

471570

3/31/83

41

ORIGINAL
X 11-086



THORN EMI

Report and Accounts 1983

Contents

Notice of Meeting—below

- | | |
|---|--|
| 1 Board of directors | 23 Source and application of Group funds |
| 1 Results in brief | 24 Supplementary statement of
current cost accounts |
| 2 Chairman's statement | 25 Notes to the current cost accounts |
| 6 Report of the directors | 27 Ten year record |
| 10 Report of the auditors | 28 Review of activities |
| 10 Accounting policies | 34 Management |
| 12 Consolidated profit and loss account | 36 Shareholders |
| 13 Balance sheets | 36 Financial calendar |
| 14 Notes to the accounts | |

Notice of Meeting

Notice is hereby given that the Annual General Meeting of THORN EMI plc will be held in Cinema 1, The Barbican Centre, Silk Street, London EC2Y 8DS on Friday, 9 September, 1983 at 12 noon for the following purposes:

- 1 To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31 March 1983.
- 2 To declare a final dividend on the Ordinary Shares.
- 3 To re-elect Directors.
- 4 To appoint auditors and to authorise the Directors to fix their remuneration.
- 5 To consider and, if thought fit, to pass the following Resolution which will be proposed as an Ordinary Resolution:

That:

- (i) the Directors be and they are hereby generally and unconditionally authorised for the purpose of Section 14 of the Companies Act 1980 to allot relevant securities (as defined in that Act) up to a maximum nominal amount equal to the authorised share capital of the Company remaining unissued at the date of this resolution to such persons at such times and upon such terms and conditions as they may determine (subject to the Articles of Association of the Company) during the period expiring at the end of fifteen months from the date of the passing of this resolution, and

- (ii) the Company may at any time prior to the expiration of such authority make an offer or agreement which would or might require relevant securities to be allotted pursuant thereto after the expiration of such authority.

- 6 To transact any other ordinary business of the Company.

By Order of the Board
Robin Charlton Secretary

Any Member of the Company entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a Member.

Registered Office:
THORN EMI House, Upper Saint Martin's Lane,
London WC2H 9ED
2 August 1983

- a The Report and Accounts are circulated to all Members of the Company and to the holders of the Unsecured Loan Stocks, but only Members holding 7 per cent Convertible Redeemable Second Cumulative Preference Shares 1982/99 and Ordinary Shares are entitled to attend and vote at the meeting.
 - b Members are informed that a register of all transactions of each Director and his family in each class of share capital of the Company and its subsidiaries and a copy of any Director's Service Agreement are available for inspection at the Registered Office of the Company during normal business hours on any weekday (Saturdays and public holidays excepted) and will be available at the Meeting.
-

Board of Directors

Board of Directors

Sir Richard Guy Cave MC *Chairman*
 Peter Laister BSc Tech AMCT F Inst Pet
Managing Director
 Dennis Ambrose Neill MBE BSc (Eng)
Deputy Managing Director
 Sir William Barlow
 Peter Ward Bennett CBE *Non Executive*
 The Lord Brabourne *Non Executive*
 Leslie Charles Hill
 Sir Trevor Holdsworth *Non Executive*
 Harold George Mourgue FCA
 Richard Edward Norman CBE MA (Cantab) C Eng
 FIEE
 Sidney Parker
 Sir John Emms Read *Non Executive*
 John Arthur Sibley
 Sir Graham John Wilkins *Non Executive*

Associate Director

Vijaya Bhaskar Menon MA (Oxon)

Secretary

Robin Charlton MA (Oxon). Barrister

Registered Office

THORN EMI plc
 THORN EMI House
 Upper Saint Martin's Lane
 London WC2H 9ED

Registrars

National Westminster Bank PLC
 Registrar's department 37 Broad Street
 Bristol BS99 7NH

Bankers

National Westminster Bank PLC
 Bloomsbury Parr's Branch 126 High Holborn
 London WC1V 6QB

Solicitors

Rowe & Maw
 15 Devereux Court Essex Street
 London WC2R 3JX

Auditors

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

Stockbrokers

Rowe & Pitman
 City Gate House 39-45 Finsbury Square
 London EC2A 1JA

Results in brief

	1983	1982
	£m	£m
External turnover	2,715.9	2,435.9
Trading profit	400.4	334.0
Depreciation	236.2	193.2
Profit before taxation	122.0	105.4
Profit after taxation	68.9	72.2
Gross cash flow	358.2	298.6
Capital expenditure—rental equipment	254.7	249.1
—fixed assets	71.1	76.7
	1983	1982
Earnings per Ordinary Share before extraordinary items	35.4p	37.9p
Dividends per Ordinary Share	15.750p	14.625p
Number of employees (world wide) at year end	91,544	97,524

Chairman's statement

The year under review resulted in profits ahead of the previous year. The low level of activity in most Product Groups at the beginning of the financial year reflected a continuation of poor trading conditions in the UK and a severe down-turn overseas, particularly in the USA. These conditions continued overseas for the rest of the year subject to the normal seasonal pattern of our business. In contrast, in the UK, the abolition of hire purchase controls in July 1982 and the lowering of interest rates stimulated demand for durable consumer goods. Although this improvement in demand did not result in additional business for some of our traditional Engineering companies the benefits of rationalisation measures taken in earlier years became apparent in a number of product areas. As a result, the Company as a whole had a 21% increase in sales and 58% increase in profits in the second half as compared with the same period in the previous year which enabled the full year's results to show an 11% increase in sales and 16% improvement in profits over the previous year.

We have maintained a policy of investing in the Home Entertainment and high technology Engineering businesses. In Home Entertainment, we responded to the strong demand throughout the year for video cassette recorders by continuing to invest heavily in rental equipment. During the year production commenced at the joint venture VHS video recorder manufacturing facilities in Berlin and Newhaven and local European sourcing of components and materials for these factories is projected to increase progressively.

The forthcoming expansion of broadcasting by satellite and cable TV presents three separate but interrelated areas of opportunity to the Company. First, a wide range of the Company's existing products and services can be supplied to the cable industry and it will be our aim to maximise these sales. Secondly, despite uncertain financial implications we are studying with other parties the extent to which we should become involved in operating cable systems as a franchise holder. Our initial intention is to expand in Swindon and our other existing areas of cable operation. Thirdly, cable TV is a natural extension to television, video and cinema for the Company's software interests. Accordingly, the Company intends to be a major cable TV programme supplier and has already started work on the provision of a range of programming for sale to potential franchise holders.

In Engineering, we created an Information Technology division to co-ordinate our interests in this field and to provide a platform for future growth. We have expanded and broadened the base of the Electronics business and have continued to divest and reduce the capital employed in some of our other Engineering companies.

The expansion of some of the Company's high technology businesses has led to the creation of new jobs although rationalisation measures, particularly in the UK and USA, have resulted in an overall reduction of 6,000 in numbers employed during the year. In an effort to alleviate the effects of unemployment we are continuing to make a significant contribution by offering good quality training places and schemes. During the year the Company arranged over 800 Work Experience Programmes, mainly for unemployed young people, and recently we signed one of the first National Youth Training Scheme Agreements to provide training for around 1,500 school leavers.

The Company continues to build on its strong financial base and during the year generated a cash flow of £358m compared with £299m last year. A net inflow of £5m was achieved at trading level despite investment in rental equipment of £255m and in other fixed assets of £71m. After taking into account exchange rate movements which had an adverse impact of £28m and the cash costs of acquisitions amounting to £25m, overall borrowings increased by £48m to give year-end borrowings less liquid funds of £292m, last year £244m.

The Year's Results

In the year to 31 March 1983, external turnover amounted to £2,715.9m compared with £2,435.9m last year. Trading profits amounted to £400.4m compared with £334.0m. After deducting depreciation and interest charges the pre-tax profits were £122.0m compared with £105.4m last year.

Profits after tax, minority interests and Preference dividends, attributable to Ordinary shareholders amounted to £61.8m (last year £66.1m) and represented earnings per share of 35.4p (last year 37.9p). The tax charge for the year was £53.1m compared with £33.2m last year. In recent years the results have benefited from a sub-normal tax charge principally due to utilisation of past tax

losses in the USA and other overseas territories but this year, mainly as a result of lower profits in the USA, the tax charge represents 43.5% of pre-tax profits compared with 31.5% last year.

A charge of £25.6m is shown against extraordinary items (last year £5.6m). The charge includes a provision to cover the total amount invested in the VHD video disc project, following the decision to suspend our plans for the launch of this system, and the costs of withdrawal from certain engineering businesses.

The Directors' report on page 6 analyses the contribution to turnover and profit before interest between UK and overseas companies. It will be seen that one of the principal features of the year's trading was the severe down-turn overseas, where profits declined by 37% over the previous year, whereas in the UK profits improved by over 48%. The deterioration overseas stemmed largely from the recession in the USA but a further factor was the substantial start-up costs of our overseas video software activities referred to below.

A detailed Review of Activities by each Product Group is shown on pages 28 to 33 of this Report but I would like to follow my previous years' practice and refer in this Statement to some of the more important aspects and underlying trends.

Home Entertainment

THORN EMI Ferguson had another successful year and consolidated its brand leadership in television sets and video recorders. The market for VHS video cassette recorders was strong throughout the year and THORN EMI Ferguson was well placed to respond to the improvement in orders and to meet the demand for colour television sets in the second half. During the year the TX range of colour television sets was expanded. Ferguson has over 50% of the UK market for teletext sets and is the first European company to produce colour television sets for a major Japanese company.

The Rental companies, both UK and overseas, had a satisfactory year. The introduction of new technology and new products, together with subscribers' requirements for more than one piece of equipment, helped to sustain a buoyant demand for video recorders and replacement colour television sets. Despite a substantial increase in the depreciation charge arising from the high level of investment in rental equipment there was an improvement in profit over the previous year and the business remains a sound source of profit and cash generation for future years. Once again, the Chancellor's decision to postpone for a further year the phasing out of the 100% capital tax allowances for rented teletext sets is welcome but more permanent relief is needed to support the high level of investment in British made products.

The Music business suffered from the world recession and profits were over 40% below last year's high level. Particularly difficult trading conditions were experienced in North America, where prompt action was taken to reduce costs so restoring profitability before year-end. Despite the lack of any market growth in Europe there were significant profit improvements in the UK, Italy, Germany and Scandinavia and sensitive artist and repertoire policies continued to yield sales successes in the 32 countries in which Music operates. Earlier this year we announced our participation in the digital audio compact disc business. In the future the Music companies will play an increasingly important part in THORN EMI's video software activities.

In a year of considerable change THORN EMI Films again incurred losses although there is some encouragement in the positive reviews given to a number of the 1982 productions currently being released in international markets. As a result of management actions the control of film making costs has been improved and the integration of film and video policies for the future is progressively being established. The development of the market for pre-recorded video cassettes continued throughout the UK, Europe, North America, Australia and the Middle East and THORN EMI Video made further progress in establishing its place in each of these important business areas. In developing this business, early years will not show a profit due to the prudent accounting practices that the Company follows regarding software investment. It is only since the year-end that the first real signs of marketing maturity and stability, which is expected to mark the end of the investment phase, have been seen and this year profits look to be achievable. In particular, the actions taken by the Industry and the UK Government to combat piracy and to introduce the voluntary classification of products augur well for the future potential for sustained legitimate growth.

Chairman's statement continued

THORN EMI Cinemas started the year profitably and a stringent rationalisation of the organisation was conducted in the autumn. Resultant savings in overheads, combined with higher attendances arising from the availability of more popular films, led to improved results in the latter months of the year. We will oppose some of the recommendations of the Monopolies Commission Report on the supply of films for cinema exhibition as they would exacerbate the industry's problems with attendances having declined so steeply in the last decade. THORN EMI Social Centres enjoyed a successful year. Thames Television, in which we have a joint interest, had to accept that most of the profit earned from operating the London weekday franchise was absorbed by the costs of providing financial support to Channel 4. The international sales of programme rights were profitable and hence Thames made a worthwhile contribution.

Engineering

Despite continuation of the recession in the UK and the onset of poor trading conditions overseas, particularly in the USA, the Engineering Group achieved an improvement in profit. Attention to the effective management of assets resulted in a 15% reduction in capital employed and a positive cash flow was created for the third year in succession. There was no upturn either in the UK or overseas in the level of business activity in industries served by the General Engineering and Technology divisions. New products were introduced in many subsidiaries and in the Technology division plans were initiated for entry into the robotics business.

THORN EMI Electronics completed another excellent year with substantial improvements in its world-wide order intake, sales and profit. The division won a number of major contracts from the UK Ministry of Defence. One of these is for a computerised communication system for air defence. The division made a notable contribution to the Falklands campaign by supplying equipment at very short notice. Electronics' export sales increased, and during the year flight evaluation of the Searchwater radar by the US Navy was successfully completed.

Software Sciences and Datasolve were acquired in April 1982 and these companies, with THORN EMI Datatech and THORN EMI Technology SA (in France), now form the Information Technology division. The overall performance of the division was satisfactory and demonstrated considerable scope for future expansion.

Thorn Ericsson reinforced its position as a leading supplier and manufacturer of telecommunication equipment in the UK. With the relaxation of the BT monopoly, the market provides new opportunities for Thorn Ericsson's excellent range of products.

Domestic Appliances and Retail

Sales in Domestic Appliances in the Spring of 1982 remained depressed but as the year progressed demand increased rapidly, particularly for electrical appliances. Sales and profits in the second half of the year exceeded expectations.

The Electrical division made a strong recovery with built-in cookers, microwave ovens and the Kenwood Gourmet food processor launched last autumn all selling well. In contrast, the Gas division results were disappointing. This was partly due to the national decline in sales of gas appliances but also to reduced margins and the short-term effects of factory rationalisation, including the closure of the Edmonton factory.

The Heating division, which in March 1983 acquired Sealed Motor Construction Co. Ltd., manufacturers of circulating pumps for central heating systems, recorded a second year of substantial increases in sales and profits with further gains in market share in boilers and radiators.

The Retail division also had higher sales and profits. In the UK, Rumbelows benefited from the abolition of HP controls in July 1982 which increased demand for colour TVs, video cassette recorders and major white goods. The HMV retail chain increased its market share and, in Denmark, Fona performed particularly well.

Lighting

THORN EMI Lighting's performance was better with a two-year turn round from loss to profit. The market seems to have stabilised with demand below the level of recent years and the improved results are therefore due entirely to the restructuring of the business. The division is the market

leader in the UK a major exporter and has manufacturing and selling operations in many overseas territories

Supported by a strong research laboratory the division continues to maintain its reputation for product innovation. In particular its policy of concentrating on the promotion of high technology products and energy saving light packages with 26mm fluorescent tubes, de luxe high pressure sodium lamps and the 16W and 28W versions of the unique 2D lamp has been successful

Dividends

An unchanged interim dividend of 4.05p per share was paid in March 1983. The Board is recommending an increased final dividend of 11.70p per share making a total of 15.75p for the full year — an overall increase of 7.7% over the previous year

Directors

It gives me and all the Board great pleasure to be able to extend our congratulations to Mr. R. E. Norman, Chairman and Managing Director of THORN EMI Ferguson, on the CBE awarded to him in the 1983 Birthday Honours List and also to congratulate Sir Laurence Stevens, the non-Executive Chairman of THORN EMI New Zealand, on the Knighthood conferred on him in the same list.

Employees

This year as in the previous two years the Company's employees have faced up to manifold problems affecting the environment of their business lives. It is to their great credit that the financial year ended with a significantly better performance than could have been envisaged in the early months of the year. My colleagues on the Board and I wish to thank everyone for their contribution and hard work.

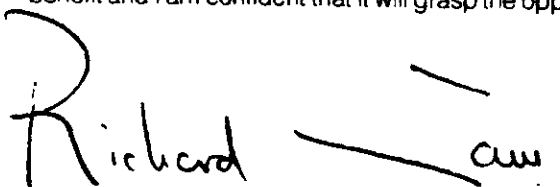
Future

I have decided that now is the right time for me to announce my retirement from the Company. Introducing necessary changes in the management methods of the Company following the retirement of Sir Jules Thorn, the Founder, and carrying through the integration of two companies as large and complex as Thorn and EMI, have been major tasks. These tasks have been completed and there is a first class management team in place that will take advantage of the future opportunities for the further growth and development of the business.

I shall accordingly be retiring as Chairman and from the Board, on 31 March 1984. Mr. Peter Laister, aged 54 years and the present Managing Director, is to be appointed by the Board as the Chief Executive and as Chairman designate with effect from 1 October 1983. In addition from the same date, Sir William Barlow, aged 59, and Mr. H. G. Mourgue, aged 55, will be appointed Vice Chairmen of the Board

Turning to the trading outlook, there are expectations of an up-turn in the UK and in other markets in which we operate, but the signs from the operating divisions are still uneven. The current year has started better than the early months of last year and the year should produce some further improvement in results. This assumes only a modest real growth in the general level of business activity and the improvement will arise mainly from action taken in earlier years to increase investment in Home Entertainment and high technology Engineering and to reduce or conserve resources elsewhere

Much still remains to be done to sustain and improve our competitive position, both at home and abroad. However when the world economy moves out of recession this Company is well poised to benefit and I am confident that it will grasp the opportunities presented.



RICHARD CAVE
14 July 1983