

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 25 April 2009.

A further year of profit growth in a difficult environment

Financial Highlights

- Total Group sales growth of 4.4%
- HMV UK & Ireland like for like sales up 1.9%. Waterstone's like for like sales down 3.8%
- Profit before tax and exceptional items up 11.5% to £63.0m (2008*: £56.6m)
- Adjusted eps up 10.3% to 11.1p (2008*: 10.1p)
- Profit after tax and exceptional items of £44.2m (2008*: £37.3m)
- Final dividend of 5.6p making a total dividend of 7.4p (2008: 7.4p)
- Net debt at £6.5m (2008: £0.2m); £220m bank facility refinanced in 2008
- Successful equity placing, raising £24.0m to fund new strategic initiatives.
* Comparatives are for continuing operations unless otherwise stated.

Operational Highlights

- Further strong market share performance across all Group categories
- HMV UK & Ireland games and technology mix up to 24%, from 14% at beginning of three-year plan (April 2007)
- Successful roll-out to HMV UK stores of Re/Play pre-played games offer
- Key elements of HMV 'Next Generation' store trial being rolled out to entire UK store estate
- Purehmv loyalty card successfully piloted preceding national roll-out; 2.8m Waterstone's loyalty members (2008: 1.3m)
- Continued sales growth of online channels: hmv.com up 16%; waterstones.com up 60%
- Entry into ebooks through Waterstone's launch of Sony Reader, with encouraging download sales of ebooks via waterstones.com
- Migration of Internet and store fulfilment to Waterstone's book hub
- Delivered £16m of cost savings, as planned.

Strategy Update

- Entry into fast-growing live music market through 50:50 JV with MAMA Group plc and ticketing partnership with Seatem
- Acquired and reopened as HMV 25 former Zavvi entertainment stores
- New strategic partnerships with Curzon for cinemas and Orange for mobile phone concessions.

Simon Fox, Chief Executive, said:

"At the end of the second year of our three-year transformation plan the Group has delivered further profit growth, despite the challenging retail environment. We are continuing to adapt to meet the changes in our markets and, whilst there is still much to do, our plans for the third year of our programme are on track.

"We are also looking at further growth opportunities available to us, and are very pleased with the recently announced joint venture in live music and partnerships for film and mobile. I am confident that we have the right strategy in place to continue to build a strong and vibrant business for the future."

HMV Group plc

Announcement of Full Year Results

Enquiries

HMV Group	Simon Fox	Group Chief Executive	020 7404 5959*
	Neil Bright	Group Finance Director	020 7404 5959*
	Paul Barker	Director of Corporate Communications	020 7404 5959*

Brunswick Susan Gilchrist / Eilís Murphy / Saadia Saeed 020 7404 5959

*All enquiries on 30 June 2009 should be directed via Brunswick.

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 3 September 2009, the date of the Annual General Meeting of shareholders.

HMV Group plc

Announcement of Full Year Results

Chairman's Statement

This is my first report to you as Chairman of HMV Group since taking up my appointment in February 2009. I thought I would start with a few first impressions.

The Group has the leading position in its markets in both HMV and Waterstone's. The markets for both businesses are undergoing long-term structural change. Building from its strengths, the Group's Chief Executive Simon Fox and his team set out a comprehensive plan in March 2007 to transform the Group over three years. This requires changes in many aspects of the businesses. It was fundamental to my decision to join the Group that there is a senior management team in place with the necessary open-mindedness and intensity to make these plans a reality.

I have been impressed by the passionate commitment and knowledge of staff at all levels of HMV and Waterstone's. They care about what they do and are proud of the organisations for which they work. It will not be simple to transform the business against the backdrop of rapid changes in digital technology, online channels and competition from the major supermarkets. In the absence of effective government action we must also face up to competition from the free illegal digital market. Nonetheless, I believe that shareholders can be reassured that the business has a determined team and a clear strategy to enhance shareholder value, building on our clear strengths as the only specialist retailer of scale in our markets.

The Group has had a year of pleasing financial performance, at a time when the conditions for consumer businesses could not be more testing. In the autumn of last year markets were convulsed by the problems in the banking sector and businesses suffered the greatest shock in living memory as economies across the world headed for recession. That said, our transformation plans set out two years ago and, in particular, the initiatives to drive cost efficiencies have helped to underpin this year's resilience. A number of the strategies to protect and revitalise our store businesses and to grow in new channels have also made a successful contribution.

HMV UK & Ireland continues to make good progress in adapting to the structural changes taking place in the entertainment market, and has been the principal driver of this year's improved profit performance. HMV's reinvigorated market positioning is clear not only to customers of the brand today, but is pointing towards a strategy for our engagement with them over the longer term. The step we have made this year to invest in live music venues and ticketing is the first beyond the current plan, and shareholders can expect further new initiatives to follow. The HMV International division had a more difficult year, and here our focus is on accelerating the path to transformation.

Waterstone's has made a robust defence of its leading high street position against the backdrop of a difficult book market this year and is continuing to adapt its business online and to differentiate itself from the competition. As it becomes fully operational, the new book hub is expected to enhance Waterstone's routes to market as well as the overall financial performance of the business.

Progress on so many fronts would not, of course, have been possible without the commitment and experience of many people to whom, on behalf of the Board, I offer my thanks: the people across our business world-wide; and Simon Fox and his senior management team. This isn't just token appreciation. As I mentioned earlier, I am particularly impressed by the commitment that people at all levels apply to their work in our businesses.

In summary, this year the Group's performance has been robust in economic conditions that have been volatile and negative. We have delivered profit growth in this difficult environment and made good progress on our continuing transformation plan. Significant steps too have been taken to develop the business for the long term, whilst tight control over our finances has been maintained. We know there is a great deal that remains to be done, and that our markets continue to undergo profound change, but we are determined to use our inherent strengths as the leading retailer in our markets to create an enduring and growing business.

HMV Group plc

Announcement of Full Year Results

Strategic Review

Against a difficult economic environment, the Group delivered sales and profit growth, driven by good trading in our largest business, HMV UK & Ireland. The performance of both HMV International and Waterstone's was more adversely impacted by weak trading conditions, and key initiatives are underway to improve the operating effectiveness and financial performance of these businesses. I am pleased to report, below, that good progress continues to be made on the Group's three-year transformation plan, such that we have been able to take our first steps into a new, long-term strategy to extend HMV's brand and activities into live music and entertainment venues and ticketing. This is being funded by the proceeds from a successful 5% equity placing, which raised £24m. Combined with a new £220m bank facility to 2011, this provides for the maintenance of a strong and prudent balance sheet.

Driving cost efficiency

To date, we have delivered annual savings of £16m from the initiatives that were laid out in March 2007. Waterstone's book hub, which simplifies our supply chain by consolidating orders from multiple publishers into one delivery per store, became operationally live in February with the take-on of fulfilment for waterstones.com and an initial tranche of stores. The migration of the balance of stores is expected to be complete in the first quarter of the new financial year.

In HMV UK & Ireland, games and technology suppliers were successfully transferred to a dedicated, centralised distribution centre, which is enhancing availability and service levels for these product categories.

Savings from consolidating the procurement of goods not for resale and the consolidation of HMV UK & Ireland and Waterstone's back office functions continue to be delivered as planned.

Protecting and revitalising our stores

HMV

Our stores traded robustly this year, and we have continued to evolve the mix of products to take account of the structural changes taking place in our markets and to better reflect the entertainment-related interests of HMV customers.

Games and technology products now represent almost a quarter of HMV UK & Ireland's sales, up from 20% in the prior year, and in HMV Canada this category has increased to 12% from 7%. Our games business in the UK and rapidly growing credentials as a category specialist have been enhanced by the successful national roll out of Re/Play, a pre-played games offer. This enables customers to trade-in software against new games titles or, uniquely among UK retailers, any of the products sold in our stores.

HMV has responded quickly to the opportunity to develop Blu-ray, the high definition video format, which has potential to provide value growth to the visual market. Blu-ray departments containing a wide range of software have been rolled out to all HMV stores, and on a number of this year's key titles Blu-ray's share of the visual category has exceeded 20%. In total, HMV UK & Ireland's visual sales volumes grew by 7% in a market that was broadly flat.

The UK music market was more resilient than expected, with volume decline of approximately 3% last year, and HMV UK & Ireland outperformed the market with unit sales up 5%. Music is now 28% of HMV UK & Ireland's sales, down from over 30% in the prior year. In HMV International, music still accounts for 38% of sales and here our focus is on increasing the representation of games, technology and related products.

The HMV 'next generation' store format has been rolled out to a total 15 stores in the UK. This format contains improved display and merchandising for the new product categories and increased interactivity for our customers. A number of the key features and learning were rolled out as 'quick wins' to all existing stores in HMV UK & Ireland, including merchandising of technology, clothing and other entertainment-related accessories and books, and further opportunities have been identified for roll out during the new financial year. We have also continued to fit out new stores in the 'next generation' format, which this year included Liverpool One and London Westfield.

HMV's highly recognised brand and prime high street locations are also being further leveraged to offer customers related entertainment experiences. HMV UK & Ireland this year acquired the assets and recruited the key personnel of Gamerbase, the operator of a multi-player games concession in HMV Trocadero in London. Further such pay-to-play areas have since been opened in HMV stores in Manchester and Edinburgh, with additional locations planned for the new financial year. Furthermore, in partnership with Curzon Artificial Eye, operator of the Curzon cinema chain, a new multi-screen digital cinema is being

HMV Group plc

Announcement of Full Year Results

piloted, commencing in Autumn 2009, utilising non-trading space above the HMV Wimbledon store. Some additional cinemas may follow, depending upon the learning of the trial and further location analysis.

As the first step in a new partnership with Orange, the leading mobile phone operator's products and services will be sold in selected HMV UK stores during our new financial year, with a focus on music, games and video mobile handsets and services.

Following a successful two-region pilot, HMV UK's multi-channel loyalty card, purehmv, launched nationally after the end of the year. The scheme targets HMV's most loyal customers and enables them to redeem points accumulated from purchases made in-store or online against 'money-can't-buy' rewards.

Following the administration of the high street entertainment retailer Zavvi in early 2009, we have now acquired 25 of its stores in the UK and Republic of Ireland. These stores are located predominantly in towns and cities where there was no overlap with HMV and will deliver incremental profit. Our existing eight Fopp stores continued to trade well. These stores offer a tailored range of music, DVD and books from secondary retailing locations, and there is potential to increase Fopp's footprint in the new financial year.

Waterstone's

Waterstone's multi-channel loyalty scheme, which launched in the prior year, had by the end of the period attracted 2.8m members, exceeding our original three-year target for 1.5m cardholders. A significant proportion of transactions in branches and online at waterstones.com are made through the card, enabling us to provide more targeted communication to our customers.

Our related product offer was enhanced by good sales of the Sony Reader, a portable electronic device on which to download and store books in digital format, which was launched in the UK exclusively through Waterstone's and we are pleased with the associated download sales of ebooks from waterstones.com. We are also maximising Waterstone's customers' interest in knowledge-based games by merchandising Nintendo DS software and related hardware, and high-quality gift stationery ranges have now been rolled out to all stores. In total, Waterstone's related products increased to 4.6% per cent of sales from 3.1% a year ago.

Eight former Books Etc stores in London were taken on and successfully rebranded as Waterstone's, thereby strengthening our representation in the capital. Waterstone's contribution to specialist bookselling was recognised by the industry, when it was named both High Street Retailer of the Year and Bookselling Company of the Year at the Bookseller Retail Awards. In addition, the successful brand campaign the Writer's Year was named Book Marketing Campaign of the Year.

The new book hub is changing the way Waterstone's operates for the long term, and a number of business benefits are being created. With the supply chain tasks removed from our stores, our booksellers are able to focus their skills and knowledge on customer service and sales. Enabling our stores to return books to the hub, rather than our suppliers, allows Waterstone's to recycle slower moving stock within the chain, thereby reducing returns and creating significant efficiencies for book publishers and us. Since relocating fulfilment for waterstones.com to the hub, our Internet sales have grown further and the number of titles available to our customers has increased.

Growing revenue from new channels

An MP3 music downloads offer was launched via hmv.com, comprised of over four million tracks, priced from £0.69 for single track downloads and £6.99 for albums, which are now compatible with any digital music player, including the Apple iPod. In addition, the same music catalogue is now available to stream for a monthly subscription of £5.99. Further enhancements were made to hmv.com's search, site navigation and categorisation and, during the period, sales from the website increased by over 16% on the prior year.

Waterstones.com is continuing to benefit from the multi-channel loyalty card, as well as fulfilment from the new book hub, and grew by over 60% on the prior year. The website also became the exclusive source for UK customers to download e-books for the Sony Reader, with an encouraging consumer response since the September 2008 launch.

Entry into live music and ticketing

The value in the music market has increasingly transferred to live performance. This is an area of strong interest to HMV's core customers and has the potential for powerful synergies with our current product offering.

HMV Group plc

Announcement of Full Year Results

In January 2009, the Group announced the beginning of a new strategy to enter the UK's approximately £1bn live music and ticketing market, by acquiring a 50% investment in Mean Fiddler Group, a new 50:50 joint venture with MAMA Group plc, the UK's second largest multiple live music venue operator.

The joint venture company contains 11 live venues, attracting around two million concert-goers each year. These include the 5,100-capacity Hammersmith Apollo, Edinburgh's Picture House and Forum in London, all of which were rebranded HMV during the year. The further venues are London's Heaven, Garage, Jazz Café, Borderline, G-A-Y and G-A-Y Late, Birmingham's Institute and Moshulu in Aberdeen.

The Group has invested an initial cash consideration of £20m (including fees), with a further adjustment of up to, plus or minus, £3.3m depending upon the profitability of the joint venture. MAMA Group's management expertise has been retained to operate the venues, and the joint venture will actively consider expansion where high-quality venues become available. We believe this is a low-risk entry strategy into the live music market, which is expected to provide synergies of approximately £1m per annum and be earnings neutral and cover the Group's cost of capital in its first full year of operation.

HMV UK & Ireland also entered into a separate ticketing arrangement with Seatem, a leading UK ticket agency, to sell tickets through our stores and online via hmv.com to events at the joint venture and other MAMA Group venues, as well as a wide range of other events and venues, including theatre tickets, music and entertainment performances and some sports. By the end of the year, dedicated hmvTickets counters had been rolled out to 25 stores.

Our entry into live music and ticketing provides significant new operational and brand synergies, which include:

- Leveraging HMV's in-store and online traffic to market live events
- Driving additional event-related footfall to HMV stores and hmv.com
- Creating opportunities for combined merchandising in venues, stores and online
- Driving greater value from HMV's loyalty card through the provision of content and access to 'money can't buy' rewards.

Outlook

We are working hard to maximise both the market share opportunity that has arisen from the withdrawal of competitors, and the investments that have been made over the last two years to improve performance.

Whilst we are cautious about the economic environment, at this very early stage in the year we are confident of our plans for the current financial year, as well as our new initiatives to deliver growth beyond the life of the current three-year transformation plan.

HMV Group plc

Announcement of Full Year Results

Financial Review

The period under review is the 52 weeks ended 25 April 2009, whilst the prior period covers the 52 weeks to 26 April 2008. Following the disposal of HMV Japan during the prior period, the Group's comparatives shown below exclude HMV Japan to reflect continuing operations only, except where specified.

Key Performance Indicators	2009 £m	2008 £m	Growth %
Continuing operations:			
Sales	1,956.7	1,874.9	4.4%
Like for like sales %	(0.4)%	7.3%	
Operating profit (before exceptional items)	70.3	66.2	6.4%
Exceptional items	(1.7)	(4.6)	
Profit before tax (before exceptional items)	63.0	56.6	11.5%
Profit before tax	61.3	52.0	
Discontinued activities - HMV Japan	-	51.7	
Adjusted basic earnings per share (continuing operations)	11.1p	10.1p	10.3%
Basic earnings per share (continuing operations)	10.8p	9.2p	17.4%
Total dividend per share declared	7.4p	7.4p	
Underlying net debt	6.5	0.2	
Free cashflow	12.3	87.4	
Store numbers (continuing operations)	722	692	
Average trading square footage (continuing operations)	3.77m	3.68m	2.4%

Total sales from the Group's continuing operations increased by £81.8m or 4.4% to £1,956.7m, including a 0.4% decline in like for like sales. At constant exchange rates, total sales grew by 2.4%. Beneficial exchange rate movements, primarily in the Euro and Canadian dollar, increased sales by £37.7m and operating profit by £1.7m.

Operating profit from continuing operations before exceptional charges increased by £4.1m or 6.4% to £70.3m. The improvement on last year reflects the strong sales performance of HMV UK & Ireland, partially offset by the impact of a decline in like for like sales in HMV International and Waterstone's. The result also reflected good management of gross margin and tight control of operating costs, including the benefit of cost saving initiatives, particularly Group buying synergies and the consolidation of back office functions. The joint venture entered into in January 2009 contributed £0.2m to operating profit.

Net finance charges fell from £9.6m to £7.3m, reflecting lower base interest rates and the annualised benefit of the prior year HMV Japan disposal, partially offset by an increased interest margin following the refinancing.

The profit before tax and exceptional items for continuing operations was £63.0m, up 11.5% on the prior period.

A net exceptional charge before taxation of £1.7m (2008: £4.6m) was incurred in the year. This included an exceptional past service credit of £5.6m arising on changes to the Group's defined benefit pension scheme, partially offsetting exceptional operating costs totalling £7.3m (2008: £4.6m). The exceptional costs were incurred in connection with the review of the combined Waterstone's store portfolio, following the acquisition of Ottakar's, impairment of certain assets due to current market trading conditions and store restructuring costs as a result of the implementation of the Waterstone's book hub.

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

Underlying net borrowings at £6.5m (2008: £0.2m) were £6.3m higher than last year, reflecting higher levels of capital investment and the reversal of prior year end favourable working capital timing differences.

The Board is proposing a final dividend of 5.6p, making a total dividend for the year of 7.4p (2008: 7.4p).

HMV Group plc

Announcement of Full Year Results

Financial Review continued

Sales	2009	2008	Year on	Constant	Like for like
	£m	£m	year growth ¹	exchange	sales growth
			%	growth	(decline) ³
				(decline) ²	(decline) ³
				%	%
HMV UK & Ireland	1,154.6	1,079.0	7.0	6.1	1.9
HMV International	253.8	231.6	9.6	(0.5)	(3.4)
Total HMV	1,408.4	1,310.6	7.5	4.9	1.0
Waterstone's	548.3	564.3	(2.8)	(3.6)	(3.8)
Total continuing operations	1,956.7	1,874.9	4.4	2.4	(0.4)
Discontinued operation – HMV Japan	-	61.2			
Total HMV Group	1,956.7	1,936.1			

Operating profit (before exceptional items)	2009	2008	2009	2008	Year on	Constant
	£m	£m	% of sales	% of sales	year	exchange
					growth	growth
					(decline) ¹	(decline) ²
					%	%
HMV UK & Ireland	53.7	41.4	4.7	3.8	29.6	28.1
HMV International	6.4	8.5	2.5	3.7	(24.0)	(32.4)
Total HMV	60.1	49.9	4.3	3.8	20.5	17.8
Waterstone's	10.0	16.3	1.8	2.9	(38.5)	(40.7)
Share of post-tax profit of joint venture	0.2	-				
Total continuing operations	70.3	66.2	3.6	3.5	6.4	3.8
Discontinued operation – HMV Japan	-	0.1				
Total HMV Group	70.3	66.3				

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 25 April 2009 and year ended 26 April 2008 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 26 April 2008.
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 2007) 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.

HMV UK & Ireland

HMV UK & Ireland, operating through 272 stores and online, traded well with total sales at statutory exchange rates up by 7.0%, including like for like sales up 1.9%. The year was characterised by significant volatility in HMV's markets, with a solid first half being followed by difficult conditions as the credit crisis deepened, leading to the failure before Christmas of Woolworths, followed by specialist competitor Zavvi. Total sales growth was boosted by: the acquisition of 19 ex-Zavvi stores (14 in the UK, five in Ireland) from the administrator for £2.0m, including stock; a further six former Zavvi stores secured directly from landlords; and a strong contribution from seven Fopp stores acquired plus one new opening in the prior period. Like for like sales performance further benefited from underlying market share gains, the withdrawal from the market of significant retail capacity and continuing growth in hmv.com.

Market share increased in all product categories. Games and technology continued to be the key growth category in the period, accounting for 24% of HMV's sales, up from 20% in the prior period. In a buoyant games market, HMV gained 0.4% share, and sales performance also benefited from the successful roll-out from the Autumn of the 'Re/Play' pre-played games offer. In music (28% of sales), the market was more robust than anticipated, down only 3.4% in volume, with HMV gaining 2.5% of market share. In the visual category (45% of sales), HMV increased share by 1.2% in a market in which volume grew 0.6%.

Gross margin rate was maintained year on year, as rate improvements offset the increased mix of lower margin products. With operating costs well controlled, including the delivery of planned strategic cost saving initiatives, operating profit increased by 29.6% to £53.7m, with the operating margin up to 4.7% from 3.8%.

HMV Group plc

Announcement of Full Year Results

Financial Review continued

Non-cash exceptional impairment costs of £2.1m have been charged in the period, partially offset by a £0.9m reversal of previous asset impairments, following a review of the carrying value of certain assets in the current market trading conditions. In addition, an exceptional past service credit of £3.5m has been reflected in the income statement due to changes in benefits receivable under the Group's defined benefit pension scheme.

HMV International

HMV International now comprises 129 HMV stores in Canada and seven stores in Hong Kong and Singapore, with HMV's business in Japan sold in August 2007 and disclosed as a discontinued operation in the comparative period.

Sales were £253.8m, a decrease of 0.5% on last year at constant exchange rates, including like for like sales down 3.4%. Total reported sales growth was 9.6%, reflecting beneficial exchange rate movements. The year reflected a solid first half performance, with like for like sales up 1.7%, followed by a significant deterioration in trading conditions as the worldwide economic crisis impacted, particularly in Hong Kong and Singapore, where our largest stores are located in the financial district.

Market share performance was strong throughout, albeit against weak underlying markets, particularly music. The sales strategy has focused on developing the games and technology offer (up to 12% of sales from 7%) to reduce the historically high mix of music sales, which remain 38% of sales (from 43%). Visual sales remain the predominant category, at 46% of the mix and continue to evolve towards the growing Blu-ray format.

During the period HMV Canada opened eight stores and resited a further five stores. One store was closed in Hong Kong.

Overall, the operating profit of HMV International fell to £6.4m, reflecting the like for like sales decline and the higher mix of lower margin products, offset by tight control of operating costs. In addition, exceptional non-cash impairment costs of £2.2m have been charged following a review of certain assets in current market trading conditions.

Waterstone's

Waterstone's total sales decreased by 3.6% for the period at constant exchange rates, including a like for like sales decline of 3.8% (3.0% after adjusting for the prior year release of *Harry Potter and the Deathly Hallows*). The sales performance reflected a challenging and highly competitive book market, which contracted by 2% (after adjusting for Harry Potter). Waterstone's share of the high street market grew, reflecting in part the success of the multi-channel loyalty scheme, which had 2.8m members by the period end. The loyalty scheme also contributed to a 60% growth in sales for waterstones.com, though its current share of a fast-growing online market resulted in an overall 0.4% dilution of total market share.

Waterstone's operating profit of £10.0m was £6.3m lower than last year, reflecting the sales decline, a 10 basis points reduction in gross margin due to the higher mix of online sales, and £2.0m of book hub start-up costs, partially offset by cost control measures, including bonus savings.

Exceptional store closure costs of £1.6m (2008: £4.6m) were incurred in connection with the review of the combined store portfolio following the acquisition of Ottakar's and a further £2.3m has been charged to exceptional costs for restructuring due to the implementation of the book hub. Offsetting these costs is an exceptional credit of £2.1m due to changes in benefits receivable under the Group's defined benefit pension scheme.

During the period, three new stores were opened, eight former Books Etc stores were integrated into the portfolio, and 10 stores closed, resulting in a total estate of 314 stores at the end of the period.

Net finance charges

Net finance costs decreased from £9.6m to £7.3m. This reflected lower market rates offset by a higher interest margin as a result of the new revolving credit facility agreed in October 2008 (see net debt below), and reduced average net debt due to the annualisation of the disposal of HMV Japan in August 2007.

Following the refinancing, associated arrangement fees of £1.1m have been capitalised and will be amortised over the three year facility term.

HMV Group plc

Announcement of Full Year Results

Financial Review continued

Taxation

The effective tax rate on continuing operations before exceptional items is 28% (2008: 28%). The total tax expense in the current year includes a credit of £0.5m (2008: £1.1m) in relation to the exceptional items from continuing operations of £1.7m (2008: £4.6m). The prior period also included 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 was 11.1p, an increase of 10.3% on last year. Basic earnings per share was 10.8p, compared with 22.1p in 2008, which included the 12.9p per share profit on disposal of HMV Japan.

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 (2008: 7.4p). By maintaining the dividend level, dividend cover has increased to 1.50x from 1.37x.

Subject to shareholder approval at the Annual General Meeting on 3 September 2009, the final dividend will be paid on 13 October 2009 to shareholders on the register at the close of business on 4 September 2009. Shares will be quoted ex-dividend from 2 September 2009.

Cash flow and net debt

Closing net debt of £6.5m was £6.3m higher than last year. This reflected increased capital investment, higher tax payments and a working capital outflow. Free cash inflow was £12.3m (2008: £87.4m).

	2009 £m	2008 £m
EBITDA	112.9	108.1
Capital expenditure*	(57.6)	(36.8)
Working capital (outflow) inflow	(15.6)	36.6
Exceptional charges and provision utilisation	(2.8)	(6.1)
Other	1.3	4.2
Net interest paid	(6.6)	(9.3)
Taxation	(19.3)	(9.3)
Free cashflow	12.3	87.4
Net proceeds from equity share placing / disposal of HMV Japan	24.0	65.9
Investment in joint venture	(20.0)	-
Dividends paid	(29.7)	(29.8)
Other	7.1	6.9
Net cash (outflow) inflow	(6.3)	130.4
Underlying opening net debt	(0.2)	(130.6)
Underlying closing net debt	(6.5)	(0.2)

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.

* Capital expenditure includes £6.1m (2008: £nil) of assets purchased using finance lease funding.

The Group has secured funding to September 2011 via a new £220m revolving credit facility, which the Board believes is adequate to meet current cash requirements. Reflecting current credit markets, margin for the new facility increased to 250bps from 175bps. There are no changes to banking covenants associated with the new facility. As a result of the refinancing, fees of £1.1m were incurred and will be amortised over the three year term.

Working capital

Working capital outflow of £15.6m (2008: inflow of £36.6m) reflects the reversal of favourable payment timing differences at the prior year end. Stock levels were well managed, down 4.5% on a comparable per sq ft basis. However, reflecting the sales performance, group stock turn fell to 5.4 times (2008: 5.6 times).

HMV Group plc

Announcement of Full Year Results

Financial Review continued

Capital expenditure

Capital expenditure in the period was £57.6m (2008: £36.8m). This included one-off investment of £11.3m on supply chain projects, £6.1m of which was finance lease funded. Underlying capital spend reflected £13.9m on new stores and resites, £12.4m on store refurbishment, and £9.6m on IT projects, including e-commerce development.

Mean Fiddler Group – Joint Venture

In January 2009, the Group acquired 50% of the Mean Fiddler Group, a 50:50 joint venture with MAMA Group plc, which operates live music and entertainment venues in the UK. The transaction required the Group to make an initial cash investment of £20.0m (including fees), with up to £3.3m further consideration payable or refundable based on an assessment of the joint venture's EBITDA for the year to October 2009. The investment included a £5.5m loan note granted by the joint venture to each partner, which converts to ordinary shares if not redeemed by 20 July 2009, subject to further extension. The Group's share of Mean Fiddler Group's post tax income in the period since acquisition amounted to £0.2m.

Equity placing

On 15 January 2009 in order to fund the Mean Fiddler Group acquisition outlined above, together with the purchase of ex-Zavvi stores, the Group conducted a placing of 20,168,524 ordinary shares, representing 5% of equity share capital. The net proceeds raised from the placing, after fees incurred, were £24.0m.

Discontinued operation

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 as comparative figures in the income statement as a discontinued operation.

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 £154.3m in the financial year (2008: £151.1m). 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 various defined contribution arrangements and a defined benefit scheme for approximately 600 employees which was generally closed to new joiners from 1 January 2002.

In respect of the defined benefit scheme, the latest actuarial valuation as at 30 June 2007 was finalised during the year. The result of the valuation was a level of asset cover of 94%, representing a funding deficit of £5.1m, which is being funded by three special contributions of £2.17m on 31 October 2008, 1 May 2009 and 1 May 2010. Inherent in the valuation, were a number of scheme changes, including a cap on future increases to pensionable salaries and pensions and increases to employee contribution rates. The Company has also taken direct responsibility for the administrative costs of the Scheme.

Under IAS 19 'Employee Benefits', the HMV defined benefit scheme had a deficit, net of deferred tax, of £15.2m (2008: £11.8m) at 25 April 2009. The changes to future benefits noted above in the form of a cap on pensionable pay increases resulted in a reduction in the liability of £5.6m which has been recognised in the income statement as a past service cost exceptional credit.

HMV Group plc

Announcement of Full Year Results

Notes for editors

HMV Group is one of the world's leading retailers of music, video and electronic games and the leading retailer of books in the United Kingdom and Ireland in terms of total sales. As of 25 April 2009 it operated 400 HMV and eight Fopp stores selling music, video and games in five countries and 314 Waterstone's bookstores, principally in the United Kingdom and Ireland. All of the Group's retail operations, both in the United Kingdom and internationally, are wholly owned. In addition, during the current year, the Group entered into a 50:50 joint venture (the Mean Fiddler Group) with MAMA Group plc, which currently owns 11 live music and entertainment venues in the UK

HMV Group websites

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

Supporting financial information

	Page
Consolidated income statement	13
Consolidated statement of recognised income and expense	14
Consolidated balance sheet	15
Consolidated cash flow statement	16
Notes to the financial statements	17

HMV Group plc

Announcement of Full Year Results

Consolidated Income Statement

For the 52 weeks ended 25 April 2009 and 26 April 2008

	Note	Total 2009 £m	Exceptional items 2009 £m	Before exceptional items 2009 £m	Before exceptional items 2008 £m	Exceptional items 2008 £m	Total 2008 £m
Continuing operations							
Revenue		1,956.7	-	1,956.7	1,874.9	-	1,874.9
Cost of sales		(1,804.0)	(4.5)	(1,799.5)	(1,718.1)	(4.6)	(1,722.7)
Gross profit		152.7	(4.5)	157.2	156.8	(4.6)	152.2
Administrative expenses		(84.3)	2.8	(87.1)	(90.6)	-	(90.6)
Group trading profit		68.4	(1.7)	70.1	66.2	(4.6)	61.6
Share of post tax profits of joint venture accounted for using the equity method		0.2	-	0.2	-	-	-
Group operating profit		68.6	(1.7)	70.3	66.2	(4.6)	61.6
Finance income	3	1.2	-	1.2	1.6	-	1.6
Finance costs	3	(8.5)	-	(8.5)	(11.2)	-	(11.2)
Profit before taxation		61.3	(1.7)	63.0	56.6	(4.6)	52.0
Taxation	4	(17.1)	0.5	(17.6)	(15.8)	1.1	(14.7)
Profit from continuing operations		44.2	(1.2)	45.4	40.8	(3.5)	37.3
Discontinued operation							
Profit after tax from discontinued operation	7	-	-	-	(0.1)	51.8	51.7
Profit for the period attributable to shareholders		44.2	(1.2)	45.4	40.7	48.3	89.0
Earnings per share for profit attributable to shareholders							
Basic	6	10.8p	(0.3p)	11.1p	10.1p	12.0p	22.1p
Diluted basic	6	10.7p	(0.3p)	11.0p	10.0p	12.0p	22.0p
Earnings per share for profit from continuing operations attributable to shareholders							
Basic	6	10.8p	(0.3p)	11.1p	10.1p	(0.9)p	9.2p
Diluted basic	6	10.7p	(0.3p)	11.0p	10.1p	(0.9)p	9.2p
Dividend per share	5			7.4p	7.4p		

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 25 April 2009 and 26 April 2008

	2009	2008
	£m	£m
Profit for the period attributable to shareholders	44.2	89.0
Foreign exchange translation differences	6.4	5.5
Foreign exchange recycled to the income statement on discontinued operations	-	(0.1)
Gain on forward foreign exchange contracts	0.1	(0.4)
Transfers to the income statement on cash flow hedges	0.4	-
Actuarial (loss) gain on defined benefit pension schemes	(11.0)	7.3
Tax on items recognised directly in equity	5.7	(2.2)
Net income recognised directly in equity	1.7	10.1
Total recognised income and expense for the period	45.8	99.1

HMV Group plc
Announcement of Full Year Results

Consolidated Balance Sheet

	As at 25 April 2009 £m	As at 26 April 2008 £m
Assets		
Non-current assets		
Property, plant and equipment	161.9	149.4
Intangible assets	73.0	73.1
Investments accounted for using the equity method	14.7	-
Deferred income tax asset	26.1	20.6
Trade and other receivables	1.2	0.9
	276.9	244.0
Current assets		
Inventories	213.9	205.4
Trade and other receivables	71.6	58.9
Derivative financial instruments	0.1	-
Current tax recoverable	1.3	1.7
Cash and short-term deposits	52.7	35.5
	339.6	301.5
Total assets	616.5	545.5
Liabilities		
Non-current liabilities		
Deferred income tax liabilities	(0.1)	(0.1)
Retirement benefits liabilities	(21.0)	(16.3)
Interest-bearing loans and borrowings	(5.0)	(0.5)
Provisions	(0.2)	(0.2)
	(26.3)	(17.1)
Current liabilities		
Trade and other payables	(415.5)	(409.5)
Current income tax payable	(17.2)	(21.2)
Interest-bearing loans and borrowings	(53.3)	(35.0)
Derivative financial instruments	-	(0.4)
Provisions	(4.6)	(3.5)
	(490.6)	(469.6)
Total liabilities	(516.9)	(486.7)
Net assets	99.6	58.8
Equity		
Equity share capital	347.1	323.1
Other reserve - own shares	(2.7)	(2.0)
Hedging reserve	0.1	(0.4)
Foreign currency translation reserve	14.0	7.6
Capital reserve	0.3	0.3
Retained earnings	(259.2)	(269.8)
Total equity	99.6	58.8

HMV Group plc

Announcement of Full Year Results

Consolidated Cashflow Statement

For the 52 weeks ended 25 April 2009 and 26 April 2008

	2009	2008
	£m	£m
Cash flows from operating activities		
Profit before tax from continuing operations	61.3	52.0
Profit before tax from discontinued operation	-	52.6
Profit before tax	61.3	104.6
Gain on disposal of discontinued operation	-	(52.7)
Net finance costs	7.3	9.8
Share of post-tax profits of joint venture accounted for using the equity method	(0.2)	-
Depreciation	42.5	41.9
Impairment charges	3.4	-
Profit on disposal of property, plant and equipment	(0.5)	(0.1)
Equity settled share-based payment charge	1.7	2.6
Pension contributions less income statement charge	(6.8)	1.3
	108.7	107.4
Movement in inventories	(3.6)	(13.3)
Movement in trade and other receivables	(6.5)	2.2
Movement in trade and other payables	(5.4)	47.7
Movement in provisions	1.1	(1.5)
Cash generated from operations	94.3	142.5
Income tax paid	(19.3)	(9.3)
Net cash flows from operating activities	75.0	133.2
Cash flows from investing activities		
Purchase of property, plant and equipment	(51.5)	(36.8)
Purchase of intangible asset	-	(0.1)
Proceeds from sale of property, plant and equipment	1.5	0.4
Interest received	1.2	1.6
Payments to acquire investment in joint venture	(20.0)	-
Disposal costs	-	(4.7)
Proceeds from sale of business, net of cash disposed (note 7)	-	70.6
Net cash flows from investing activities	(68.8)	31.0
Cash flows from financing activities		
Movements in short-term facilities	11.0	(88.0)
Repayment of term debt	-	(80.0)
Costs of raising debt	(1.1)	-
Proceeds of issue of equity shares, net of costs	24.0	0.1
Purchase of own shares	(1.0)	-
Interest paid	(7.8)	(10.9)
Equity dividends paid to shareholders	(29.7)	(29.8)
Repayment of capital element of finance lease	(0.8)	(0.3)
Net cash flows from financing activities	(5.4)	(208.9)
Net increase (decrease) in cash and cash equivalents	0.8	(44.7)
Opening cash and cash equivalents	35.5	73.9
Effect of exchange rate changes	9.2	6.3
Closing cash and cash equivalents	45.5	35.5

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 2006. 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

	2009	2008
	£m	£m
Continuing operations		
Recognised in arriving at operating profit:		
Acquisition of Ottakar's: store closure costs	(1.6)	(4.6)
Impairment of property, plant and equipment	(4.3)	-
Reversal of impairment of property, plant and equipment	0.9	-
Restructuring costs	(2.3)	-
Defined benefit pension scheme past service cost credit	5.6	-
	(1.7)	(4.6)
Discontinued operation		
Gain on disposal of HMV Japan	-	52.7
	(1.7)	48.1

Included within cost of sales are exceptional costs of £1.6m (2008: £4.6m) in connection with the continuing review of the combined Waterstone's store portfolio and associated store closures following the acquisition of Ottakar's, £4.3m of impairment charges, partially offset by a £0.9m reversal of previous asset impairments, following a review of the carrying value of certain assets based on current market trading conditions in HMV UK and HMV Canada and restructuring costs of £2.3m as a result of the implementation of the Waterstone's book hub. A tax credit of £2.0m (2008: £1.1m) arose in respect of these costs. Partially offsetting these charges is an exceptional credit totalling £5.6m (£2.8m within cost of sales and £2.8m within administrative expenses), which arose on changes to the Group's defined benefit pension scheme with effect from 1 November 2008. A tax charge of £1.5m (2008: £nil) arose in respect of this credit.

During the prior 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.

3. Net finance costs

	2009	2008
	£m	£m
Continuing operations		
Finance income		
Bank interest receivable	0.9	1.2
Other interest receivable	0.3	0.4
Total finance income	1.2	1.6
Finance costs		
Bank loans and overdrafts	7.5	10.9
Amortisation of deferred financing fees	0.5	0.2
Other finance expense – pensions	0.5	0.1
Total finance costs	8.5	11.2
Net finance costs	7.3	9.6

In addition to the above, a net finance charge of £nil (2008: £0.2m) was incurred in respect of the discontinued operation (see note 7).

HMV Group plc

Announcement of Full Year Results

Notes to the Financial Statements continued

4. Taxation

	2009	2008
	£m	£m
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax - continuing operations	16.2	13.8
Corporation tax - discontinued operation	-	0.9
Over provision in prior periods	(1.0)	(3.3)
	15.2	11.4
Overseas tax, current year:		
Corporation tax - continuing operations	1.3	2.5
Under provision in prior periods	-	0.4
Total current tax	16.5	14.3
Deferred tax:		
United Kingdom	1.2	1.4
Overseas – continuing operations	(0.6)	(0.1)
Total deferred tax	0.6	1.3
Total taxation expense in the income statement	17.1	15.6

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

	2009	2008
	£m	£m
Income tax expense on continuing operations	17.1	14.7
Income tax expense on discontinued operation	-	0.9
Total taxation expense in the income statement	17.1	15.6

The effective tax rate on continuing operations before exceptional items is 28% (2008: 28%). The tax expense in the current year includes a credit of £0.5m (2008: £1.1m) in relation to the exceptional items from continuing operations of £1.7m (2008: £4.6m). The prior year also included a charge of £0.9m in relation to the profit on disposal of HMV Japan, details of which can be found in note 2.

HMV Group plc

Announcement of Full Year Results

Notes to the Financial Statements continued

5. Equity dividends

	2009	2008
	£m	£m
Ordinary final dividend of 5.6p per share for 2008 (2007: 5.6p)	22.5	22.5
Ordinary interim dividend of 1.8p per share for 2009 (2008: 1.8 p)	7.2	7.3
	29.7	29.8

The Directors have proposed a final dividend of 5.6p per share (2008: 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 2009 of 7.4p (2008: 7.4p).

The proposed final dividend for 2009 of £23.7m (2008: £22.5m), subject to approval by shareholders at the Annual General Meeting, will be paid on 13 October 2009 to shareholders on the Register at the close of business on 4 September 2009. Shares will be quoted ex-dividend from 2 September 2009.

6. Earnings per share

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

	2009	2008
	£m	£m
Profit attributable to shareholders	44.2	89.0
Discontinued operation trading after tax	-	0.1
Profit on disposal of discontinued operation after tax	-	(51.8)
Profit from continuing operations	44.2	37.3
Exceptional items, less tax thereon (see note 2)	1.2	3.5
Adjusted profit from continuing operations	45.4	40.8

	2009	2008
	Number Million	Number million
Weighted average number of Ordinary Shares - Basic	408.5	402.0
Dilutive share options	4.9	1.7
Weighted average number of Ordinary Shares - Diluted	413.4	403.7

Earnings per Ordinary Share is calculated as follows:

	2009	2008
	Pence	Pence
Total operations		
Basic	10.8	22.1
Adjusted	11.1	10.1
Basic diluted	10.7	22.0
Adjusted diluted	11.0	10.0
Continuing operations		
Basic	10.8	9.2
Adjusted	11.1	10.1
Basic diluted	10.7	9.2
Adjusted diluted	11.0	10.1
Discontinued operation		
Basic	-	12.9
Basic diluted	-	12.8

HMV Group plc

Announcement of Full Year Results

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 in the prior year for the discontinued operation was derived from the profit attributable to shareholders of the parent from discontinuing operations of £51.7m, 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 employee share awards outstanding during the year of 4.9m (2008: 1.7m). At the year end 1.6m anti-dilutive share awards were in issue (2008: 5.1m).

7. Discontinued operation

In the comparative period, 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 to the date of disposal are presented as a discontinued operation.

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

	2009 £m	2008 £m
Revenue	-	61.2
Cost of sales	-	(58.4)
Gross profit	-	2.8
Administrative expenses	-	(2.7)
Operating profit	-	0.1
Finance costs	-	(0.2)
Loss before tax from a discontinued operation	-	(0.1)
Exceptional gain on disposal of a discontinued operation	-	52.7
Tax expense	-	(0.9)
Profit after tax for the period from discontinued operation	-	51.7
The tax expense is analysed as follows:		
On profit on ordinary activities	-	-
On the gain on disposal	-	(0.9)
	-	(0.9)
Operating cash flows for discontinued operation	-	0.6
Investing cash flows for discontinued operation	-	(0.8)
Financing cash flows for discontinued operation	-	(0.2)
Net cash flows excluding disposal proceeds	-	(0.4)

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

HMV Group plc

Announcement of Full Year Results

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
Inventory	21.5
Trade and other receivables	15.4
Taxation	6.3
Cash	8.2
Total assets	64.9
Trade and other payables	(43.4)
Debt	(21.7)
Total liabilities	(65.1)
Total net liabilities sold	(0.2)

8. Reconciliation of equity

	2009 £m	2008 £m
Total recognised income and expense	45.8	99.1
Ordinary dividend	(29.7)	(29.8)
Issue of equity shares, net of costs	24.0	0.1
Purchase of own shares	(1.0)	-
Share-based payment charge	1.7	2.6
Total movement during the period	40.8	72.0
Opening total equity	58.8	(13.2)
Closing total equity	99.6	58.8

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 29 June 2009.

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 25 April 2009. The Group's full financial statements were approved by the Directors on 29 June 2009 and received an unqualified audit report. This financial information is abridged and does not constitute statutory accounts for the 52 weeks ended 25 April 2009 and 26 April 2008. Full financial statements for the 52 weeks ended 25 April 2009 will be filed with the Registrar of Companies in due course. The 2008 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.