

## HMV Group plc

### Announcement of Full Year Results

HMV Group plc, the UK's leading retailer of music, DVD and books, today announces its financial results for the 52 weeks ended 28 April 2007, and provides an update on the Group's recent trading and progress on strategic initiatives.

#### Financial Highlights

- Sales of £1,894.5m (up 3.8%), inclusive of a 3.5% fall in like for like sales.
- Profit before tax and exceptional items of £48.1m (2006: £98.2m).
- Exceptional charges totalled £26.5m (2006: £18.0m).
- Profit before tax of £21.6m (2006: £80.2m).
- Adjusted eps 8.7p (2006: 17.4p). Basic eps 4.0p (2006: 14.0p).
- Net debt of £130.6m (2006: £15.6m), after acquisition of Ottakar's plc for £90.2m including debt.
- Final dividend of 5.6p making a total dividend of 7.4p (2006: 7.4p).

#### Trading Update (for the 8 weeks ended 23 June 2007)

- Like for like sales up 3.8%, including an 8.8% increase in HMV UK & Ireland.
- Gross margin improvements in line with expectations.

#### Strategy Update

- Strategic plans announced on 13 March underway and on track.
- Completed review of strategic options for HMV Japan. Now in discussions which may lead to a disposal.

#### Simon Fox, Chief Executive, said:

"The turnaround plan we announced in March is progressing well and we are on track. The benefits of our actions are beginning to come through and are reflected in the good start we have made to our new financial year."

#### Enquiries

HMV Group	Simon Fox	Group Chief Executive	01628 818355 *
	Neil Bright	Group Finance Director	01628 818355 *
	Paul Barker	Head of Corporate Communications	01628 818355 *
Brunswick	Susan Gilchrist / Eilís Murphy / Alex Tweed		020 7404 5959

\* All enquiries on 28 June 2007 should be directed via Brunswick.

## HMV Group plc

### Announcement of Full Year Results

#### Chairman's Statement

The year was difficult for HMV Group, and we performed below our expectations.

Twelve months ago, I said that we anticipated significant changes in our markets, and that the Group had begun a period of transition as we prepared our businesses to be more resilient to the twin challenges of rapidly changing consumer behaviour and intense competition from newer channels. Market shifts were even more severe than predicted. Physical sales of music on the high street remain under the greatest pressure, although we saw the positive impact of our simplified, lower pricing. In books, the supermarkets and the Internet gained share. However, Ottakar's was successfully integrated with the Waterstone's business during the year, and this acquisition reinforces our belief in the importance of market leadership.

The Group's profit before tax and exceptional items was £48.1m. Basic earnings per share were 4.0p and earnings per share before exceptional items were 8.7p. The Board has recommended a final dividend of 5.6p per ordinary share. Together with the interim of 1.8p per share, the total dividend for the year is 7.4p, the same as last year.

A great deal of our attention has been focused on leadership talent on the Board and in critical management positions. Foremost amongst these appointments was the naming of Simon Fox as CEO in September 2006. Simon joined from Kesa Electricals plc, where he was Chief Operating Officer. His knowledge and experience in deep-range retailing across several sales channels gives the Board confidence that we have the right executive leadership to effect a programme of change which will ultimately transform the Group into a world-class multi-channel retailer.

Further changes to the Group Board were:

- Christopher Rogers, Group Finance Director Whitbread plc, joined as a non-executive Director and Chairman of the board Audit Committee in October 2006, and brings a wealth of relevant experience to our Group.
- Alan Giles, former CEO, and Brian McLaughlin, non-executive Director, retired from the Board in September 2006.
- Steve Knott, MD of HMV UK & Ireland, left the Group and retired from the Board in January 2007. The role of Managing Director of HMV UK & Ireland has been assumed by the Group's CEO.

A strategic and operational review was completed in March 2007. The Board believes the Group has a comprehensive and well-balanced strategy to better cope with the challenges that lie ahead. This strategy has three important strands: *protecting* our core business, *saving* costs aggressively and *growing* in new channels and related products.

The environment for entertainment and books retailing will remain highly competitive. However, with aggressive plans, focused leadership and the continued commitment and dedication of our employees, our resilient brands will strengthen their market positions and performance as they comprehensively satisfy the preferences of our customers.

## HMV Group plc

### Announcement of Full Year Results

#### Chief Executive's Review

Our markets are changing profoundly. Entertainment is being generated and consumed in entirely different ways, putting pressure on traditional retail space and traffic. Similar trends are also evident in the books market.

In HMV UK & Ireland, new pricing initiatives implemented during the year did help to reverse the earlier loss of market share in our stores. And in both HMV and Waterstone's we accelerated our online businesses to satisfy the increasing consumer preference for the Internet as a channel to shop. However, the results were insufficient to offset the pace and scale of underlying decline, which is reflected in our disappointing financial performance for the year.

The Group now has a strategy which reflects the changing market structure and exploits the strengths of the HMV and Waterstone's brands. Our three-year plan is to:

- drive cost efficiency
- protect and revitalise our core business
- grow revenue from new channels.

#### Driving cost efficiency

The first strand of our strategy is to save by fundamentally restructuring our cost base. We are streamlining the supply chains for HMV UK & Ireland and Waterstone's by delivering products to single, cross-dock locations instead of to each and every store. We are also exploiting Group synergies by centralising the procurement of goods not for resale and consolidating certain back office functions. We expect these initiatives to deliver further cost savings of £40m per year in 2010.

#### Protecting and revitalising our core retail business

The revitalising of our core retail business is underway. In HMV UK & Ireland our mix of products is being broadened to include portable digital audio products, including MP3 / 4 players, DAB radio and a range of associated accessories. We expect such products to become 13% of store sales by 2010. In addition, 3, the UK's leading retailer of music-enabled mobile phone handsets, will open concessions in a number of HMV stores. These initiatives will further reduce our dependence on the declining physical music category. At Waterstone's, as market growth continues to come mainly from new channels, we are devoting greater space to children's books, which is a part of the market less prone to online purchasing, and we expect the children's category to become 18% of the Waterstone's mix by 2010. We are also adding high quality gift stationery to the Waterstone's store offer.

As shopping patterns evolve, we clearly need to improve our understanding of consumer behaviour. We must do more to encourage the continued patronage of our regular and highest spending customers. To these ends, we are launching an innovative loyalty programme that will operate across both brands and all sales channels. Rewards money cannot buy will be tailored to the holder's taste in entertainment or books.

To further protect our core retail business, we are evolving the HMV store format to become more inspiring places to shop, with refreshment hubs containing online access and the ability to browse our vast catalogue of products and to even burn music onto CD or memory devices. There will also be spaces to experience the latest games and consoles.

#### Growing revenue from new channels

As we protect, we must grow. And to grow, we will adapt to the new multi-channel environment. Here we are investing in our existing transactional sites, hmv.co.uk and Waterstones.com, by integrating them into our stores and increasing the level of marketing support they receive. By 2010 we expect hmv.co.uk to become 20% of HMV UK's sales and Waterstones.com to represent 9% of Waterstone's sales. HMV's digital offer will be integrated within hmv.co.uk to provide customers with a unique choice of physical or downloadable product from a single site. In recognition that today's consumer is absorbing entertainment content from non-traditional channels and sources, leveraging the strong relationships it has with suppliers, HMV UK will launch a new social networking website. Delivering film, music and games-related content to its online community, our new site will allow users to create home pages, meet like-minded people and access film previews, behind-the-scenes footage and music performances.

## HMV Group plc

### Announcement of Full Year Results

Leadership is vital in these product markets. These requirements are met unquestionably by both brands in the UK and by our overseas HMV businesses in Canada, Hong Kong and Singapore. However, HMV Japan does not benefit from market leadership and, consequently, we have reviewed our strategic options for this business. We are now in discussions which may or may not lead to a disposal of this business.

Our recent performance belies the fact that this Group has two of the strongest and most identifiable retail brands on the high street, knowledgeable staff who give high levels of service, and prime store locations that generate over 200 million visitors per year in the UK alone. By combining these brand strengths with our comprehensive strategic plan we are confident that we have solid foundations on which to build the recovery of the Group.

## Outlook

### Trading update

	8 weeks to 23 June 2007	
	Like for like sales growth %	Total sales growth %
HMV UK & Ireland	8.8	12.6
HMV Asia	1.4	4.1
HMV Canada	(5.4)	(3.5)
Total HMV	5.2	8.4
Waterstone's <sup>1</sup>	0.6	40.2
<b>HMV Group plc <sup>1</sup></b>	<b>3.8</b>	<b>15.8</b>

*Like for like sales growth and total sales growth are stated at constant exchange rates.*

*1. Like for like sales growth of Waterstone's and HMV Group plc is adjusted to include in the comparative period the sales of Ottakar's plc, which was acquired on 3 July 2006.*

A good start has been made to the new financial year, with positive like for like sales growth in HMV UK & Ireland and in Waterstone's, albeit reflecting softer comparables from a year ago when trading was adversely impacted by the World Cup. HMV UK has continued to increase its share of the music and DVD markets and is continuing to exploit a growing games market, while Waterstone's has benefited from a book market where the trends have improved on the final quarter of the last financial year.

In our key UK businesses gross margins have improved as a result of actions taken in the final quarter.

HMV Asia also made a good start to the new financial year, while the like for like sales performance in HMV Canada reflected a weaker DVD market.

The turnaround plan communicated in March 2007 is progressing well and we are on track. In line with the plan, our objective for this financial year is to stabilise the business and financial performance of the Group.

## HMV Group plc

### Announcement of Full Year Results

#### Financial Review

The period under review is the 52 weeks ended 28 April 2007, whilst the prior period covers the 52 weeks to 29 April 2006.

	2007 £m	2006 £m
Sales	<b>1,894.5</b>	1,825.9
Like for like sales %	<b>(3.5)%</b>	(5.7)%
Operating profit (before exceptional items)	<b>57.3</b>	102.6
Operating exceptional items	<b>(24.7)</b>	(18.0)
Net finance charge (before exceptional items)	<b>(9.2)</b>	(4.4)
Exceptional finance charges	<b>(1.8)</b>	-
Profit before tax (before exceptional items)	<b>48.1</b>	98.2
Profit before tax	<b>21.6</b>	80.2
Adjusted basic earnings per share	<b>8.7p</b>	17.4p
Basic earnings per share	<b>4.0p</b>	14.0p
Total dividend per share declared	<b>7.4p</b>	7.4p
Underlying net borrowings	<b>130.6</b>	15.6
Free cashflow	<b>6.3</b>	53.7
Store numbers	<b>745</b>	591
Average trading square footage	<b>3.98m</b>	3.44m

Group sales increased by £68.6m or 3.8% to £1,894.5m. This included a like for like sales decline of 3.5% (HMV -3.3%, Waterstone's -4.1%). Total sales included the impact of the acquisition of Ottakar's plc on 3 July 2006, which during the period contributed £138.8m of additional sales to the Group. At constant exchange rates, total sales grew by 5.6%, as exchange rate movements had an adverse impact on the Group's results, reducing sales by £34.3m and operating profit by £1.2m.

The Group's operating profit before exceptional items decreased by £45.3m to £57.3m. In addition to a poor sales performance, both UK businesses suffered gross margin dilution reflecting highly promotional markets. In HMV UK & Ireland gross margin was also impacted by the introduction in September of simplified, lower music and DVD prices, which improved sales and market share performance. The Group continued to successfully reduce its variable cost base, such that like for like store costs in the UK businesses fell by £13.3m or 3.5%, despite a £5.6m (4.4%) increase in property costs from rent and rates reviews.

The Group's operating result for the 52 weeks ended 28 April 2007 included £24.7m of exceptional charges (2006: £18.0m). These include £10.2m of integration costs and £2.9m of store closure costs related to the acquisition of Ottakar's, £7.0m of asset impairments and £4.6m of restructuring costs. Net finance charges also included an exceptional charge of £1.8m relating to amendments to the Group's existing Senior Bank Facility.

Profit before taxation and exceptional items was £48.1m (2006: £98.2m).

**HMV Group plc**  
**Announcement of Full Year Results**

Sales	2007	2006	Year on year growth <sup>1</sup>		Constant exchange growth <sup>2</sup>	Like for like sales growth <sup>3</sup>
	£m	£m	%	%	%	%
HMV						
- UK & Ireland	932.2	937.2	(0.5)		(0.5)	(3.4)
- Asia <sup>4</sup>	237.6	275.5	(13.7)		(5.0)	(3.1)
- Canada	187.2	194.5	(3.8)		1.2	(3.3)
Total HMV	1,357.0	1,407.2	(3.6)		(1.1)	(3.3)
Waterstone's <sup>5</sup>	537.5	418.7	28.4		28.4	(4.1)
Total Group	1,894.5	1,825.9	3.8		5.6	(3.5)

  

Operating profit (before exceptional items)	2007	2006	Year on year growth <sup>1</sup>		Constant exchange growth <sup>2</sup>
	£m	£m	% of sales	% of sales	%
HMV					
- UK & Ireland	24.3	60.6	2.6	6.5	(59.8)
- Asia <sup>4</sup>	4.9	8.6	2.0	3.1	(43.3)
- Canada	11.8	12.5	6.3	6.4	(6.1)
Total HMV	41.0	81.7	3.0	5.8	(49.9)
Waterstone's <sup>5</sup>	16.3	20.9	3.0	5.0	(21.7)
Total Group	57.3	102.6	3.0	5.6	(44.1)

1. Year on year growth for the 52 week period compared with the corresponding period last year is based on results translated at the actual exchange rates being the weighted average exchange rates for the year ended 28 April 2007 and year ended 29 April 2006 respectively.
2. Constant exchange growth for the 52 week period compared with the corresponding period last year is based on the weighted average exchange rates for the year ended 29 April 2006.
3. HMV Group's like for like sales performance measures stores that were open at the beginning of the previous financial year (i.e. open at the beginning of May 2005) and that have not been expanded, closed or re-sited during that time. It includes sales from internet sites in the UK, Japan, Hong Kong and Waterstone's. Like for like sales growth is calculated at constant exchange rates. Stores resized (up or down) are excluded from like for like sales performance. Sales are only ever the net amount received.
4. 2006 includes the results of HMV Australia (sales £15.1m and operating loss of £0.8m), which was sold on 28 September 2005.
5. 2007 includes the results of Ottakar's since its acquisition on 3 July 2006. See note 8.

#### HMV UK & Ireland

2006/07 was a challenging year for HMV UK & Ireland, as it sought to address a highly competitive market for entertainment retailing with the implementation of new simplified, lower prices. Total sales declined by 0.5% including a fall in like for like sales of 3.4%. The like for like sales performance improved significantly in the second half to produce growth of 0.2% following a decline of 8.6% in the first half. This reflected the benefit of store re-pricing and the acceleration of our e-commerce growth, which delivered an improving sales and market share trend. However, this was achieved at a considerable investment in gross margin, which was down 300 basis points over the prior year. Operating costs continued to be tightly managed, with like for like store costs down £10.7m (4.6%), inclusive of 4.5% property cost inflation. These savings were offset by £2.0m to implement the simplified, lower pricing strategy and cost investment in hmv.co.uk, including £1.5m of relaunch marketing. Overall, therefore, the operating margin fell to 2.6% from 6.5%.

In the UK music market volumes fell by 7.7%, while the value of the DVD market was flat despite 9.3% volume growth, reflecting continued deflationary pressures. HMV UK outperformed both the music and DVD markets, however, with market share gains of 1.4% and 1.7% respectively. In games, new console launches, including the Nintendo Wii and Sony PlayStation 3, contributed to a 14.5% rise in the value of the UK games market, with HMV continuing to develop its offer and deliver market share gains.

During the financial year 15 new stores were opened, covering 58,000 square feet, one store was closed and a further store was resited bringing the portfolio at the year end to 237 stores. Following the strategic review, the rate of new openings has been reduced, with only eight new stores expected in 2007/08, four of which are at airports.

Exceptional costs totalling £6.6m have been charged in the year. This consists of a £3.7m impairment charge following a review of the carrying value of a number of stores and £2.9m of restructuring costs incurred on the implementation of strategic initiatives outlined earlier.

## HMV Group plc

### Announcement of Full Year Results

#### HMV Asia

HMV Asia consists of 62 stores in Japan, five stores in Hong Kong and two in Singapore. In addition, HMV Japan operates a successful online business which contributed 24% of Japan's total sales, while HMV Hong Kong relaunched a transactional website during the period. After adjusting for HMV Australia, which was disposed of in the prior year, HMV Asia's total sales grew by 0.5% at constant exchange rates, inclusive of a 3.1% decline in like for like sales. After adjusting for the adverse impact of exchange rates and the HMV Australia disposal, total sales fell by 8.7%.

During the period the Japanese entertainment markets were weak, with the music market declining by 5.8% and the DVD market down by over 13%. However, HMV Japan outperformed in both markets, gaining a 0.5% share in music and 2.1% in DVD.

Eight stores were opened in the financial year in Japan and in Hong Kong and Singapore three stores were either downsized or resited.

Excluding the results of HMV Australia in the prior year, HMV Asia's operating profit fell to £4.9m from £9.4m. This reflects the decline in like for like sales, a reduction in gross margin, due to the higher mix of DVD and e-commerce sales, and adverse exchange rate movements of £0.5m.

#### HMV Canada

HMV Canada achieved good sales for the year, with total growth of 1.2% at constant exchange rates. This was driven by new stores, including five opened in the year, offset in part by a decline in like for like sales of 3.3%, albeit against strong comparatives.

Entertainment markets were also weak in Canada, particularly in music, where volumes declined by 8.6%. The DVD market increased by 8.2% in volume, although this was partly offset by increased deflationary pressures. HMV Canada delivered further market share gains in music (up 1.7%) and DVD (up 0.4%). Reflecting the continued investment in building the DVD offer, DVD sales mix reached 47% for the year, almost equivalent to music. HMV Canada further extended its product range with the successful introduction of a games proposition to 22 large stores in time for Christmas. The games offer has now been extended across the chain.

Operating profit of £11.8m was £0.7m lower than last year, primarily due to an exchange rate loss of £0.6m, with the impact of the fall in like for like sales offset by good gross margin and cost control.

## HMV Group plc

### Announcement of Full Year Results

#### Waterstone's

The financial year was a period of substantial change for Waterstone's, following the acquisition of Ottakar's plc and its 141 stores on 3 July 2006. The successful integration of the two businesses was achieved against a backdrop of an intensely competitive and highly promotional book market. Within the combined portfolio, 18 stores have been closed and six new stores have been opened in the year, bringing the total portfolio to 323 at the year end, covering 1.9m square feet.

Waterstone's like for like sales for the year fell 4.1% in a total book market which grew by 2.1%. This reflected the higher growth rates of non-high street competitors, predominantly the supermarkets and the Internet. The increased scale of Waterstone's following the acquisition of Ottakar's better positions the business to compete in this changing market, as does the launch in September 2006 of the Waterstones.com e-commerce website.

Waterstone's operating profit for the year (including Ottakar's) was £16.3m compared with a profit of £20.9m in the prior year. The reduction is due to the adverse sales performance combined with a reduction in gross margin of 60 basis points, offset by the contribution from Ottakar's, inclusive of synergy gains. Operating costs were well controlled, with like for like costs down £2.6m (1.7%), offset in part by £2.0m of waterstones.com start-up losses.

The integration of Ottakar's was completed successfully and on time, such that before the crucial Christmas season all stores were rebranded, the Waterstone's stock management system was introduced into all stores and the Ottakar's back office was integrated with Waterstone's. This ensured that synergies of £6.0m were delivered in the financial year, ahead of the original expectation of £3-4m.

Exceptional integration costs of £10.2m were incurred in the period, together with £2.9m of store closure costs as a result of a review of the combined store portfolio. Additionally, an assessment of the carrying value of a number of Waterstone's stores resulted in a £3.3m exceptional impairment charge.

#### Net finance charges

Net finance charges before exceptional items increased by £4.8m to £9.2m (2006: £4.4m). This primarily reflected increased levels of net debt following the acquisition of Ottakar's on 3 July 2006.

Exceptional finance costs of £1.8m related to amendments to the Group's existing Senior Bank Facility. Consequent to this, the margin payable on the Senior Bank Facility will increase to 175 basis points from June 2007, which will increase net finance charges by around £2.0m per annum.

#### Taxation

The taxation charge for the financial year of £5.5m (2006: £24.0m) includes a tax credit of £7.5m in relation to the exceptional charges of £26.5m. The full-year effective tax rate before exceptional charges was 27% (2006: 29%), with the rate reflecting the successful closure of prior year computations. In the absence of the prior year UK credit, the underlying tax rate was 30%.

#### Earnings per share

Adjusted basic earnings per share, excluding the effect of exceptional items, was 8.7p, a decrease of 50% on the prior period of 17.4p. Basic earnings per share was 4.0p (2006: 14.0p), while diluted basic earnings per share was 4.0p (2006: 13.9p).

#### Dividend

The Board is recommending a final dividend of 5.6p per share in addition to the 1.8p per share interim dividend already paid, bringing the total dividend for the year to 7.4p (2006: 7.4p). The Board has maintained the dividend level, reflecting its confidence in the turnaround plan.

Subject to shareholder approval at the Annual General Meeting on 6 September 2007, the final dividend will be paid on 12 October 2007 to shareholders on the register at the close of business on 14 September 2007. Shares will be quoted ex-dividend from 12 September 2007.

## HMV Group plc

### Announcement of Full Year Results

#### Cash flow and net debt

The Group's underlying net debt increased by £115.0m to £130.6m during the financial year, reflecting the acquisition of Ottakar's plc and subsequent related capital expenditure and integration costs. Free cashflow before Ottakar's related capital expenditure (£7.7m) and integration costs (£10.2m) was £24.2m (2006: £53.7m).

	2007 £m	2006 £m
EBITDA	103.6	149.1
Capital expenditure	(46.6)	(46.8)
Working capital outflow	(13.1)	(9.8)
Spend from exceptional charges and provision utilisation	(15.0)	(7.2)
Other	1.6	1.1
Net interest paid	(9.1)	(4.1)
Taxation	(15.1)	(28.6)
Free cashflow	6.3	53.7
Net proceeds from issue of shares	0.1	8.7
Shares purchased for cancellation	-	(18.6)
Dividends paid	(29.7)	(27.6)
Special pension contribution	(4.4)	(4.4)
Purchase of Ottakar's plc, repayment of debt and related costs	(90.2)	(11.8)
Other	2.9	1.7
Net cash (outflow) inflow	(115.0)	1.7
Underlying opening net debt	(15.6)	(17.3)
Underlying closing net debt	(130.6)	(15.6)

*EBITDA* – Earnings Before Interest, Taxation, Interest, Depreciation, Amortisation and exceptional items.

*Free cashflow* – Cashflow from operating activities after capital expenditure and net interest.

*Underlying net debt* – Underlying net debt is stated before unamortised deferred financing fees.

#### Working capital

During the financial year, the Group's working capital requirements resulted in a cash outflow of £13.1m (2006: outflow of £9.8m). This reflected the challenging market conditions, particularly in the UK businesses. Group stock turn fell to 5.3 times (2006: 6.2 times).

#### Capital expenditure

Capital expenditure in the period was £46.6m compared with £46.8m last year. This included £7.7m incurred in connection with the integration of Ottakar's plc, £15.2m on new stores and resites, £7.6m on refitting the existing store portfolio and £7.6m on various IT investment projects.

#### Acquisition of Ottakar's plc

The acquisition of Ottakar's was completed on 3 July 2006 for a total cash consideration of £70.2m. Net liabilities at fair value of £0.8m, inclusive of £31.8m of net debt, were acquired and consequently goodwill of £71.0m has been capitalised.

The rebranding of 139 stores and the implementation of Waterstone's inventory management systems was successfully completed before the crucial Christmas period and the Ottakar's head office locations were closed, while key Ottakar's managers were retained and integrated into the Waterstone's structure. Cost synergies, achieved by the phased consolidation of back office functions, the optimisation of supplier terms and from improved financial control amounted to £6.0m in 2006/07, and are expected to rise to over £10m in 2007/08 as the full synergy effects flow through. In order to deliver these improvements there have been exceptional one-off costs of £10.2m and upfront capital expenditure investment of £7.7m in the roll out of Waterstone's inventory management systems, rebranding and other store investment.

A review of the combined store estate following acquisition has to date led to the closure of 18 stores and has resulted in exceptional costs charged this year of £2.9m. It is anticipated that an ongoing review of the estate, focused particularly on locations where there is overlap locations between Waterstone's and the prior Ottakar's stores, will lead to the closure of up to 10% of the combined store estate in the next few years.

## HMV Group plc

### Announcement of Full Year Results

#### Return of capital

Following the announcement of the acquisition of Ottakar's the programme of share buybacks was suspended. Given the Group's current level of financial gearing, the Board does not intend to recommence the programme in the short term.

#### Operating leases

All the Group's stores are held under operating leases. In HMV UK and Waterstone's the majority of leases are on typical institutional lease terms, now usually with a 15-year term subject to five year upwards only rent reviews. The majority of the Group's international stores and a minority of UK leases operate through turnover related leases, usually with minimum rent guarantees, and lease terms of five to 10 years.

The Group's net operating lease rentals were £154.0m in the financial year (2006: £136.2m). The total future rental commitment at the balance sheet date amounted to £1.2 billion, or £0.8 billion at net present value, while the existing portfolio has an average remaining lease period of 10 years. Retaining a portfolio of good quality real estate, in prime retail areas, at commercially reasonable rates remains critical to the performance of the Group. Where a store location becomes surplus to requirements, the Group's policy of occupying prime, highly marketable locations serves to limit any lease exposure.

#### Incentive arrangements

The Group's turnaround plan launched on 13 March 2007 required changes to the remuneration arrangements of Simon Fox, CEO. Consequently, the Remuneration Committee of the Board has designed a new, one-off co-investment incentive arrangement for him, the main elements of which require him to purchase from his own funds HMV Group shares to the value of one times his salary. After three years, provided that a stretching EPS performance condition is met, he will have the opportunity to receive up to five HMV Group shares for every one purchased. The performance vesting scale is as follows: 25% of the matching award will vest for 20% annual compound growth in adjusted EPS over the three year period to 2010, rising to 100% vesting at just over 30% annual compound growth. The Board believes this co-investment arrangement will encourage sufficient personal investment and hence shared risk to ensure a focus on the achievement of a stretching but achievable turnaround plan.

#### Pensions

The Group has a number of pension schemes in operation. These primarily include defined benefit arrangements for approximately 1,000 employees almost entirely in the United Kingdom. The defined benefit scheme was generally closed to new joiners from 1 January 2002.

The most recently completed actuarial valuation of this scheme, as at 30 June 2004, identified a deficit of £11.5m on assets of £43.9m. This deficit was funded through three contributions of £4.4m, the final amount of which was paid on 31 May 2006. Furthermore, the Group increased its contributions to a rate of 14.9% of pensionable pay from 1 July 2005 (from 12.9%), while the members' contribution rate increased to 5% of pensionable salaries from 4%. The next actuarial valuation will be undertaken as at 30 June 2007.

Under IAS 19 'Employee Benefits', the HMV defined benefit scheme had a deficit, net of deferred tax, of £15.6m (2006: £17.5m) at 28 April 2007.

## HMV Group plc

### Announcement of Full Year Results

#### Notes for editors

HMV Group is one of the world's leading retailers of music and DVD and the leading retailer of books in the United Kingdom and Ireland in terms of total sales. As of 28 April 2007 it operated 422 HMV stores selling music, DVD and electronic games in six countries and 323 Waterstone's stores, principally in the United Kingdom and Ireland. All of the Group's operations, both in the United Kingdom and internationally, are wholly owned.

#### HMV Group web sites

hmvgroup.com  
hmv.co.uk  
hmv.co.jp  
hmv.ca  
hmv.com.hk  
hmv.com  
waterstones.com

#### Supporting financial information

	<b>Page</b>
Consolidated income statement	12
Consolidated statement of recognised income and expense	13
Consolidated balance sheet	14
Consolidated cash flow statement	15
Notes to the financial statements	16

# HMV Group plc

## Announcement of Full Year Results

### Consolidated income statement

For the 52 weeks ended 28 April 2007 and 29 April 2006

2007				
Notes	Before exceptional items £m	Exceptional items £m	After exceptional items £m	
	1,894.5	-	1,894.5	
Revenue				
	(1,747.8)	(9.9)	(1,757.7)	
Cost of sales				
	146.7	(9.9)	136.8	
Gross profit				
	(89.4)	(14.8)	(104.2)	
Administrative expenses				
Group operating profit	57.3	(24.7)	32.6	
Finance income	3	2.9	-	2.9
Finance costs	3	(12.1)	(1.8)	(13.9)
Profit before taxation	48.1	(26.5)	21.6	
Taxation	4	(13.0)	7.5	(5.5)
Profit for the period attributable to shareholders	35.1	(19.0)	16.1	
Earnings per share				
- Basic	6	8.7p	(4.7)p	4.0p
- Diluted	6	8.7p	(4.7)p	4.0p
2006				
Notes	Before exceptional items £m	Exceptional items £m	After exceptional items £m	
	1,825.9		1,825.9	
Revenue				
	(1,636.1)	(12.9)	(1,649.0)	
Cost of sales				
	189.8	(12.9)	176.9	
Gross profit				
	(87.2)	(5.1)	(92.3)	
Administrative expenses				
Group operating profit	102.6	(18.0)	84.6	
Finance income	3	1.9	1.9	
Finance costs	3	(6.3)	(6.3)	
Profit before taxation	98.2	(18.0)	80.2	
Taxation	4	(28.5)	4.5	(24.0)
Profit for the period attributable to shareholders	69.7	(13.5)	56.2	
Earnings per share				
- Basic	6	17.4p	(3.4)p	14.0p
- Diluted adjusted	6	17.3p	(3.4)p	13.9p

For details of exceptional items, see note 2.

HMV Group plc

Announcement of Full Year Results

Consolidated statement of recognised income and expense

For the 52 weeks ended 28 April 2007 and 29 April 2006

	2007	2006
	£m	£m
Profit for the period attributable to shareholders	16.1	56.2
Foreign exchange translation differences	-	(2.1)
Transfers to the income statement on cash flow hedges	-	0.7
Actuarial gains on defined benefit pension schemes	-	2.2
Available-for-sale equity securities:		
Charged to equity	-	(2.9)
Transfers to balance sheet	2.9	-
Tax on items recognised directly in equity	0.1	(1.6)
Net income (expense) recognised directly in equity	3.0	(3.7)
Total recognised income and expense for the period	19.1	52.5
Effect of changes in accounting policy:		
Recognition of cash flow hedges at fair value on the first time adoption of IAS 32 and 39	-	(0.7)

HMV Group plc  
Announcement of Full Year Results

**Consolidated balance sheet**

	As at 28 April 2007	As at 29 April 2006
	£m	£m
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	169.2	161.9
Intangible assets	73.0	2.0
Deferred income tax asset	30.1	26.6
Trade and other receivables	7.4	8.2
	<b>279.7</b>	<b>198.7</b>
<b>Current assets</b>		
Inventories	210.4	174.1
Trade and other receivables	69.2	59.2
Current tax recoverable	0.6	0.3
Other financial assets	-	6.8
Cash and short term deposits	77.9	81.5
	<b>358.1</b>	<b>321.9</b>
<b>Total assets</b>	<b>637.8</b>	<b>520.6</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	(0.1)	(0.1)
Retirement benefits liabilities	(22.2)	(25.0)
Interest bearing loans and borrowings	(0.8)	-
Provisions	(0.5)	(1.0)
	<b>(23.6)</b>	<b>(26.1)</b>
<b>Current liabilities</b>		
Trade and other payables	(397.1)	(370.4)
Current income tax payable	(15.2)	(23.8)
Interest bearing loans and borrowings	(207.3)	(96.6)
Provisions	(7.8)	(6.1)
	<b>(627.4)</b>	<b>(496.9)</b>
<b>Total liabilities</b>	<b>(651.0)</b>	<b>(523.0)</b>
<b>Net liabilities</b>	<b>(13.2)</b>	<b>(2.4)</b>
<b>Equity</b>		
Equity share capital	323.0	322.9
Other reserve - own shares	(2.5)	(2.9)
Foreign currency translation reserve	2.2	2.2
Capital reserve	0.3	0.3
Retained earnings	(336.2)	(324.9)
<b>Total equity</b>	<b>(13.2)</b>	<b>(2.4)</b>

HMV Group plc

Announcement of Full Year Results

Consolidated cash flow statement

For the 52 weeks ended 28 April 2007 and 29 April 2006

	2007	2006
	£m	£m
<b>Cash flows from operating activities</b>		
Operating profit	32.6	84.6
Depreciation	46.3	46.5
Impairment charges	7.0	11.3
Loss on disposal of property, plant and equipment	-	0.1
Gain on disposal of subsidiary	-	(0.3)
Equity settled share-based payment expense	(0.3)	(2.3)
Pension obligation adjustment	(2.5)	(3.0)
	<b>83.1</b>	<b>136.9</b>
Movement in inventories	(17.0)	(18.0)
Movement in debtors	(5.9)	(6.5)
Movement in creditors	9.8	14.7
Movement in provisions	2.7	(0.6)
Cash generated from operations	<b>72.7</b>	<b>126.5</b>
Tax paid	(15.1)	(28.6)
<b>Net cash flows from operating activities</b>	<b>57.6</b>	<b>97.9</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(46.6)	(46.8)
Proceeds from sale of property, plant and equipment	2.6	0.5
Interest received	2.7	2.0
Proceeds from sale of subsidiary	-	1.7
Purchase of other financial assets	-	(9.7)
Acquisition of subsidiary including fees	(58.4)	(2.1)
<b>Net cash flows from investing activities</b>	<b>(99.7)</b>	<b>(54.4)</b>
<b>Cash flows from financing activities</b>		
Movements in short-term facilities	31.3	31.9
Drawdown of term debt	80.0	-
Net debt in subsidiary repaid on acquisition	(31.8)	-
Proceeds of issue of equity shares	0.1	9.4
Company shares purchased for cancellation	-	(18.6)
Purchase of own shares	-	(0.7)
Interest paid	(11.8)	(6.1)
Equity dividends paid to shareholders	(29.7)	(27.6)
Finance lease funding received	1.5	-
Repayment of capital element of finance lease	(0.4)	-
<b>Net cash flows from financing activities</b>	<b>39.2</b>	<b>(11.7)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2.9)</b>	<b>31.8</b>
Opening cash and cash equivalents	80.1	47.4
Effect of exchange rate changes	(3.3)	0.9
<b>Closing cash and cash equivalents</b>	<b>73.9</b>	<b>80.1</b>

## HMV Group plc

### Announcement of Full Year Results

#### Notes to the financial statements

##### 1. Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group are set out in the Group's Annual Report and have been applied consistently throughout the reporting period.

##### 2. Exceptional items

	2007	2006
	£m	£m
Recognised in arriving at operating profit:		
Acquisition of Ottakar's:		
Costs of integration	10.2	-
Store closure costs	2.9	-
Impairment of property, plant and equipment	7.0	11.3
Restructuring costs	4.6	4.3
Acquisition and bid defence costs	-	2.4
	<b>24.7</b>	<b>18.0</b>
Recognised within finance costs:		
Financing costs	1.8	-
	<b>26.5</b>	<b>18.0</b>

Total exceptional costs of £26.5m have been incurred in the period and a tax credit of £7.5m arose in respect of these costs. Costs of integrating the Ottakar's acquisition of £10.2m have been included within administrative expenses, with related store closure costs of £2.9m included within cost of sales.

Impairment charges of £7.0m relating to property, plant and equipment in HMV UK and Waterstone's have been included within cost of sales and £4.6m of costs to restructure the Group in accordance with the strategic initiatives outlined earlier are included within administrative expenses. Exceptional financing costs of £1.8m related to amendments to the Group's existing Senior Bank Facility (see note 3).

In the prior period, exceptional costs were £18.0m. This included an £11.3m impairment charge within cost of sales following a review of the carrying value of certain retail assets based on current market trading conditions. In addition, £4.3m of head office and store restructuring costs were incurred predominantly in Waterstone's and HMV Asia, of which £1.6m was included in cost of sales and £2.7m was within administrative expenses. A further £2.4m was charged within administrative expenses in connection with corporate activity, including acquisition and bid defence costs. A tax credit of £4.5m arose in respect of these costs.

##### 3. Net finance costs

	2007	2006
	£m	£m
Finance income		
Bank interest receivable	2.7	1.9
Other finance income – pensions	0.2	-
Total finance income	<b>2.9</b>	<b>1.9</b>
Finance costs		
Bank loans and overdrafts	11.8	6.0
Amortisation of deferred financing fees	0.3	0.1
Other finance expense – pensions	-	0.2
	<b>12.1</b>	<b>6.3</b>
Exceptional financing costs	1.8	-
Total finance costs	<b>13.9</b>	<b>6.3</b>
Net finance costs	<b>11.0</b>	<b>4.4</b>

## HMV Group plc

### Announcement of Full Year Results

#### Notes to the financial statements (continued)

##### 4. Taxation

	2007	2006
	£m	£m
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax	4.9	17.8
Over provision in prior periods	(1.4)	(0.7)
	3.5	17.1
Overseas tax, current year:		
Corporation tax	4.2	4.8
Under provision in prior periods	0.4	-
Total current tax	8.1	21.9
Deferred tax:		
United Kingdom	(1.2)	1.9
Overseas	(1.4)	0.2
Total deferred tax	(2.6)	2.1
Total taxation expense in the income statement	5.5	24.0

The tax expense in the current year includes a credit of £7.5m in relation to the exceptional items of £26.5m, details of which can be found in note 2. The effective tax rate on ordinary activities is 27% (2006: 29%).

##### 5. Equity dividends

	2007	2006
	£m	£m
Ordinary final dividend of 5.6p per share for 2006 (2005: 5.1p)	22.5	20.4
Ordinary interim dividend of 1.8p per share for 2007 (2006: 1.8p)	7.2	7.2
	29.7	27.6

The Directors have proposed a final dividend of 5.6p per share (2006: 5.6p), which, in line with the requirements of IAS 10 *Events after the Balance Sheet Date*, has not been recognised within these results. This results in a full year dividend for 2007 of 7.4p (2006: 7.4p).

The proposed final dividend for 2007 of £21.7m (2006: £22.5m), subject to approval by shareholders at the Annual General Meeting, will be paid on 12 October 2007 to shareholders on the Register at the close of business on 14 September 2007. Shares will be quoted ex-dividend from 12 September 2007.

##### 6. Earnings per share

	2007	2006
	£m	£m
Basic and diluted profit attributable to shareholders	16.1	56.2
Exceptional items, less tax thereon	19.0	13.5
Adjusted basic and diluted profit	35.1	69.7
	Number 'm	Number 'm
Weighted average number of Ordinary Shares – basic	401.4	400.6
Dilutive share options	0.7	2.1
Weighted average number of Ordinary Shares – diluted	402.1	402.7

Earnings per Ordinary Share is calculated as follows:

	2007	2007	2006	2006
	Pence Basic	Pence Diluted	Pence Basic	Pence Diluted
Earnings per Ordinary Share	4.0	4.0	14.0	13.9
Exceptional items, less tax credit thereon	4.7	4.7	3.4	3.4
Adjusted earnings per Ordinary Share	8.7	8.7	17.4	17.3

## HMV Group plc

### Announcement of Full Year Results

#### 7. Reconciliation of equity

	2007	2006
	£m	£m
Total recognised income and expense	19.1	52.5
Ordinary dividend	(29.7)	(27.6)
Company shares purchased for cancellation	-	(18.6)
Issue of equity shares	0.1	9.4
Purchase of own shares	-	(0.7)
Share-based payment credit	(0.3)	(2.3)
Total movement during the period	(10.8)	12.7
Opening total equity	(2.4)	(14.4)
Impact of first time adoption of IAS 32 and 39	-	(0.7)
Opening total equity as restated	(2.4)	(15.1)
Closing total equity	(13.2)	(2.4)

#### 8. Acquisition of subsidiary

On 3 July 2006 the Group acquired for cash the share capital of Ottakar's plc. Ottakar's was a chain of book stores which operated from 141 stores in the UK at the date of acquisition.

The book value and fair value of the net assets acquired were as follows:

	Book value £m	Fair value £m
Property, plant and equipment	30.4	21.5
Inventories	27.6	24.0
Receivables	8.0	7.8
Payables	(21.8)	(24.9)
Taxation	(0.6)	2.6
Net debt	(31.8)	(31.8)
	11.8	(0.8)
Goodwill arising on acquisition		71.0
Consideration (satisfied by cash)		70.2

Of the £70.2m consideration, £11.8m was paid in the 52 weeks ended 29 April 2006 when the Group acquired for cash approximately 10% of the share capital for 440p per share. The remaining 90% of share capital was purchased at 285p per share. As a result of the acquisition goodwill of £71.0m has been capitalised.

From the date of acquisition to 28 April 2007, Ottakar's has contributed £138.8m of revenue and made a profit before tax and exceptional items of £6.0m. In addition, exceptional costs of £10.2m relating to the integration and £2.9m relating to store closures have been charged in the period (see note 2). If the acquisition had taken place at the beginning of the period, revenue for the Group would have been £1,916.0m and profit before exceptional items would have been £44.7m.

The fair value of tax assets acquired includes deferred tax arising in the period from the last balance sheet date to the date of acquisition of £1.9m and deferred tax arising on other fair value adjustments of £1.3m.

Included in the £71.0m of goodwill recognised are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies and an assembled workforce.

## HMV Group plc

### Announcement of Full Year Results

#### 9. Preliminary financial information

The Directors of HMV Group plc are responsible, in accordance with the Listing Rules of the Financial Services Authority and applicable International Financial Reporting Standards, for preparing and issuing this preliminary announcement, which was approved on 27 June 2007.

The Group has prepared its condensed consolidated financial statements in accordance with the IFRS accounting policies it has applied in its IFRS compliant full year financial statements. The consolidated income statement, consolidated statement of recognised income and expense, consolidated balance sheet, consolidated cash flow statement and notes to the financial statements are extracted from the Group's full financial statements for the 52 weeks ended 28 April 2007. The Group's full financial statements were approved by the Directors on 27 June 2007 and received an unqualified audit report. This financial information is abridged and does not constitute statutory accounts for the 52 weeks ended 28 April 2007 and 29 April 2006. Full financial statements for the 52 weeks ended 28 April 2007 will be filed with the Registrar of Companies in due course. The 2006 Annual Report and Financial Statements on which the auditors gave an unqualified report have been filed with the Registrar of Companies.