

HMV Group plc

Announcement of Full Year Results

The UK's leading retailer of music, DVD, games and books, today announces its financial results for the 52 weeks ended 26 April 2008.

Financial Highlights

Continuing Operations

- Total sales growth of 11.3%, including like for like sales up 7.3%.
- HMV UK & Ireland like for like sales up 11.4%. Waterstone's like for like sales up 3.3%.
- Profit before tax and exceptional items up 25.2% to £56.6m (2007: £45.2m).
- Adjusted eps up 22.8% to 10.1p (2007: 8.2p).
- Final dividend of 5.6p making a total dividend of 7.4p (2007: 7.4p).
- Net debt virtually eliminated at £0.2m (2007: £130.6m).

Total HMV Group

- Sales of £1,936.1m (2007: £1,894.5m).
- Total profit after tax of £89.0m (2007: £16.1m), including £51.8m exceptional profit on disposal of HMV Japan.
- Total adjusted eps 10.1p (2007: 8.7p). Basic eps 22.1p (2007: 4.0p).

Strategy Update

- Strong market share performance across all product categories.
- Games and technology growing rapidly, now 21% of HMV UK & Ireland sales (2007: 14%).
- Successful trial of next generation HMV store format has provided the basis for further rollout in 2008/09.
- Good progress on cost-saving programme.
- Improvements to online offer resulting in rapid growth and increased market share.
- 1.5m holders of Waterstone's multi-channel loyalty card.
- Disposal of HMV Japan for Yen 17bn (£70.6m).
- Non-Executive Chairman stepping down at AGM on 5 September, 2008

Simon Fox, Chief Executive, said:

"One year into our transformation plan, Group profits are up by 25% and we are ahead of where we expected to be.

"We still have much to do, and whilst we are mindful of the challenging economic outlook, the current financial year has started in line with our expectations and I remain confident that we are building a better and stronger business that can prosper in a rapidly-changing market".

Enquiries

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Slides to accompany this announcement are available for viewing or download at www.hmvgroup.com/investors/presentations.

The Group's next trading update will be with an Interim Management Statement on 5 September 2008, the date of the Annual General Meeting of shareholders.

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Chairman's Statement

In March 2007, we began the journey to transform the performance of the Group, and outlined a three-year plan to accomplish this. I am pleased to report that, at the end of the year, very good progress has been made in our efforts to protect and grow the businesses, while saving significant costs.

Our main focus in 2007/08 has been the revitalisation of our stores business. A year ago, I stated that our brands would strengthen their market positions, and this is being achieved emphatically as trading has materially improved. We have also made good progress with our online initiatives. Recognising the structural changes taking place in our markets, we now have a clear vision of how to grow in new channels and exploit alternative formats to re-balance our business. In addition, we have exploited Group synergies and begun to deliver the cost savings that underpin our medium-term financial aspirations.

Our strong cash generation during the year, combined with the disposal of HMV Japan for £70.6m, equivalent to 9.0x 2007 EBITDA, have reduced our borrowings. The sale of HMV Japan has simplified the Group, enabling us to focus our efforts on those markets where we have a clear leadership position.

Results for the Group for the year ended 26 April 2008 saw an increase in profit before tax from continuing operations of £111.4m to £56.6m, on revenue which grew by 11.3% to £1,874.9m. As a result of strong cash generation, we reduced our year end net debt by £130.4m to £0.2m. Our earnings per share rose by 22.8% to 10.1p and the Board has recommended a final dividend of 5.6p per Ordinary Share. Together with the interim dividend of 1.8p per share, the total dividend for the year is 7.4p, the same as last year.

We have added to the capability of the Group Board by introducing new talent. This year we appointed Gerry Johnson, Managing Director of Waterstone's, who brings his retailing experience, as an Executive Director. Philip Rowley, a former Chairman and CEO of AOL Europe, was appointed as a non-executive Director in September 2007, and has a combination of skills and experiences which are aligned with our technology initiatives.

When I became Chairman at the start of 2006, there were three formidable challenges facing the Group: finding and installing new executive leadership, improving the effectiveness of the Board, and reversing the decline in our businesses.

Almost three years on, I am very pleased with our achievements. We have an executive leadership team which is not only capable of developing creative ways to meet the needs of our markets, but is relentless in executing those plans; the Group Board is more effective in its role of overseeing the implementation of strategic initiatives and monitoring the performance of our businesses; and the numbers tell the story of the substantial turnaround underway in the performance of both businesses, in absolute as well as relative terms.

As the foundations are firmly in place, it is an ideal time for me to pursue new interests. So, today I am announcing that I will step down as Chairman of the Group at the AGM on 5 September 2008. The Board is in the process of searching for my successor and an announcement will be made in due course.

The Group and its businesses are in capable hands, and I have confidence that they will continue to deliver on their plans.

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Strategic Review

We are pleased to report that we completed the first year of our turnaround plan ahead of our expectations, having stabilised the Group's operating and financial performance and made good progress on all of the strategic initiatives contained within our three-year plan.

Protecting and revitalising our stores business

Our stores business performed strongly throughout the year, demonstrating the strength and resilience of our market leading brands. We continued to plan and adapt for structural change taking place in our markets by refocusing our mix of products to higher growth categories, improving the communication with our customers and enhancing our store environments.

HMV

HMV UK & Ireland is adapting to the changing ways in which entertainment is being consumed.

The HMV brand has been reinvigorated by new integrated in-store and online promotions, which invite our customers to 'Get Closer' to the content we sell. This powerful approach to advertising, combined with improved campaigns, especially around the key seasonal gifting periods, has improved customers' perceptions of the HMV brand and helped us to significantly outperform the markets in which we operate. In music HMV UK & Ireland grew unit sales, even though during the period the market saw volume declines, and in DVD our sales volumes increased by over 18% in a market in which units grew 8%.

We also embarked on successful trials of a 'next generation' store format, featuring a social hub providing access to entertainment websites, multi-player games zones and transactional kiosks. All product lines in the trial outperformed the rest of the chain, providing a basis in the coming financial year to convert 10-15 stores and open all new stores in the new format. After the end of the period, HMV Canada also opened its first next generation store in Toronto.

HMV UK & Ireland successfully rolled out a range of technology products, predominantly MP3/MP4 players and related accessories, which have been very well received by our customers. We continued to enhance our credibility with customers and suppliers in the fast-growing games console and software market, and are planning to launch a pre-played games offer in 2008/09. Games and technology products now represent 21% of HMV UK & Ireland's sales mix, up from 14% in the prior year. By taking the key learnings from the UK, a similar focus has been applied in HMV Canada, where these products grew to 7% of sales from just 1% in the prior year.

We acquired seven entertainment stores and various related trademarks from the administrator of Fopp, and opened our first new Fopp store in Bristol in March 2008. The differentiated customer offer and local appeal of these stores have been successfully preserved, offering the potential for a small number of future openings.

Waterstone's

Core to improving performance at Waterstone's was our focus on enhancing our engagement with customers, the emphasis on service in branches and the growth of our online business.

The biggest single initiative to help build links with our customers has been the Waterstone's multi-channel loyalty card, which launched in September 2007, and now has 1.5 million cardholders. The card enables Waterstone's customers to earn and redeem points in-store and online and to enjoy further benefits, such as meeting authors and the chance to receive and review pre-publication copies of new books.

Engagement with Waterstone's local communities was increased during the year through organising events and other activities in our stores. Over 6,300 events were held, including 1,700 children's events, and the launch of *Harry Potter and the Deathly Hallows*, attracted over 250,000 visitors to midnight openings at our stores, which helped to double our market share over the previous Harry Potter book.

The appeal of our product offer and store environment was enhanced during the year by the successful introduction of new children's departments and a high quality range of gift stationery into 100 stores, where these new ranges have performed well.

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Growing revenue from new channels

The hmv.com website was enhanced during the period by new branding and customer communication, which contributed to growth of over 40% on the previous year and an increased share of the online market. CD and DVD sales from hmv.com are now approaching 10% of HMV UK & Ireland's total sales.

The choice to purchase physical or digital music albums from a single shopping basket is now integrated into hmv.com. This ensures that, as and when all of the major music suppliers make their catalogues available in the MP3 file format, the site is well positioned to sell downloads which are compatible with any portable digital music player. A subscription service, HMV Jukebox, was also launched to provide unlimited online access to over 3 million music tracks for a single monthly payment.

We commenced trials of a new social discovery website, getcloser.com, through which music and film enthusiasts can share their interests and experience user-generated and copyright content. The site, which will be supported by advertising, sponsorship and e-commerce, will launch in beta on 1 July 2008.

The competitiveness of waterstones.com was enhanced by changes made to delivery and customer communication, and sales from the site grew by over 140% on the prior year and customer registrations are now more than 850,000. The ability to check local store stock and collect orders from local branches are proving particularly popular with online customers, while the Waterstone's loyalty card has added a further, powerful multi-channel link between our stores and the website. Additional benefits to the operation and service of waterstones.com will follow as fulfilment for the site transfers to Waterstone's new book hub in the new financial year.

Driving cost efficiency

Good progress has been made on restructuring the Group's cost base in order to deliver our planned savings by 2010.

Combining the back office finance and IT functions of HMV UK & Ireland and Waterstone's, and centralising both businesses' procurement of goods not for resale successfully delivered the anticipated savings of £6m for the year.

Waterstone's appointed Unipart as its supply chain partner, which will lead to a new book hub serving all stores and fulfilment for waterstones.com becoming operational after the period end. The transition from direct-to-store deliveries to the book hub has been de-risked by the phased take on of stores, which will be completed by the end of the new financial year. Consequently, the delivery of cost savings from this initiative will be deferred until 2009/10. The programme to simplify HMV UK & Ireland's supply chain remains on track to become operational during the new financial year.

At the end of the period, Waterstone's total square footage had been reduced by 6.7% out of a three-year target of 10% by April 2010.

Creating value

At the beginning of the year a review of strategic options for HMV Japan concluded that greater value for our shareholders could be created through a disposal of this business. The price achieved of Yen17bn on a debt and cash free basis (£70.6m) was a multiple of 9.0x historic EBITDA, and with the proceeds we significantly reduced the Group's debt.

Outlook

One year into our transformation programme, we are ahead of where we had planned to be, although there remains much more for us to do. Whilst we are mindful of the challenging economic outlook, the current financial year has started in line with our expectations, and we remain confident of achieving our medium term targets for 4.5-5% return on sales and 2.0x dividend cover at the end of the financial year 2009/10.

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Financial Review

The period under review is the 52 weeks ended 26 April 2008, whilst the prior period covers the 52 weeks to 28 April 2007. Following the disposal of HMV Japan during the period, the Group's results and comparatives shown below exclude HMV Japan to reflect continuing operations only, except where specified.

	2008 £m	2007 £m	Growth %
Continuing operations:			
Sales	1,874.9	1,684.8	11.3%
Like for like sales %	7.3%	(3.5%)	
Operating profit (before exceptional items)	66.2	54.0	22.6%
Exceptional items	(4.6)	(26.5)	
Profit before tax (before exceptional items)	56.6	45.2	25.2%
Profit before tax	52.0	18.7	
Discontinued activities - HMV Japan	51.7	1.9	
Adjusted basic earnings per share (continuing operations)	10.1p	8.2p	22.8%
Basic earnings per share (continuing operations)	9.2p	3.5p	
Total dividend per share declared	7.4p	7.4p	
Underlying net borrowings	0.2	130.6	
Free cashflow	87.4	6.3	
Store numbers (continuing operations)	692	683	
Average trading square footage (continuing operations)	3.68m	3.59m	2.7%

Total sales from the Group's continuing operations increased by £190.1m or 11.3% to £1,874.9m, including like for like sales growth of 7.3%. At constant exchange rates, total sales grew by 10.3%. Beneficial exchange rate movements, primarily in the Euro and Canadian dollar, increased sales by £17.3m and operating profit by £0.9m.

Operating profit from continuing operations before exceptional charges increased by £12.2m or 22.6% to £66.2m. The improvement on last year reflects the strong sales performance of both UK businesses. Cost saving initiatives, particularly Group buying synergies and the consolidation of back office functions, contributed to the tight management of operating costs, which included an incremental bonus charge of £11.0m, reflecting the Group's profit growth and strong cash generation from management of working capital. Net finance charges before exceptional items rose from £8.8m to £9.6m, reflecting higher interest rates and the net impact on borrowings of the acquisition of Ottakar's and the disposal of HMV Japan.

The profit before tax and exceptional items for continuing operations was £56.6m, up 25.2% on the prior period.

Exceptional operating costs of £4.6m were incurred in connection with the continuing review of the combined Waterstone's store portfolio, following the acquisition of Ottakar's.

Discontinued operations, reflecting the trading and disposal of HMV Japan, generated a profit after tax of £51.7m.

Underlying net borrowings at £0.2m (2007: £130.6m) were broadly eliminated, reflecting the receipt of £70.6m gross proceeds from the sales of HMV Japan and the strong cash generation of the continuing operations.

The Board is proposing a final dividend of 5.6p, making a total dividend for the year of 7.4p.

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Financial Review (continued)

Sales	2008	2007	Year on year growth ¹		Constant exchange growth ²	Like for like sales growth (decline) ³
	£m	£m	%		%	%
HMV UK & Ireland	1,079.0	932.2	15.8		15.4	11.4
HMV International ⁴	231.6	215.1	7.6		1.7	(1.3)
Total HMV	1,310.6	1,147.3	14.2		12.9	9.2
Waterstone's ⁵	564.3	537.5	5.0		4.7	3.3
Total continuing operations	1,874.9	1,684.8	11.3		10.3	7.3
Discontinued operation – HMV Japan	61.2	209.7				
Total HMV Group	1,936.1	1,894.5				

Operating profit (before exceptional items)	2008	2007	Year on year growth		Constant exchange growth	
	£m	£m	2008 % of sales	2007 % of sales	(decline) ¹ %	(decline) ² %
HMV UK & Ireland	41.4	24.3	3.8	2.6	70.3	69.1
HMV International ⁴	8.5	13.4	3.7	6.2	(36.2)	(39.6)
Total HMV	49.9	37.7	3.8	3.3	32.6	30.7
Waterstone's ⁵	16.3	16.3	2.9	3.0	(0.6)	(1.5)
Total continuing operations	66.2	54.0	3.5	3.2	22.6	20.9
Discontinued operation – HMV Japan	0.1	3.3				
Total HMV Group	66.3	57.3				

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 26 April 2008 and year ended 28 April 2007 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 28 April 2007.
3. HMV Group's like for like sales performance is calculated at constant exchange rates and measures stores that were open at the beginning of the previous financial year (i.e. open at the beginning of May 2006) and that have not been resized, closed or re-sited during that time. It includes sales from internet sites and is only ever the net amount received.
4. HMV International comprises the results of HMV Canada, Hong Kong and Singapore.
5. Waterstone's results include Ottakar's, which was acquired on 3 July 2006.

HMV UK & Ireland

HMV UK & Ireland, operating through 250 stores and online, had a very good year, with total sales up by 15.8%, driven by like for like sales growth of 11.4%. The result reflected strong store sales and the continuing growth of hmv.com. An excellent performance in music and DVD was complimented by an increased focus on higher growth games and technology categories, with like for like sales of these products increasing by 59% and 95% respectively. The increased mix of lower margin products contributed to a planned 50 basis point reduction in the gross margin rate, with this effect arising in the first half as underlying product margin gains increasingly offset the impact of growing games and technology sales. Operating costs were well managed, with like for like costs increasing by 2.2% exclusive of incremental staff bonuses. Overall, therefore, operating profit increased by 70.3% to £41.4m and the operating margin rose from 2.6% to 3.8%.

Although HMV UK & Ireland's markets remained highly competitive, market share gains were made across the board. In music, the market declined by almost 12% by volume, in line with our expectations, but in HMV UK & Ireland our unit sales of music marginally increased due to successful product campaigns and marketing. In DVD, HMV UK & Ireland increased unit sales by over 18%, significantly outperforming a market that grew by over 8% in volume. This performance was assisted by successful campaigns, including US TV, Valentine's and World Cinema, and a strong line-up of new releases, especially at Christmas. The games market continued to be an area of outstanding growth, with value growth in the year of 42%. Within this, HMV UK & Ireland increased its share of both the hardware and software markets, with total sales up over 64%.

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Financial Review (continued)

Following enhancements made to the hmv.com website, including customer communication, service and functionality, online sales during the period increased by over 42%.

Seven new stores were opened in the period, and following the acquisition of seven stores and related trademarks from the administrator of Fopp, one further store was opened trading as Fopp.

HMV International

HMV International now comprises 121 HMV stores in Canada and eight stores in Hong Kong and Singapore, with HMV's business in Japan sold during the period (see Discontinued operations).

Sales of HMV International were £231.6m, an increase of 1.7% on last year at constant exchange rates. Total reported growth was 7.6%, reflecting beneficial exchange rate movements. The growth reflected a like for like sales increase in HMV Hong Kong and Singapore, partially offset by like for like sales decline of 1.9% in HMV Canada, where the markets for both music and DVD were particularly challenging. Liquidation activity by HMV Canada's largest specialist competitor adversely impacted sales and market share during the Christmas period, but when these stores ceased to trade in January 2008 HMV Canada's sales and market share trends improved markedly. Games and technology sales grew rapidly to 7% of HMV Canada's sales mix following the roll-out of a games offer in the year and a range of new technology products in time for the peak Christmas period. However, the lower margins achieved on these products contributed to a 110 basis point dilution in gross margin.

In HMV Hong Kong and Singapore strong like for like sales growth was driven by continued success in DVD and, although a relatively low proportion of the mix, rapid games sales growth.

Six stores were opened in the period in HMV Canada and one in HMV Hong Kong.

Overall, the operating profit of HMV International fell to £8.5m, entirely reflecting HMV Canada's like for like sales decline and the impact of a higher mix of games and technology sales on gross margins. In HMV Hong Kong and Singapore, operating profit increased marginally.

Waterstone's

In Waterstone's, which operates through 313 stores, total sales increased by 5.0% for the period, including like for like sales up 3.3%. This growth includes the annualisation of the Ottakar's acquisition and an estimated 0.9% impact from sales of *Harry Potter and the Deathly Hallows*. The book market continues to be highly competitive and promotional, which resulted in some Waterstone's market share dilution, although this can be mostly attributed to the closure of stores as part of the strategic initiative to rationalise dual catchments. New children's departments and an enhanced gift stationery offer were successfully rolled out to over 100 stores, enabling Waterstone's to maximise these growing product categories. Waterstones.com grew by 146% during the period, driven in part by the success of Waterstone's multi-channel loyalty card, which launched in September 2007, and has attracted 1.5m registered members to date.

Waterstone's operating profit for the year of £16.3m was level on last year after incurring £1.2m start-up costs of the book hub distribution centre. Better targeted discounting contributed to an underlying gross margin rate improvement of 30 basis points, although the total gross margin rate was down 10 basis points due to the dilutory effect of *Harry Potter and the Deathly Hallows*. Costs were tightly controlled, with like for like operating costs, excluding incremental staff bonuses, up only 1.3%.

The result reflects a full annualisation of the impact of the Ottakar's acquisition in July 2006, with synergies, net of seasonal trading losses, contributing an additional £1.5m of operating profit. Exceptional store closure costs of £4.6m were incurred in connection with the continuing review of the combined store portfolio. As a result 11 stores closed in the period, while one new store was opened.

Net finance charges

Net finance costs before exceptional items increased from £8.8m to £9.6m. This reflected higher market rates and a higher interest margin as a result of amendments to the Group's Senior Facility agreed in June 2007, partially offset by reduced average net debt due to strong cash generation and the net effect of the acquisition of Ottakar's in July 2006 and the disposal of HMV Japan in August 2007.

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Financial Review (continued)

Taxation

The effective tax rate on continuing operations before exceptional items is 28% (2007: 27%). The total tax expense in the current year includes a credit of £1.1m (2007: £7.5m) in relation to the exceptional items from continuing operations of £4.6m (2007: £26.5m) and a charge of £0.9m in relation to the profit on disposal of HMV Japan.

Earnings per share

Adjusted earnings per share from continuing operations, excluding the effect of exceptional items and discontinued operations was 10.1p, an increase of 22.8% on last year. Basic earnings per share was 22.1p, compared with 4.0p in 2007.

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 (2007: 7.4p). By maintaining the dividend level, dividend cover has increased to 1.4x from 1.1x, in line with the Board's policy of rebuilding dividend cover towards a target of 2.0x by 2009/10.

Subject to shareholder approval at the Annual General Meeting on 5 September 2008, the final dividend will be paid on 10 October 2008 to shareholders on the register at the close of business on 29 August 2008. Shares will be quoted ex-dividend from 27 August 2008.

Cash flow and net debt

Closing net debt of £0.2m was £130.4m lower than last year. This reflected the disposal of HMV Japan, as a result of which £80.0m of term debt was repaid and cancelled during the period, ahead of its maturity on 31 January 2008. Free cash inflow was £87.4m (2007: £6.3m).

	2008 £m	2007 £m
EBITDA	108.1	103.6
Capital expenditure	(36.8)	(46.6)
Working capital inflow (outflow)	36.6	(13.1)
Spend from exceptional charges and provision utilisation	(6.1)	(15.0)
Other	4.2	1.6
Net interest paid	(9.3)	(9.1)
Taxation	(9.3)	(15.1)
Free cashflow	87.4	6.3
Net proceeds from the disposal of HMV Japan	65.9	-
Dividends paid	(29.8)	(29.7)
Special pension contribution	-	(4.4)
Purchase of Ottakar's plc, repayment of debt and related costs	-	(90.2)
Other	6.9	3.0
Net cash inflow (outflow)	130.4	(115.0)
Underlying opening net debt	(130.6)	(15.6)
Underlying closing net debt	(0.2)	(130.6)

EBITDA – Earnings Before Interest, Taxation, 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

Working capital improvements resulted in a cash inflow of £36.6m (2007: outflow of £13.1m) reflecting the strong trading performance in the final quarter and tight management of stock and creditors. Group stock turn improved to 5.6 times (2007: 5.3 times).

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Financial Review (continued)

Capital expenditure

Capital expenditure in the period was £36.8m, compared with the £46.6m spent in the prior year, which included £7.7m in relation to the integration of Ottakar's. Capital expenditure in the year included £6.4m on new stores, £12.1m refitting the existing store portfolio and £9.0m on IT projects.

Discontinued operations

The Group completed the disposal of its HMV Japan business on 25 August 2007 for £70.6m on a cash and debt free basis, giving rise to a post-tax profit on disposal of £51.8m. Prior to disposal, HMV Japan made a loss after tax of £0.1m, giving a total profit after tax for discontinued operations of £51.7m.

The results of HMV Japan have been presented in the income statement as a discontinued operation and the prior year comparatives restated accordingly.

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, which are 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 £151.1m in the financial year (2007: £154.0m). 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.

Pensions

The Group has a number of pension schemes in operation. These primarily include defined benefit arrangements for approximately 600 employees almost entirely in the United Kingdom. The defined benefit scheme was generally closed to new joiners from 1 January 2002.

A valuation is undertaken on at least a triennial basis by a qualified actuary. The most recently completed actuarial valuation of the 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 actuarial valuation as at 30 June 2007 is now close to completion and following this, the next actuarial review will take place no later than 30 June 2010.

Under IAS 19 'Employee Benefits', the HMV defined benefit scheme had a deficit, net of deferred tax, of £11.8m (2007: £15.6m) at 26 April 2008.

Notes for editors

HMV Group is one of the world's leading retailers of music, DVD and games and the leading retailer of books in the United Kingdom and Ireland in terms of total sales. As of 26 April 2008 it operated 379 HMV stores selling music, DVD and games in five countries and 313 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 websites

hmvgroup.com
hmv.com
hmv.ca
hmv.com.hk
waterstones.com

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Supporting financial information

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Consolidated income statement

For the 52 weeks ended 26 April 2008 and 28 April 2007

	Note	Total 2008 £m	Exceptional items 2008 £m	Before exceptional items 2008 £m	Before exceptional items 2007 (Restated) £m	Exceptional items 2007 (Restated) £m	Total 2007 (Restated) £m
Continuing operations							
Revenue		1,874.9	-	1,874.9	1,684.8	-	1,684.8
Cost of sales		(1,722.7)	(4.6)	(1,718.1)	(1,554.0)	(9.9)	(1,563.9)
Gross profit		152.2	(4.6)	156.8	130.8	(9.9)	120.9
Administrative expenses		(90.6)	-	(90.6)	(76.8)	(14.8)	(91.6)
Operating profit		61.6	(4.6)	66.2	54.0	(24.7)	29.3
Finance income	3	1.6	-	1.6	2.9	-	2.9
Finance costs	3	(11.2)	-	(11.2)	(11.7)	(1.8)	(13.5)
Profit before taxation		52.0	(4.6)	56.6	45.2	(26.5)	18.7
Taxation	4	(14.7)	1.1	(15.8)	(12.0)	7.5	(4.5)
Profit from continuing operations		37.3	(3.5)	40.8	33.2	(19.0)	14.2
Discontinued operation							
Profit after tax from discontinued operation	7	51.7	51.8	(0.1)	1.9	-	1.9
Profit for the period attributable to shareholders		89.0	48.3	40.7	35.1	(19.0)	16.1
Earnings per share for profit attributable to shareholders							
Basic	6	22.1p	12.0p	10.1p	8.7p	(4.7)p	4.0p
Diluted basic	6	22.0p	12.0p	10.0p	8.7p	(4.7)p	4.0p
Earnings per share for profit from continuing operations attributable to shareholders							
Basic	6	9.2p	(0.9)p	10.1p	8.2p	(4.7)p	3.5p
Diluted basic	6	9.2p	(0.9)p	10.1p	8.2p	(4.7)p	3.5p
Dividend per share	5	7.4p					7.4p

For details of exceptional items, see note 2.

The results of HMV Japan have been reclassified as a discontinued operation. The income statement for the 52 weeks ended 28 April 2007 has been restated accordingly.

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Consolidated statement of recognised income and expense

For the 52 weeks ended 26 April 2008 and 28 April 2007

	2008	2007
	£m	£m
Profit for the period attributable to shareholders	89.0	16.1
Foreign exchange translation differences	5.5	-
Foreign exchange recycled to the income statement on discontinued operations	(0.1)	-
Loss on forward foreign exchange contracts	(0.4)	-
Actuarial gains on defined benefit pension schemes	7.3	-
Available-for-sale equity securities:		
Transfers to balance sheet	-	2.9
Tax on items recognised directly in equity	(2.2)	0.1
Net income recognised directly in equity	10.1	3.0
Total recognised income and expense for the period	99.1	19.1

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Consolidated balance sheet

	As at 26 April 2008 £m	As at 28 April 2007 £m
Assets		
Non-current assets		
Property, plant and equipment	149.4	169.2
Intangible assets	73.1	73.0
Deferred income tax asset	20.6	30.1
Trade and other receivables	0.9	7.4
	244.0	279.7
Current assets		
Inventories	205.4	210.4
Trade and other receivables	58.9	69.2
Current tax recoverable	1.7	0.6
Cash and short term deposits	35.5	77.9
	301.5	358.1
Total assets	545.5	637.8
Liabilities		
Non-current liabilities		
Deferred income tax liabilities	(0.1)	(0.1)
Retirement benefits liabilities	(16.3)	(22.2)
Interest bearing loans and borrowings	(0.5)	(0.8)
Provisions	(0.2)	(0.5)
	(17.1)	(23.6)
Current liabilities		
Trade and other payables	(409.5)	(397.1)
Current income tax payable	(21.2)	(15.2)
Interest bearing loans and borrowings	(35.0)	(207.3)
Derivative financial instruments	(0.4)	-
Provisions	(3.5)	(7.8)
	(469.6)	(627.4)
Total liabilities	(486.7)	(651.0)
Net assets (liabilities)	58.8	(13.2)
Equity		
Equity share capital	323.1	323.0
Other reserve - own shares	(2.0)	(2.5)
Hedging reserve	(0.4)	-
Foreign currency translation reserve	7.6	2.2
Capital reserve	0.3	0.3
Retained earnings	(269.8)	(336.2)
Total equity	58.8	(13.2)

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Consolidated cash flow statement

For the 52 weeks ended 26 April 2008 and 28 April 2007

	2008	2007
	£m	£m
Cash flows from operating activities		
Profit before tax from continuing operations	52.0	18.7
Profit before tax from discontinued operation	52.6	2.9
Profit before tax	104.6	21.6
Gain on disposal of discontinued operation	(52.7)	-
Net finance costs	9.8	11.0
Depreciation	41.9	46.3
Impairment charges	-	7.0
Profit on disposal of property, plant and equipment	(0.1)	-
Equity settled share-based payment charge (credit)	2.6	(0.3)
Pension contributions less income statement charge	1.3	(2.5)
	107.4	83.1
Movement in inventories	(13.3)	(17.0)
Movement in trade and other receivables	2.2	(5.9)
Movement in trade and other payables	47.7	9.8
Movement in provisions	(1.5)	2.7
Cash generated from operations	142.5	72.7
Income tax paid	(9.3)	(15.1)
Net cash flows from operating activities	133.2	57.6
Cash flows from investing activities		
Purchase of property, plant and equipment	(36.8)	(46.6)
Purchase of intangible asset	(0.1)	-
Proceeds from sale of property, plant and equipment	0.4	2.6
Interest received	1.6	2.7
Acquisition of subsidiary including fees	-	(58.4)
Costs incurred on sale of business	(4.7)	-
Proceeds from sale of business (note 7)	70.6	-
Net cash flows from investing activities	31.0	(99.7)
Cash flows from financing activities		
Movements in short-term facilities	(88.0)	31.3
(Repayment) drawdown of term debt	(80.0)	80.0
Net debt in subsidiary repaid on acquisition	-	(31.8)
Proceeds of issue of equity shares	0.1	0.1
Interest paid	(10.9)	(11.8)
Equity dividends paid to shareholders	(29.8)	(29.7)
Finance lease	(0.3)	1.1
Net cash flows from financing activities	(208.9)	39.2
Net decrease in cash and cash equivalents	(44.7)	(2.9)
Opening cash and cash equivalents	73.9	80.1
Effect of exchange rate changes	6.3	(3.3)
Closing cash and cash equivalents	35.5	73.9

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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

	2008	2007
	£m	£m
Continuing operations		
Recognised in arriving at operating profit:		
Acquisition of Ottakar's:		
Store closure costs	(4.6)	(2.9)
Costs of integration	-	(10.2)
Impairment of property, plant and equipment	-	(7.0)
Restructuring costs	-	(4.6)
	(4.6)	(24.7)
Recognised within finance costs:		
Financing costs	-	(1.8)
Total exceptional items – continuing operations	(4.6)	(26.5)
Discontinued operation		
Gain on disposal of HMV Japan	52.7	-
Total exceptional items	48.1	(26.5)

Exceptional costs of £4.6m have been incurred in the period, in connection with the continuing review of the combined Waterstone's store portfolio, following the acquisition of Ottakar's. These have been included within cost of sales. A tax credit of £1.1m arose in respect of these costs.

During the period the Group disposed of its HMV Japan business, giving rise to a profit on disposal after costs of £52.7m and a tax charge of £0.9m. See note 7 for further details.

During the previous financial year the Group incurred exceptional operating costs of £26.5m. Costs of integrating the Ottakar's acquisition of £10.2m were 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 were included within cost of sales and £4.6m of costs to restructure the Group were included within administrative expenses. Exceptional financing costs of £1.8m related to amendments to the Group's existing Senior Bank Facility. A tax credit of £7.5m arose in respect of exceptional costs.

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Notes to the financial statements (continued)

3. Net finance costs

	2008	2007 (Restated)
	£m	£m
Continuing operations		
Finance income		
Bank interest receivable	1.6	2.7
Other finance income – pensions	-	0.2
Total finance income	1.6	2.9
Finance costs		
Bank loans and overdrafts	10.9	11.4
Amortisation of deferred financing fees	0.2	0.3
Other finance expense – pensions	0.1	-
	11.2	11.7
Exceptional financing costs	-	1.8
Total finance costs	11.2	13.5
Net finance costs	9.6	10.6

In addition to the above, a net finance charge of £0.2m (2007: £0.4m) was incurred in respect of the discontinued operation (see note 7).

4. Taxation

	2008	2007
	£m	£m
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax - continuing operations	13.8	4.9
Corporation tax - discontinued operation	0.9	-
Over provision in prior periods	(3.3)	(1.4)
	11.4	3.5
Overseas tax, current year:		
Corporation tax - continuing operations	2.5	4.1
Corporation tax - discontinued operation	-	0.1
Under provision in prior periods	0.4	0.4
Total current tax	14.3	8.1
Deferred tax:		
United Kingdom	1.4	(1.2)
Overseas – continuing operations	(0.1)	(2.3)
Overseas – discontinued operation	-	0.9
Total deferred tax	1.3	(2.6)
Total taxation expense in the income statement	15.6	5.5

The tax expense in the income statement is disclosed as follows:

	2008	2007
	£m	£m
Income tax expense on continuing operations	14.7	4.5
Income tax expense on discontinued operation	0.9	1.0
Total taxation expense in the income statement	15.6	5.5

The effective tax rate on continuing operations before exceptional items is 28% (2007: 27%). The tax expense in the current year includes a credit of £1.1m (2007: £7.5m) in relation to the exceptional items from continuing operations of £4.6m (2007: £26.5m) and a charge of £0.9m in relation to the profit on disposal of HMV Japan, details of which can be found in note 2.

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Notes to the financial statements (continued)

5. Equity dividends

	2008	2007
	£m	£m
Ordinary final dividend of 5.6p per share for 2007 (2006: 5.6p)	22.5	22.5
Ordinary interim dividend of 1.8p per share for 2008 (2007: 1.8 p)	7.3	7.2
	29.8	29.7

The Directors have proposed a final dividend of 5.6p per share (2007: 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 2008 of 7.4p (2007: 7.4p).

The proposed final dividend for 2008 of £22.6m (2007: £22.5m), subject to approval by shareholders at the Annual General Meeting, will be paid on 10 October 2008 to shareholders on the Register at the close of business on 29 August 2008. Shares will be quoted ex-dividend from 27 August 2008.

6. Earnings per share

The following reflects the income and share numbers data used in the basic and diluted earnings per share calculations:

	2008	2007
	£m	£m
Profit attributable to shareholders	89.0	16.1
Discontinued operation trading after tax	0.1	(1.9)
Profit on disposal of discontinued operation after tax	(51.8)	-
Profit from continuing operations	37.3	14.2
Exceptional items, less tax thereon (see note 2)	3.5	19.0
Adjusted profit from continuing operations	40.8	33.2

	2008	2007
	Number Million	Number million
Weighted average number of Ordinary Shares - Basic	402.0	401.4
Dilutive share options	1.7	2.4
Weighted average number of Ordinary Shares - Diluted	403.7	403.8

Earnings per Ordinary Share is calculated as follows:

	2008	2007
	Pence	Pence
Total operations		
Basic	22.1	4.0
Adjusted	10.1	8.7
Basic diluted	22.0	4.0
Adjusted diluted	10.0	8.7
Continuing operations		
Basic	9.2	3.5
Adjusted	10.1	8.2
Basic diluted	9.2	3.5
Adjusted diluted	10.1	8.2
Discontinued operation		
Basic	12.9	0.5
Basic diluted	12.8	0.5

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Notes to the financial statements (continued)

6. Earnings per share (continued)

The adjusted earnings per Ordinary Share is shown in order to highlight the underlying performance of the Group.

Earnings per share for the discontinued operation is derived from the profit attributable to shareholders of the parent from discontinuing operations of £51.7m (2007: £1.9m), divided by the weighted average number of ordinary shares for both basic and diluted amounts as per the table above.

The weighted average number of shares excludes shares held by an Employee Benefit Trust and has been adjusted for the issue of shares during the period. The diluted earnings per share calculations reflect the weighted average dilutive effect of options outstanding during the year of 1.7m (2007: 2.4m). At the year end 5.1m anti-dilutive share options were in issue (2007: 12.3m).

7. Discontinued operation

On 25 August 2007 the Group announced the completion of the sale of its HMV Japan business for Yen17bn (£70.6m) on a debt and cash free basis. Its results for the prior year period and the current period to the date of disposal are presented in this Annual Report as a discontinued operation.

Profit and cash flows for the period from the discontinued operation are as follows:

	2008 £m	2007 £m
Revenue	61.2	209.7
Cost of sales	(58.4)	(193.8)
Gross profit	2.8	15.9
Administrative expenses	(2.7)	(12.6)
Operating profit	0.1	3.3
Finance costs	(0.2)	(0.4)
(Loss) profit before tax from a discontinued operation	(0.1)	2.9
Exceptional gain on disposal of a discontinued operation	52.7	-
Tax expense	(0.9)	(1.0)
Profit after tax for the period from discontinued operation	51.7	1.9
The tax expense is analysed as follows:		
On profit on ordinary activities	-	(1.0)
On the gain on disposal	(0.9)	-
	(0.9)	(1.0)
Operating cash flows for discontinued operation	0.6	8.9
Investing cash flows for discontinued operation	(0.8)	(5.4)
Financing cash flows for discontinued operation	(0.2)	(4.2)
Net cash flows excluding disposal proceeds	(0.4)	(0.7)

Cash inflow on sale:

	2008 £m
Gross consideration received	70.6
Cash disposed of with the business	8.2
Debt disposed of with the business	(21.7)
	57.1
Transaction costs incurred	(4.7)
Net cash consideration received	52.4

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Notes to the financial statements (continued)

7. Discontinued operation (continued)

Net liabilities sold comprise the following assets and liabilities:

	Total £m
Fixed assets	13.5
Stock	21.5
Debtors	15.4
Taxation	6.3
Cash	8.2
Total assets	64.9
Creditors	(43.4)
Debt	(21.7)
Total liabilities	(65.1)
Total net liabilities sold	(0.2)

8. Reconciliation of equity

	2008 £m	2007 £m
Total recognised income and expense	99.1	19.1
Ordinary dividend	(29.8)	(29.7)
Issue of equity shares	0.1	0.1
Share-based payment charge (credit)	2.6	(0.3)
Total movement during the period	72.0	(10.8)
Opening total equity	(13.2)	(2.4)
Closing total equity	58.8	(13.2)

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 30 June 2008.

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 26 April 2008. The Group's full financial statements were approved by the Directors on 30 June 2008 and received an unqualified audit report. This financial information is abridged and does not constitute statutory accounts for the 52 weeks ended 26 April 2008 and 28 April 2007. Full financial statements for the 52 weeks ended 26 April 2008 will be filed with the Registrar of Companies in due course. The 2007 Annual Report and Financial Statements on which the auditors gave an unqualified report have been filed with the Registrar of Companies.

Forward-looking statements

Certain statements in this announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.