



**THORN EMI**

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# *News release*

For immediate release

THORN EMI plc  
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20 February 1996

## **THORN EMI DEMERGER**

The Board of THORN EMI announces that it intends, subject to receipt of the necessary tax and other regulatory clearances, to recommend to shareholders the demerger of its THORN business.

The demerger will involve the transfer of THORN, the consumer durables rental and rental purchase business, to a new UK public company, THORN plc, the shares of which will be distributed to THORN EMI's shareholders by way of dividend. THORN EMI will be renamed the EMI Group plc and will continue to own the EMI Music and HMV specialist retailing businesses.

Applications will be made to effect listings immediately after demerger of THORN on both the London Stock Exchange and the NASDAQ national market in New York. The shares of EMI will remain listed on the London Stock Exchange and consideration will be given to seeking a listing on the New York Stock Exchange. Neither THORN nor EMI intends to raise any new equity as part of the demerger process.

Sir Colin Southgate will be the Chairman of both the EMI Group plc and THORN plc. Within EMI, James Fifield will remain President and Chief Executive Officer of EMI Music, Stuart McAllister will remain Chief Executive Officer of HMV and Simon Duffy will remain Group Finance Director, all reporting to Sir Colin Southgate. Within THORN, Michael Metcalf will remain

Chief Executive Officer with Steven Marshall reporting to him as Group Finance Director. The names and details of the non-executive directors for both EMI and THORN will be included with the formal demerger proposals which are expected to be issued to shareholders at the beginning of July.

It is anticipated that approval for the demerger proposals will be sought at an Extraordinary General Meeting to be held immediately after the Annual General Meeting on 26 July 1996.

Subject to receipt of the necessary clearances and approvals, the timetable is expected to be as follows:

11 June 1996: THORN EMI preliminary announcement for the year to  
31 March 1996

1 July 1996: Formal demerger proposals sent to shareholders

26 July 1996: THORN EMI Annual General Meeting and  
Extraordinary General Meeting

29 July 1996: Demerger effective; dealings in shares of THORN plc commence.

This release, which has been prepared by THORN EMI plc, has been approved solely for the purposes of Section 57 of the Financial Services Act 1986 by SBC Warburg, a division of Swiss Bank Corporation, which is regulated by The Securities and Futures Authority Limited and is an adviser to THORN EMI plc and THORN plc in connection with the demerger. SBC Warburg is advising THORN EMI plc and THORN plc and no-one else in connection with the demerger and will not be responsible to anyone else for providing the protection afforded to customers of SBC Warburg nor for providing advice in relation to the demerger and related listings and trading facilities.

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CONTACT:

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## **THORN EMI REPORTS STRONG NINE MONTHS' PERFORMANCE**

In the nine months to 31 December 1995, THORN EMI plc continued the strong performance already reported for its first half, with turnover and operating profit up by 13.4% and 26.7% on the previous year respectively.

Each of the Group's principal businesses - EMI Music, THORN Group and HMV - showed a continuation of the strong progress made in the first six months.

Highlights of the results and previous year comparisons are as follows:

- **Operating profit up by 26.7% to £456.7m**
- **Adjusted fully diluted earnings per share up by 25.4% to 60.3p**
- **EMI Music profit up by 22.7% to £310.0m on sales up by 25.7% to £2,109.9m**
- **THORN Group profit up by 24.4% to £125.0m on sales (adjusted to exclude Rumbelows) up by 8.1% to £1,126.6m**
- **HMV profit up by 49.3% to £21.5m on sales up by 56.5% to £588.5m**

## **CHAIRMAN'S STATEMENT**

Commenting on the results for the nine months to 31 December 1995, Sir Colin Southgate, Chairman, said:

"I am pleased to report excellent results for the nine months, reflecting strong performances from EMI Music, THORN Group and HMV. Although our principal markets are traditionally quiet in the fourth quarter, I remain confident that 1995/96 will prove to be another good year for THORN EMI. Overall THORN EMI group operating profit for the nine months increased by 26.7 per cent to £456.7m, compared with £360.4m."

## **SUMMARY OF RESULTS**

Operating profit from the three principal businesses increased 24.2 per cent to £456.5m in the nine months, compared with £367.6m for the same period last year. Group profit before tax and exceptional items improved by 28.8 per cent to £429.1m, from £333.1m. The net exceptional gain of £60.9m was principally due to the disposal of the remaining investment in SGS-Thomson, which was completed on 23 October 1995. The strong growth in the principal businesses resulted in the increase of the adjusted fully diluted earnings per share by 25.4 per cent to 60.3p.

The Group continued to invest strongly in its principal businesses with £520.7m spent on capital investments and £33.9m on acquisitions. Despite these investments, net gearing fell to 31.8 per cent, compared to 33.6 per cent at the same time last year, due principally to strong operating cash flows and the net proceeds from disposals in the period.

## OVERVIEW OF RESULTS

### EMI MUSIC

EMI Music achieved record results for the third quarter driven by an excellent Christmas trading season. Sales for the nine months increased by 25.7 per cent to £2,109.9m and profits increased by 22.7 per cent to £310.0m, compared with the equivalent period last year. Return on sales for the nine months was 14.7 per cent. These results include the full consolidation of the Japanese company, Toshiba-EMI (TOEMI), following the increase in ownership to 55 per cent on 1 October 1994. On a comparable basis, with the prior nine months restated to reflect a full consolidation of TOEMI, sales increased by 12.0 per cent, profits rose by 17.3 per cent and return on sales improved from 14.0 per cent to 14.7 per cent.

Third quarter releases received very strong market acceptance. Releases with exceptional performance in the quarter included:

- The Beatles' *Anthology, Volume 1*, the first of a three CD Anthology series which reached No. 1 on the charts in the US, Germany, France and Australia. The *Volume 1* double album has sold almost 9 million units worldwide. This album also had a significant impact on sales of The Beatles' catalogue resulting in 12 of their albums reaching the US top 50 of the Pop Catalogue chart during the first week of release;
- Queen's *Made in Heaven* achieved No. 1 on the charts in the UK, Germany, Italy and Spain and nine other countries and the album has sold more than 5 million units;
- Garth Brooks' *Fresh Horses*, released in the US at the end of November 1995, entered at No. 2 and consistently maintained a position in the top 10 for the remainder of the quarter. *Fresh Horses* has sold more than 4 million units worldwide;

- Smashing Pumpkins' *Mellon Collie & The Infinite Sadness* entered at No. 1 in the US and stayed in the top 10 from its release date at the end of October 1995 through the quarter. This double album has sold over 3 million units worldwide;
- The Rolling Stones' enhanced CD *Stripped* reached the top 10 in the US, Germany, France, Italy and Spain and sold over 3 million units;
- Roxette's *Greatest Hits* album achieved a position in the top 10 in the UK, Germany, Italy and Spain and sold just under 2 million units.

**UK** During the nine months, EMI UK had significant chart success with seven albums reaching No. 1 including: Queen's *Made in Heaven*, Supergrass' *I Should Coco*, Blur's *The Great Escape*, Pink Floyd's *Pulse* and three *NOW* Series (30, 31 and 32) on the compilation charts. EMI's success has again been recognised in the nominations for the Brit Awards, in which EMI is the leading record company with 21 of the 75 nominations.

**North America** EMI-Capitol Music Group delivered a strong performance led by the extraordinary success of The Beatles' *Anthology* and Garth Brooks' *Fresh Horses*, which were released in the same week, reaching No. 1 and No. 2 respectively. In addition, other high selling releases came from Bob Seger, Bonnie Raitt and Frank Sinatra. Among developing artists with debut albums, the Foo Fighters self-titled album sold more than 1 million units and received a Grammy nomination for Best Alternative Music Performance; D'Angelo's *Brown Sugar* has been nominated for three Grammy awards, including Best R&B Album; Blessid Union of Souls' *Home* has achieved gold status and Everclear's *Sparkle and Fade* has gained significant radio airplay, sales and critical acclaim.

**Japan** In Japan there were strong sales of both domestic and international repertoire. Third quarter releases from Yumi Matsutoya *Kathmandu* and Namie Amuro, *Dance Tracks Vol 1*, both reached No. 1 selling more than 1 million units each. In addition, both The Beatles and the *NOW 3* compilation sold strongly.

**Rest of World** Internationally, the quarter was driven by the success of Queen, The Beatles and Roxette. In addition, there were a number of major local sellers in the third quarter, including new releases by Herbert Groenemeyer in Germany and by Jeff Chang and Michael Learns to Rock in South East Asia. For the nine months, top sellers included Pur's *Abenteuerland* and Die Schlumpfe's *Tekkno Ist Cool, Vol 1* from Germany and Mamonas Assassinas' self-titled album and Paralamas' *Vame Bate Late* from Brazil.

**Virgin** Virgin also experienced strong sales led by the third quarter releases from the Smashing Pumpkins and the Rolling Stones. In addition, Virgin had powerful performances internationally from Meat Loaf's *Welcome to the Neighborhood* and UB40's *Best of Vols 1 & 2* and also with several UK compilation releases including *The Love Album II* and *The Best '60s Album in the World*. Virgin Germany has also had tremendous success with the McDonald's campaign selling over 5 million units to date.

**Overall** In total, 27 albums sold more than 1 million units during the first nine months.

An otherwise quiet fourth quarter for EMI Music includes releases of *Volume 2* of The Beatles' three CD *Anthology* series as well as new albums from Kenji Ozawa, Mazzy Star, Mike & The Mechanics and Tomoyasu Hotei.

**Music Publishing** Music Publishing also reported record results for the nine month period, driven by good performances in North America, Brazil, Japan and South Africa with major contributions from Hootie & The Blowfish, Nirvana, Selena and Jodeci. EMI Music Publishing was named 1995 Pop and R&B Publisher of the Year for an unprecedented seventh consecutive year by US Billboard magazine and won ASCAP's "UK Publisher of the Year" award. Music Publishing has completed the acquisition of a controlling interest in Music House International, a leading company in the UK music library business.

## **THORN GROUP**

THORN Group's operating profit over the nine months rose 24.4 per cent to £125.0m, helped by the closure of Rumbelows and the elimination of its losses (estimated at £13.3m in the comparable period last year). Return on sales improved to 11.1 per cent (10.9 per cent after adjusting for the closure of Rumbelows). As at the end of December, the revenue value of the worldwide rental base was up 5 per cent compared with the prior year equivalent.

**Europe** UK operating profit continued to grow strongly, helped by productivity gains and the elimination of the retail losses at Rumbelows. New business volumes improved markedly after the dull conditions apparent in the first half: excluding mobile phones - which have become a wholly retail proposition - Radio Rentals improved its like-for-like new business volumes by 15 per cent in the third quarter compared to the prior year. This growth was primarily attributable to the expanded product range, particularly PCs and white goods. The performance of Crazy George's, the new concept household durables and furniture chain, continued to exceed expectations and a total of 24 stores are now open. The new National Customer Call Centre has been fitted out and has begun operations, with transfer of responsibility for the first service area already completed.

In Northern Europe the robust growth in domestic units on rent was maintained over the third quarter and was comfortably above the prior year comparative, despite a highly competitive marketplace.

Good growth continued to be achieved in the business-to-business sector, with the increase in units on rent over the first nine months more than 40 per cent up on last year.

**Americas** The household goods and furniture retailing sectors in the US have reported generally poor volumes over the Christmas season. Trading volumes in THORN Americas in the quarter were disappointing and below the excellent results recorded in the prior year, with this trend continuing into the fourth quarter. Consequently, full-year dollar operating profit is now expected to be little changed year-on-year; however, this result will be improved by the profit contribution attributable to the two franchise operations acquired in January 1996 for a total cash consideration of \$101.8m. Performance of the expanding Canadian chain was encouraging, with strong growth achieved in December despite the cuts in welfare benefit recently effected.

## **HMV**

HMV Group increased sales by 56.5 per cent to £588.5m in the nine months (£489.1m excluding Dillons), with profits up by 49.3 per cent to £21.5m. During the quarter, like-for-like sales increased by 6.7 per cent, including an exceptional December performance by HMV UK, which increased like-for-like sales by 16.6 per cent.

HMV Group opened 17 new stores in the third quarter bringing the total to 331. HMV Australia continued its rapid expansion, opening a further five stores, including a large outlet in central Brisbane. In the UK there were eight openings, including new Dillons stores in prime locations in Brighton, Milton Keynes and Chester and major HMV stores in Gateshead Metro Centre, Milton Keynes and Belfast. HMV in North America opened three new mall stores in Canada and a major downtown store in Philadelphia. A new store design was selectively implemented across a number of markets, with a full roll-out planned for the next fiscal year.

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### **CONTACT:**

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THORN EMI plc  
FINANCIAL HIGHLIGHTS  
for the nine months ended 31 December 1995 (unaudited)

	9 mths ended 31.12.95 £m	9 mths ended 31.12.94 £m	Year ended 31.3.95 £m
Turnover (note 1)	3,860.8	3,405.5	4,507.3
Operating profit before operating exceptional items (note 1)	456.7	360.4	455.4
Operating exceptional items (note 2)	-	-	(126.9)
Operating profit	456.7	360.4	328.5
Non-operating exceptional items (note 2)	60.9	9.4	(25.6)
Profit before finance charges	517.6	369.8	302.9
Finance charges	(27.6)	(27.3)	(31.8)
Profit before taxation	490.0	342.5	271.1
Profit before taxation and exceptional items*	429.1	333.1	423.6
Net borrowings	426.1	455.1	363.3
Net cash inflow from operating activities	580.2	612.7	938.8
Capital expenditure			
- property, plant etc.	179.0	149.6	214.3
- rental equipment	341.7	355.8	437.9
- total	520.7	505.4	652.2
Earnings per share (note 3)			
- basic	71.7p	47.4p	25.0p
- adjusted fully diluted	60.3p	48.1p	61.9p
Free cash flow per share**	(3.3)p	9.8p	47.6p
Dividends per share	10.5p	9.75p	36.5p
Return on sales (continuing operations)***	11.8%	11.2%	10.6%
Capital expenditure as a percentage of depreciation	137.6%	143.9%	144.0%
Interest cover****	16.5x	13.2x	14.3x
Dividend cover*****	5.7x	4.9x	1.7x
Net borrowings: Shareholders' funds (inc. Minority interests)	46.6%	50.5%	55.2%
Net borrowings: Capital employed	31.8%	33.6%	35.6%

\* Profit before taxation and exceptional items is stated before both operating and non-operating exceptional items.

\*\* Free cash flow is defined as net cash flow before financing, adjusted for acquisition and disposal expenditure and dividends paid.

\*\*\* Return on sales is defined as operating profit before operating exceptional items as a percentage of turnover.

\*\*\*\* Interest cover is defined as the number of times operating profit before operating exceptional items is greater than finance charges.

\*\*\*\*\* Dividend cover is defined as the number of times the adjusted fully diluted earnings per share is greater than the net dividend per share.

THORN EMI plc  
 CONSOLIDATED PROFIT AND LOSS ACCOUNT  
 for the nine months ended 31 December 1995 (unaudited)

	9 mths ended 31.12.95 £m	9 mths ended 31.12.94 £m	Year ended 31.3.95 £m
<b>TURNOVER (note 1)</b>			
Continuing operations	3,856.2	3,266.6	4,329.0
Discontinued operations	4.6	138.9	178.3
	3,860.8	3,405.5	4,507.3
<b>TRADING PROFIT</b>	457.7	352.2	317.6
Share of profits less losses of associated undertakings	(1.0)	8.2	10.9
<b>OPERATING PROFIT (note 1)</b>			
Continuing operations			
- normal	456.5	364.7	458.5
- exceptional	-	-	(126.9)
Discontinued operations	0.2	(4.3)	(3.1)
	456.7	360.4	328.5
Non-operating exceptional items (note 2)	60.9	9.4	(25.6)
<b>PROFIT BEFORE FINANCE CHARGES</b>	517.6	369.8	302.9
Finance charges	(27.6)	(27.3)	(31.8)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	490.0	342.5	271.1
Taxation on profit on ordinary activities	(171.0)	(134.6)	(157.6)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	319.0	207.9	113.5
Minority interests	(11.6)	(5.8)	(6.8)
<b>PROFIT ATTRIBUTABLE TO MEMBERS OF THE HOLDING COMPANY</b>	307.4	202.1	106.7
Dividends	(45.7)	(41.7)	(156.1)
<b>TRANSFER TO/(FROM) PROFIT &amp; LOSS RESERVE</b>	261.7	160.4	(49.4)
<b>Earnings per Ordinary Share (note 3)</b>			
- basic	71.7p	47.4p	25.0p
Adjusted earnings per Ordinary Share			
- fully diluted	60.3p	48.1p	61.9p

THORN EMI plc  
 CONSOLIDATED BALANCE SHEET  
 at 31 December 1995 (unaudited)

	At 31.12.95 £m	At 31.12.94 £m	At 31.3.95 £m
Music publishing copyrights	402.7	390.0	379.5
Tangible fixed assets	1,476.5	1,382.2	1,401.2
Investments	18.5	55.7	52.3
Investments: own shares (note 4)	28.9	40.9	38.8
<b>TOTAL FIXED ASSETS</b>	<b>1,926.6</b>	<b>1,868.8</b>	<b>1,871.8</b>
Stocks	238.9	289.1	216.0
Debtors	1,207.3	1,080.4	801.1
Creditors	(1,629.4)	(1,545.4)	(1,396.4)
Other provisions	(245.1)	(192.7)	(287.0)
	(428.3)	(368.6)	(666.3)
<b>OPERATING ASSETS</b>	<b>1,498.3</b>	<b>1,500.2</b>	<b>1,205.5</b>
Corporate and deferred taxation	(110.7)	(96.5)	(71.0)
Interest	(2.9)	(6.5)	1.1
Dividends	(45.2)	(41.7)	(114.4)
Net borrowings	(426.1)	(455.1)	(363.3)
	913.4	900.4	657.9
Shareholders' funds	840.5	833.7	583.8
Minority interests	72.9	66.7	74.1
	913.4	900.4	657.9
<b>GEARING</b>			
Net borrowings:			
Shareholders' funds			
(inc. Minority interests)	46.6%	50.5%	55.2%
Net borrowings:			
Capital employed	31.8%	33.6%	35.6%

Capital employed is the sum of shareholders' funds (including Minority interests) and net borrowings.