligations.

Market and foreign currency risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within an acceptable range.

23. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

The Group manages currency risk with the objective of maximising the hedging effect that derives from the diversity of the Group's operations whilst avoiding creating currency exposure in addition to that derived from the Group's underlying position.

The Group is exposed to currency risk in respect to sales and purchases. A global netting system is used to minimise transaction costs associated with the sale and purchase of foreign currency to finance purchases and sales. Within the Group, loans are made between the UK central entity and global subsidiaries. To minimise the exposure of purchasing currency at spot rates, small currency balances are maintained to fund currency requirements. The UK central entity occasionally enters into foreign exchange contracts in order to exchange foreign currency into functional currency although no forward contracts were outstanding at 31 March 2010. The Group ensures that its net exposure is kept to an operationally acceptable level by buying and selling foreign currencies at spot rates when necessary.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily UK sterling, Euros and US dollars. This provides an economic hedge without the need for entering into foreign exchange derivatives regularly.

The analysis of principal financial assets and liabilities by major currency is as follows:

2010	US Dollars m	Euros m	Sterling m
Shareholder loan	–	–	(398)
Bank loans	(2,289)	(1,178)	(473)
Cash and cash equivalents	89	67	168
Interest rate swaps	(186)	(51)	(35)
Interest rate caps	–	–	–
Receivables	242	138	134
Payables	(724)	(228)	(428)
	(2,868)	**(1,252)**	**(1,032)**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

2009	US Dollars m	Euros €m	Sterling m
Shareholder loan	–	–	(346)
Bank loans	(2,330)	(1,165)	(454)
Cash and cash equivalents	109	31	213
Interest rate swaps	(260)	(45)	(36)
Interest rate caps	–	–	–
Receivables	238	120	99
Payables	(776)	(217)	(369)
	(3,019)	**(1,276)**	**(893)**

A 20% strengthening of the Euro, US dollar and Japanese Yen against the pound sterling at 31 March 2010 would have decreased the foreign exchange reserve within equity by £273 million and increased the loss by £368 million. A 20% weakening of the Euro, US dollar and Japanese Yen against the pound sterling at 31 March 2010 would have increased equity by £182 million and decreased the loss by £245 million. Those calculations assume that all other variables remain constant.

Interest rate risk

The Group policy is to manage the fixed / floating interest rate mix such that a significant increase in interest rates will not on its own cause the Group significant volatility in its interest charge.

The financial facility agreements that the Group has entered into contain clauses that require certain levels of funding to be hedged so that interest rate risk is minimised, i.e. floating interest is swapped to fixed rate interest or is capped at a maximum interest rate. Such clauses are contained in the following facilities:

Securitisation Bridge Facility – The interest liability relating to at least 82% of the principal amount outstanding.

Senior Facility & Mezzanine Facility – The interest liability relating to at least 50% of the principal amount outstanding.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

An analysis of the spread of interest rate risk, detailed before and after the effect of the derivatives, is as follows:

	Currency	As at 31 March 2010 £m	As at 31 March 2009 £m
Fixed debt	GBP	398	346
Floating debt	GBP	523	454
Floating debt	EUR	1,052	1,079
Floating debt	USD	1,506	1,629
Floating debt	JPY	7	–
		3,486	**3,508**
Impact of interest rate swaps			
Fixed debt	GBP	649	581
Fixed debt	EUR	386	400
Fixed debt	USD	1,146	1,218
Floating debt	GBP	272	219
Floating debt	EUR	666	679
Floating debt	USD	360	411
Floating debt	JPY	7	–
		3,486	**3,508**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

23. FINANCIAL INSTRUMENTS (CONTINUED)

In addition, interest rate caps have been used to manage a proportion of the interest rate exposure of the floating debt to movements in interest rates.

An absolute increase in interest rates in all currencies of 1% would increase finance charges by £13 million (2009: £10 million). A 20% weakening of sterling against US dollars, Euros and Japanese Yen would result in a loss of £427 million (2009: £677 million based on a 20% weakening of sterling against US dollars and Euros) assuming interest rates remain constant. A 20% strengthening of sterling against US dollars and Euros would result in a gain of £641 million (2009: £451 million based on a 20% strengthening of sterling against US dollars and Euros) assuming interest rates remain constant. The Group considers that a 20% change in currency is possible. The Group also considers that based on current market conditions only a 1% change in interest rates remains reasonably possible.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS

The Group operates a number of pension schemes throughout the world. The nature of a 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, Ireland, 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 four countries are material in size and so full detail on each of them is given in the following narrative.

£ million	Major schemes	Other schemes	Total
Pension (liability) / asset			
31 March 2010	(162)	(12)	(174)
31 March 2009	14	(9)	5

The main scheme in the UK, which covers employees of both EMI Group Limited 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. There were no significant changes to the UK fund during the year. The number of active members of the UK Fund was 269 (2009: 374).

The Group operates two plans in Japan – Toshiba EMI Limited Retirement Plans, comprising the Cash Balance Plan for employees and the Retirement Allowance Plan for Directors, the financial details of which are reported in aggregate later in this note. There were no significant changes to these plans during 2010.

There were no significant changes in the German or Irish schemes during the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

The assets and liabilities of these schemes were:

2010	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Fair value of scheme assets					
Equities	27	–	6	–	33
Bonds	867	–	8	–	875
Property	30	–	–	–	30
Other	11	4	1	23	39
	935	4	15	23	977
Present value of funded defined benefit obligations	(1,051)	(46)	(18)	(18)	(1,133)
Net pension asset / (liability)	(116)	(42)	(3)	5	(156)
Effect of asset ceiling	–	–	–	(6)	(6)
Net pension asset / (liability)	**(116)**	**(42)**	**(3)**	**(1)**	**(162)**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

2009	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Fair value of scheme assets					
Equities	22	–	6	–	28
Bonds	772	–	7	–	779
Property	37	–	–	–	37
Other	27	4	1	24	56
	858	4	14	24	900
Present value of funded defined benefit obligations	(804)	(41)	(17)	(18)	(880)
Net pension asset / (liability)	54	(37)	(3)	6	20
Effect of asset ceiling	–	–	–	(6)	(6)
Net pension asset / (liability)	**54**	(37)	(3)	**–**	**14**

For Japan, the Toshiba EMI Limited Retirement Plan has net assets of £nil (2009: £nil) and Retirement Allowance plan for Directors has net liabilities of £1m (2009: £nil).

The EMI Group Pension Fund was in deficit under an accounting (IAS 19) basis as at 31 March 2010. The deficit was £116 million, based on assets of £935 million and liabilities of £1,051 million.

This measure of the financial position is not the same as that used to determine cash contributions to the Fund. The valuation assumptions used for accounting are set by the Group Directors (having taken actuarial advice) in accordance with IAS 19. The liability under IAS19 is calculated by using best estimate assumptions with regard to market rates to project future liability cash flows, and by placing a present value on these using a discount rate derived from the yield on high quality (AA) corporate bonds.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

The assessment of the Fund's liabilities that is used to determine the level of cash contributions to the Fund is made under Scheme Funding legislation. Under Scheme Funding, the assumptions used to value the Fund's liabilities are required to be prudent (rather than best estimate), and the discount rate used is also required to be prudent (rather than being the yield on high quality corporate bonds). As a result, the value placed on the liabilities of a pension scheme on a Scheme Funding basis is often higher than on an accounting basis. "Prudence" is not defined by Scheme Funding legislation, but Pensions Regulator guidance is that the degree of prudence should reflect the strength of the covenant of the sponsoring employer; the weaker the perceived covenant, the greater the degree of required prudence.

EMI Group Limited has been in discussions with the Trustees of the EMI Group Pension Fund regarding the cash contributions under the scheme funding regime. Agreement has not been able to be reached regarding a long-term funding policy for the Fund and absent such agreement the Pensions Regulator has referred the matter to the Determinations Panel for resolution. The Group's current lending arrangements require the deficit existing at the date of the acquisition of EMI Group Limited to be met by additional funds from the ultimate shareholder. Under proposals put forward to the Determinations Panel, the scheme funding deficit could fall somewhere in a range between £115 million and £217 million based on a valuation at 31 March 2008. Absent any prior agreement with the Trustees, the size of this deficit and the number of years over which the deficit is removed will be resolved by the Determinations Panel.

There are no significant unfunded schemes.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

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

2010	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Recognised in the consolidated income statement					
Current service cost	4	–	–	1	5
Curtailment gain (recognised within restructuring costs)	(3)	–	–	–	(3)
Recognised in arriving at profit from operations	1	–	–	1	2
Expected return on scheme assets	(38)	–	(1)	–	(39)
Interest cost on scheme liabilities	51	2	1	–	54
Recognised in arriving at total net finance charges	13	2	–	–	15
Taken to consolidated statement of comprehensive income					
Actual return on scheme assets	130	–	2	–	132
Expected return on scheme assets	(38)	–	(1)	–	(39)
Actuarial gain on scheme assets	92	–	1	–	93
Actuarial loss on defined benefit obligations	(252)	(7)	(1)	–	(260)
Effect of the asset ceiling	–	–	–	–	–
Actuarial (gains) and losses recognised in the consolidated statement of comprehensive income	160	7	–	–	167

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

2009	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Recognised in the consolidated income statement					
Current service cost	5	–	–	1	6
Curtailment gain (recognised within restructuring costs)	(3)	–	–	–	(3)
Recognised in arriving at profit from operations	2	–	–	1	3
Expected return on scheme assets	(52)	–	(1)	–	(53)
Interest cost on scheme liabilities	54	2	1	–	57
Recognised in arriving at total net finance charges	2	2	–	–	4
Taken to consolidated statement of comprehensive income					
Actual return on scheme assets	47	–	2	–	49
Expected return on scheme assets	52	–	1	–	53
Actuarial gain on scheme assets	99	–	3	–	102
Actuarial loss on defined benefit obligations	(41)	(1)	–	–	(42)
Effect of the asset ceiling	–	–	–	2	2
Actuarial (gains) and losses recognised in the consolidated statement of comprehensive income	58	(1)	3	2	62

24. PENSIONS (CONTINUED)

2010	United Kingdom %	Germany %	Ireland %	Japan %
Main assumptions				
Rate of general increase in salaries	5.3	3.0	4.0	2.1
Rate of increase to pensions in payment	3.6	2.0	2.0	–
Discount rate for scheme liabilities	5.5	5.0	5.3	2.1
Inflation	3.8	2.0	2.0	–
Expected rates of return on scheme assets:				
Equities	8.3	n/a	n/a	n/a
Bonds	4.7	n/a	n/a	n/a
Property	6.5	n/a	n/a	n/a
Other	4.6	n/a	n/a	n/a
Overall expected return on scheme assets	5.0	4.0	5.6	1.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

2009	United Kingdom %	Germany %	Ireland %	Japan %
Main assumptions				
Rate of general increase in salaries	5.1	3.0	4.0	2.1
Rate of increase to pensions in payment	3.1	2.0	2.0	–
Discount rate for scheme liabilities	6.6	6.1	6.0	2.1
Inflation	3.1	2.0	2.0	–
Expected rates of return on scheme assets:				
Equities	8.4	n/a	n/a	n/a
Bonds	4.9	n/a	n/a	n/a
Property	6.6	n/a	n/a	n/a
Other	3.1	n/a	n/a	n/a
Overall expected return on scheme assets	5.1	4.0	5.9	1.0

The expected return on plan assets is set by reference to historical returns on each of the main asset classes, current market indicators such as long-term bond yields and expected long-term strategic asset allocation of each plan. The overall expected weight of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

The table below sets out the sensitivity on the pension deficit as at 31 March 2010 for the two main assumptions:

2010	United Kingdom £m	Germany £m	Ireland £m	Japan £m
Increase/(decrease) in pension deficit				
0.25% rise in discount rate	(40)	(1)	(1)	–
0.25% fall in discount rate	45	1	1	–
0.25% rise in inflation	40	1	1	–
0.25% fall in inflation	(35)	(1)	(1)	–

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

The mortality assumptions used in the principal schemes are as follows:

2010	United Kingdom Years	Germany Years	Ireland Years	Japan Years
Life expectancies				
Current pensioners at 65 – male	23	18	25	n/a
Current pensioners at 65 – female	24	22	28	n/a
Future pensioners at 65 – male	25	22	29	n/a
Future pensioners at 65 – female	26	26	32	n/a

2009	United Kingdom Years	Germany Years	Ireland Years	Japan Years
Life expectancies				
Current pensioners at 65 – male	21	18	25	n/a
Current pensioners at 65 – female	22	22	28	n/a
Future pensioners at 65 – male	23	22	29	n/a
Future pensioners at 65 – female	24	26	32	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 2030. A blend of medium cohort and long cohort assumptions were used in the case of the UK Fund with a minimum annual improvement of 1.25%. As the plans in Japan provide a cash sum at retirement, no post-retirement life expectancy assumption is required.

24. PENSIONS (CONTINUED)

Members contribute to the UK Fund at the rate of 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 the period. Employer contributions are made to the UK fund at the rate of 20% of pensionable salary and to the Japanese fund as advised by the insurance company which administers the fund. Contributions to the plans were £5 million (2009: £6 million) and are expected to be £4 million in 2011.

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

	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
At 1 April 2009	(804)	(41)	(17)	(18)	(880)
Service cost	(4)	–	–	(1)	(5)
Interest cost	(51)	(2)	(1)	–	(54)
Curtailment	3	–	–	–	3
Benefits paid	57	2	1	2	62
Actuarial losses	(252)	(7)	(1)	–	(260)
Currency translation	–	2	–	(1)	1
At 31 March 2010	**(1,051)**	**(46)**	**(18)**	**(18)**	**(1,133)**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
At 1 April 2008	(847)	(36)	(15)	(13)	(911)
Service cost	(5)	–	–	(1)	(6)
Interest cost	(54)	(2)	(1)	–	(57)
Curtailment	3	–	–	–	3
Benefits paid	58	2	1	2	63
Actuarial gain	41	1	–	–	42
Currency translation	–	(6)	(2)	(6)	(14)
At 31 March 2009	**(804)**	**(41)**	**(17)**	**(18)**	**(880)**

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

	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
At 1 April 2009	858	4	14	24	900
Expected return on scheme assets	38	–	1	–	39
Employer contributions	4	–	–	1	5
Benefits paid	(57)	(2)	(1)	(2)	(62)
Actuarial gains	92	–	1	–	93
Currency translation	–	2		–	2
At 31 March 2010	**935**	**4**	**15**	**23**	**977**

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

24. PENSIONS (CONTINUED)

	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
At 1 April 2008	958	4	15	17	994
Expected return on scheme assets	52	–	1	–	53
Employer contributions	5	–	–	1	6
Benefits paid	(58)	(2)	(1)	(2)	(63)
Actuarial losses	(99)	–	(3)	–	(102)
Currency translation	–	2	2	8	12
At 31 March 2009	**858**	**4**	**14**	**24**	**900**

24. PENSIONS (CONTINUED)

History of experience gains and losses:

2010	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Fair value of scheme assets	935	4	15	23	977
Present value of defined benefit obligations	(1,051)	(46)	(18)	(18)	(1,133)
Surplus / (deficit) in the scheme	(116)	(42)	(3)	5	(156)
Effect of asset ceiling	–	–	–	(6)	(6)
	(116)	**(42)**	**(3)**	**(1)**	**(162)**
Cumulative actuarial gains and (losses) at 1 April 2009	2	3	(3)	(2)	–
Actuarial losses on defined benefit obligations in the year	(252)	(7)	(1)	–	(260)
Actuarial gains on plan assets in the year	92	–	1	–	93
Effect of the asset ceiling	–	–	–	–	–
Cumulative actuarial gains / (losses) at 31 March 2010	**(158)**	**(4)**	**(3)**	**(2)**	**(167)**

NOTES TO THE GROUP FINANCIAL STATEMENTS

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24. PENSIONS (CONTINUED)

2009	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Fair value of scheme assets	858	4	14	24	900
Present value of defined benefit obligations	(804)	(41)	(17)	(18)	(880)
Surplus / (deficit) in the scheme	54	(37)	(3)	6	(20)
Effect of asset ceiling	–	–	–	(6)	(6)
	54	**(37)**	**(3)**	**–**	**14**

	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Cumulative actuarial gains and (losses) at 1 April 2008	60	2	–	–	62
Actuarial losses on defined benefit obligations in the year	41	1	–	–	42
Actuarial gains on plan assets in the year	(99)	–	(3)	–	(102)
Effect of the asset ceiling	–	–	–	(2)	(2)
Cumulative actuarial gains / (losses) at 31 March 2009	**2**	**3**	**(3)**	**(2)**	**–**

NOTES TO THE GROUP FINANCIAL STATEMENTS

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24. PENSIONS (CONTINUED)

2008	United Kingdom £m	Germany £m	Ireland £m	Japan £m	Total £m
Fair value of scheme assets	958	4	15	17	994
Present value of defined benefit obligations	(847)	(36)	(15)	(13)	(911)
Surplus / (deficit) in the scheme	111	(32)	–	4	83
Effect of asset ceiling	–	–	–	(4)	(4)
	111	**(32)**	**–**	**–**	**79**
Cumulative actuarial gains and (losses) at 1 April 2007	–	–	–	–	–
Actuarial losses on defined benefit obligations in the year	60	2	–	–	62
Effect of the asset ceiling	–	–	–	–	–
Cumulative actuarial gains / (losses) at 31 March 2008	**60**	**2**	**–**	**–**	**62**

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25. SHARE CAPITAL

	2010 £m	2009 £m
Authorised and issued share capital:		
117,256 Ordinary shares of £1 each	–	–
704,157,319 Preference shares of £1 each	704	704
	704	**704**

	Number 2010 000's	Share capital 2010 £m	Number 2009 000's	Share capital 2009 £m
At beginning of the period	704,275	704	704,275	704
Shares issued during the period	–	–	–	–
At end of period	**704,275**	**704**	**704,275**	**704**

All shares in issue have been allocated, called up and fully paid at par. The preference shares are non-voting and non-redeemable. The holders are entitled to a cumulative distribution of 8% per annum. However, the Company has the unconditional right to defer settlement of this return until the liquidation of the Company and so the shares have been classified as equity, and any distribution on the preference shares ranks before distributions on the ordinary shares.

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26. RESERVES

Foreign exchange reserve

The foreign exchange reserve comprises all foreign exchange differences arising since incorporation from the translation of the financial statements of foreign operations.

Other reserves

The other reserve comprises the gain on the shareholder loan recognised directly in equity, net of the related deferred tax impact, to the extent the gain has not yet unwound in the effective interest charged to date (again net of the related deferred tax impact).

Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any externally imposed capital requirements. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, increase net debt by issuing new debt or drawing down upon facilities or reduce net debt by issuing new shares or selling assets.

The directors define capital for these purposes as total equity plus shareholder loans.

27. CAPITAL AND LEASE COMMITMENTS

There were no capital commitments at the year end (2009: £nil).

Commitments under operating leases were as follows:

	2010 £m	2009 £m
Operating leases:		
In the first year	30	30
In the second to fifth years inclusive	100	125
After the fifth year	26	37
Total	**156**	**192**

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28. SHARE-BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2010 £m	2009 £m
Equity-settled share-based payment transactions (non-cash)	10	3
Cash-settled share-based payment transactions	–	3
Total	**10**	**6**

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010 or 2009.

Long-term Incentive Plan – EMI Music and EMI Music Publishing divisions (Cash-settled)

The Group operates two Long-term Incentive Plans ("LTIP") for the Recorded Music Division, and one for the Music Publishing Division. Under the terms of these plans, employees of the relevant division are granted share appreciation units in the LTIP. These units vest in three equal tranches, being 30 days, one year and two years from the earlier of (1) the sale, disposition or transfer of the Group or a Division of the Group (including an IPO); and (2) 31 August 2014.

The relevant date is currently assumed to be 31 August 2014, due to the uncertainty over the timing of a sale, disposition or transfer. The share appreciation units are settled in cash.

The fair value of the share appreciation units is measured at the grant date using a Monte Carlo simulation option pricing model, taking into account the terms and conditions upon which the awards were granted. The valuation methodology assumes that no dividends will be paid during the vesting period. The liability is re-measured to fair value at each balance sheet date using the same methodology, with changes in fair value recognised in the income statement.

During the year ended 31 March 2010, the Group made awards of 0.4% of the growth in value of Recorded Music (2009: 2.36%) and 0.6% of EMI Music Publishing (2009: 10.2%) under these LTIP plans. The total fair value of LTIP awards at 31 March 2010 was £8 million (2009: £31 million).

The carrying amounts of the liabilities relating to these awards at 31 March 2010 are as follows:

EMI Music schemes	£1 million (2009: £1 million)
EMI Music Publishing schemes	£2 million (2009: £2 million)

No awards had vested at 31 March 2010 (2009: £nil).

28. SHARE-BASED PAYMENTS (CONTINUED)

Long-term Incentive Plan – Group (Equity-settled, non-cash)

The Group operates one LTIP plan for Group employees. Under the terms of this plan, employees are granted share appreciation units in the LTIP but the cash is then paid by the Group's parent companies Terra Firma Investments (GP) 2 and (GP) 3 Limited. These units vest from the earlier of (1) the sale, disposition or transfer of the Group or a Division of the Group (including an IPO); and (2) 31 August 2014 (31 August 2017 for one employee). If the sale, disposition or transfer occurs first, the awards are settled in two tranches, being 30 days and six months from the date of the sale. If 31 August 2014 is the earlier date, the awards are settled in their entirety on 30 September 2014 (30 September 2017 for one employee).

The earlier date is currently assumed to be 31 August 2014 (31 August 2017 for one employee), due to uncertainty over the timing of a sale, disposition or transfer. The share appreciation units are settled in cash; however the awards are treated as being equity-settled share-based payment transactions as the awards were granted by Terra Firma Investments Limited (GP) 2 and (GP) 3, the sole shareholders of Maltby Capital Limited.

The fair value of the share appreciation units is measured at the grant date using a Monte Carlo simulation option pricing model, taking into account the terms and conditions upon which the awards were granted. The valuation methodology assumes that no dividends will be paid during the vesting period.

The Group made no new awards under this LTIP during the year. During the year ended 31 March 2009, the Group made awards of 1.3% of the share appreciation of the Group under this LTIP plan. The grant date fair value of these awards was £5 million which is being spread over the vesting period.

Equity Plans (Equity-settled, non-cash)

Under the terms of the Equity Plans, certain employees of the Group are awarded ordinary shares and preference shares in Maltby Capital Limited which are share-based payment awards. These employees are also awarded the part of the shareholder loan but these are not share-based payment awards. The awards vest in annual tranches over five years from the grant date of the award.

The fair value of the ordinary shares and preference shares is determined at the grant date by reference to a discounted cash flow valuation of the Group, taking into account the terms and conditions upon which the awards were granted. The valuation methodology assumes that no dividends will be paid during the vesting period.

The Group made no new awards under this plan during the year. During the year ended 31 March 2009, the Group made awards of 2,034 ordinary shares and 12,193,566 preference shares under these equity plans. The grant date fair value of these awards was £12 million which is being spread over the vesting period.

29. CONTINGENT LIABILITIES

The directors are not aware of any significant legal or arbitration proceedings, pending or threatened, against any member of the Group which may result in a liability materially in excess of the provision in the financial statements.

Save as described below, there are no legal or arbitration proceedings involving members of the Group which, so far as the directors are aware, may have a material effect on the financial position of the Group.

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 45 (2009: 46) 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 £21 million (2009: £20 million), although they are subject to adjustment both up and down under certain circumstances. The guaranteed leases have terms which expire in one to 16 years (2009: 17 years). 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.

Letters of credit and third party guarantees totalling £3 million (2009: £3 million) have been incurred by Group companies.

In addition to the matters described above, the Group is involved in other litigation arising in the normal course of business, none of which is expected to give rise to a material adverse effect on the Group.

Tax

The Group operates in more than 40 countries and is subject to wide range of complex tax laws and regulations. At any point in time it is normal for there to be a number of open years in any particular territory which may be subject to enquiry by local authorities. Where the effect of the laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are recognised in the financial statements. The Group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements.

Pensions

Please see note 24 for details.

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30. RELATED PARTY TRANSACTIONS

Associated undertakings

	2010 £m	2009 £m
Amounts owed by associates as at 31 March	–	1
Amounts owed to associates as at 31 March	(1)	(1)
Amounts owed to Terra Firma Capital Partners II and III as at 31 March (see note 19):		
– Loan	(398)	(346)
Finance charges (payable) in the period to Terra Firma Capital Partners II and III:		
– Interest payable via payment in kind notes	–	(21)
– Other interest payable arising as a result of change in terms (see note 19)	(52)	(34)

Compensation to key management personnel (including directors)

See note 5 for disclosures in respect of compensation to key management personnel.

During the year Lord Birt received £nil (2009: £250,000) in respect of consultancy services to the Group. However, he continued to receive remuneration as a director as disclosed in note 5. At the period end a balance of £nil (2009: £nil) was payable by the Group.

Defined benefit pension plans

As per note 24, 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, Ireland 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 24.

Investment and shareholder loans

TFCP Holdings Limited is the ultimate controlling party and as such is a related party. TFCP Holdings Limited is the parent company of Terra Firma Investments (GP) 2 Limited and Terra Firma Investments (GP) 3 Limited, and therefore the directors consider these companies to be related parties.

NOTES TO THE GROUP FINANCIAL STATEMENTS

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30. RELATED PARTY TRANSACTIONS (CONTINUED)

During the period ended 31 March 2008, Terra Firma Investments (GP) 2 Limited, acting as general partner of the six limited partnerships which constitute the Terra Firma Capital Partners II fund, subscribed for £159 million ordinary and preference shares in Maltby Capital Limited and subscribed for £238 million in subordinate debt issued by Maltby Holdings Limited.

Terra Firma Investments (GP) 3 Limited, acting as general partner of Terra Firma Capital Partners III, subscribed for £545 million ordinary and preference shares in Maltby Capital Limited and subscribed for £818 million in subordinated debt issued by Maltby Holdings Limited during the period ending 31 March 2008.

There have been no changes in relation to these investment and shareholder loans during the year. For the change in terms of the shareholder loans in the previous years, see note 19.

31. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group prepares its consolidated financial statements in accordance with Adopted IFRSs, which require management to make judgements, estimates and assumptions which affect the application of the accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates change and in any future periods. Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the applications of these policies and estimates.

The following areas are considered to involve a significant degree of judgement or estimation:

Impairment reviews

Adopted IFRSs require management to test for impairment of goodwill, and other intangible assets with indefinite lives, on an annual basis, and of intangible assets with finite lives if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

An impairment test requires an assessment as to whether the carrying value of assets can be supported by its recoverable amount. Management calculates the recoverable amount based on the net present value of the future cash flows derived from the relevant assets, using cash flow projections which have been discounted at an appropriate discount rate.

In calculating the net present value of the future cash flows, certain assumptions and estimates are required to be made in respect of highly uncertain matters, including management's expectations of:

- growth rates of various revenue streams;
- long-term growth rates; and
- the selection of an appropriately risk adjusted discount rate.

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31. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Changing the assumptions selected by management, in particular the discount rate used in the present value calculation, could significantly affect the Group's impairment evaluation and results.

Further details on the impairment review performed on the goodwill and intangible assets are provided in note 11 to the financial statements, including sensitivity analysis in relation to key assumptions.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The Group meets its day to day working capital requirements and medium-term funding requirements through a number of banking facilities repayable from 2014 to 2015. These facilities include certain financial covenant tests which are performed quarterly in respect of rolling one year periods ending on 31 March, 30 June, 30 September and 31 December and certain other covenants and events of default. The breach of a covenant or occurrence of an event of default renders all of the facilities repayable on demand at the option of the lender. The directors have prepared base case trading and cash flow forecasts for a period in excess of one year from the date of approval of these financial statements which project that the total amount of the facilities is not exceeded.

Trading and cash flow forecasts have been based on assumptions, among others including;

- growth rates of various revenue streams;
- long-terms growth rates; and
- projects costs.

Amongst other factors, the nature of the Group's business is such that there can be considerable unpredictable variations in the timing of earnings and cash inflows if there is a change in the forecast release date for key projects. Please refer to note 1 for further discussion on going concern.

Fair value measurement on business combination

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets and liabilities acquired. The determination of the fair value of the acquired assets and liabilities is to a considerable extent based upon management's judgement, and estimates and assumptions made.

Allocation of the purchase price affects the results of the Group as intangible assets are amortised over their estimated useful lives, whereas goodwill, is not amortised. This could lead to differing amortisation charges based on the allocation to indefinite and finite lived intangible assets.

On acquisition of a business, the identifiable intangible assets may include catalogues and contracts with artists and songwriters. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset. The use of different estimates and assumptions for the expectations of future cash flows and the discount rate would change the valuation of these intangible assets.

31. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Taxation

Management is required to estimate the tax payable in each of the jurisdictions in which the Group operates. This involves estimating the actual current tax charge or credit together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which may be included on the consolidated balance sheet of the Group. The calculation of the Group's total tax charge necessarily involves a significant degree of estimation in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, or, as appropriate, through a formal legal process.

The Group has, from time to time, contingent tax liabilities arising from trading and corporate transactions in the UK and overseas jurisdictions. After appropriate consideration, management makes provision for these liabilities based on the probable level of economic loss that may be incurred and which is reliably measurable.

The breadth of the Group's structure with operations in many geographic locations makes the use of estimates and assumptions more challenging. The resolution of issues is not always within the control of the Group and can be reliant upon the efficiency of the legal processes in the relevant jurisdictions in which the Group operates and, as a result, issues can, and often do, take many years to resolve.

The assumptions used in determining the deferred tax assets are disclosed in note 21.

Artists' and writers' advances

The Group regularly commits to, and pays advances to artists and songwriters in respect of their anticipated future sales. These advances are capitalised as assets when management believes that the advances are fully recoverable from future royalties to be earned by the artist or songwriter.

The decision to capitalise an advance requires significant judgement as to the recoverability of these advances. Each advance is assessed upon initial commitment and at each reporting date, based on management's forecast of anticipated revenues from the sale of existing and future product, taking into account the current and past popularity of the artist, the historic sales of previous product and other relevant information.

Based on this information, management expenses the portion of the advance which it believes is not recoverable; in many cases royalty advances to artists without a history of commercial success are expensed immediately. All advances carried on the balance sheet are at each reporting date assessed for recoverability.

31. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Sales returns provisions

In accordance with market practice in the music industry, the Group sells certain physical products to customers with the right to return certain unsold items. The Group recognises revenues from such sales at fair value after making provision in respect of expected future returns of goods supplied.

In determining the level of returns provisioning, management is required to estimate the value of sales which may be returned, by analysing historic return trends, assessing the current economic trends, and estimating the future customer demand of the Group's products. These assessments are performed for each market in which the Group operates, and applies a percentage of each markets' product sales to estimate the returns provision required.

Provisions

Provisions have been made for royalty audit claims, legal, employee termination and other restructuring costs. These provisions are the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Retirement benefits

The Group operates a number of defined benefit pension schemes. Under IAS 19 Employee Benefits, management are required to estimate the present value of the future defined benefit obligation of each of the defined benefit schemes. The estimation of this liability is dependent upon numerous assumptions, including:

- future rate of increase in salaries;
- inflation rate projections;
- discount rate for scheme liabilities; and
- expected rates of return on the scheme assets.

The assumptions and estimates used in determining the defined benefit pension obligations are disclosed in note 24 to the financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

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32. SUBSEQUENT EVENTS

On 10 June 2010, the holders of the shareholder loan (see note 19) waived their rights to the accrued interest on this loan of £63,799,557.

These holders then assigned the shareholder loan receivable of £1,056,411,818 from Maltby Holdings Limited to Maltby Capital Limited in exchange for 7,744 new £1 Ordinary Shares issued by Maltby Capital Limited.

Maltby Capital Limited released Maltby Holdings Limited from the shareholder loan in exchange for 100,000 £1 Ordinary shares issued by Maltby Holdings Limited for a total consideration of £1,056,411,818.

On 10 June 2010 all of the existing 714,157,319 £1 preference shares issued by Maltby Capital Ltd were reclassified to 714,157,319 deferred shares with a nominal value of £1 per deferred share. The holders of these deferred shares are not entitled to receive any dividend or distribution on a return of assets on liquidation, dissolution or winding up of Maltby Capital Ltd either voluntary or involuntary or other return of capital. The deferred shares entitle the holder only to the repayment of the amounts paid up on such shares (including any premium) after repayment of the capital on each ordinary share and payment of £1,000,000 per ordinary share. Also, the holders of the deferred shares are not entitled to receive notice of, attend or vote at any general meeting.

On 11 June 2010 Maltby Capital Ltd issued 35% unsecured convertible loan notes due 2015 having an aggregate nominal value of £78.1 million. The interest will be added to the principal and becomes payable at maturity of the loan notes in 2015 or on the occurrence of certain other events. Except on a demerger or conversion, the loan notes will be redeemable by the Company on 2015.

The Company has received commitment from its shareholders to provide it with further injections of funds up to £26.9 million in aggregate provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection; and (ii) at least three business days' notice of the required injection is given by the Company to its shareholders. In turn, the Company will make funds of up to £26.9 million in aggregate available to Maltby Investments in relation to the 12 month periods ending on 30 June 2010, 30 September 2010 and 31 December 2010, provided that (i) no "Default" under the Group's banking facilities is continuing at the time of injection; (ii) the provision of such funds would result in the financial covenants being complied with; and (iii) at least five business days' notice of the cure amount required is given by Maltby Investments to the Company.

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33. ULTIMATE PARENT COMPANY

The ultimate parent undertaking and controlling party is TFCP Holdings Limited, a company registered in Guernsey. The immediate parent company is Maltby Holdings Limited, a company registered in England and Wales. The parent undertaking of the largest group to consolidate these financial statement is Maltby Capital Limited. Copies of the consolidated financial statements of Maltby Capital can be obtained from the Company's registered address, 27 Wrights Lane, London W8 5SW.

COMPANY BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH 2010

COMPANY BALANCE SHEET AT 31 MARCH 2010

	Note	2010 £m	2009 £m
Fixed assets			
Investments	35	–	89
		–	**89**
Current assets			
Cash at bank and in hand, and cash deposits		9	9
Net current assets		**9**	**9**
Net assets		**9**	**98**
Capital and reserves			
Called up share capital	36	704	704
Profit and loss reserve	36	(695)	(606)
Equity shareholders' funds		**9**	**98**

These financial statements were approved by the board of directors on 28 July 2010 and were signed on its behalf by:

Roger Faxon
Director

34. COMPANY ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the period.

The Company's investments in subsidiaries, joint ventures and associates

Investments in subsidiary undertakings and participating interests in joint venture companies and associates are stated at cost less provision for any impairment.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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35. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	Cost of shares £m
At 1 April 2009	**89**
Impairment charge	(89)
At 31 March 2010	**–**

The carrying value of the Company's investment in subsidiary undertakings has been impaired by £89m to £nil. This impairment has arisen because the consolidated financial statements of Maltby Capital Ltd indicate that the Group has net liabilities.

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35. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

As permitted by Section 410 of the Companies Act 2006, only the holding companies and the principal subsidiaries whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group in 2010 and 2009 have been shown below. A full list of subsidiaries will be attached to the Company's Annual Return filed with the Registrar of Companies. All the subsidiaries were consolidated at 31 March 2010.

	Percentage of equity share capital held indirectly	Country of incorporation and operation	Main activity
EMI Group Limited	100	UK	Holding Company
EMI Records Limited	100	UK	Recorded Music
EMI Music Publishing Limited	100	UK	Music Publishing
EMI Music Japan Inc	100	Japan	Recorded Music
EMI Blackwood Music Inc	100	USA	Music Publishing
EMI Music International Services Limited	100	UK	Recorded Music
EMI Catalogue Partnership Inc	100	USA	Music Publishing
EMI April Music Inc	100	USA	Recorded Music
Capitol Records LLC	100	USA	Recorded Music
Jobete Music Company Inc	100	USA	Music Publishing
EMI Virgin Music Inc	100	USA	Music Publishing
EMI Group Finance Limited	100	UK	Treasury
EMI Group Inc	100	USA	Holding Company
EMI Music Publishing Finance (UK) Limited	100	UK	Treasury
EMI Music France SAS	100	France	Recorded Music
EMI Music Germany GmbH & Co KG	100	Germany	Recorded Music

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35. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

The principal associate undertakings were as follows:

	Percentage of equity share capital held indirectly	Country of incorporation and operation	Main activity
Label Mobile Inc	20	Japan	Recorded Music
Associated Production Music LLC	50	USA	Music Publishing

36. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

The share capital of the Company is disclosed in note 25 of the Group's financial statements.

	Share capital £m	Profit and loss reserve £m	Shareholders' funds £m
At 1 April 2008	704	(4)	700
Loss attributable to the members of the holding company	–	(602)	(602)
At 31 March 2009	**704**	**(606)**	**98**
Loss attributable to the members of the holding company	–	(89)	(89)
At 31 March 2010	**704**	**(695)**	**9**

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CONTACTS

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