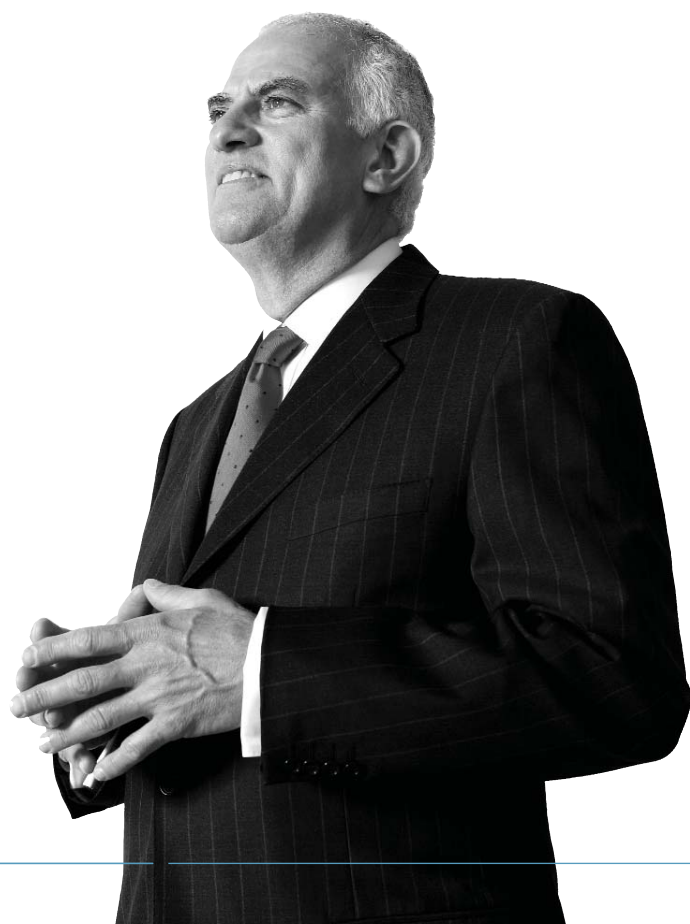


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**Our resilient brands will strengthen their market positions and performance as they comprehensively satisfy the preferences of our customers.**



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 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.



**Carl Symon**  
Chairman

27 June 2007