



HMV Group plc

Interim Report

26 weeks ended 24 October 2009

HMV Group is one of the world's leading retailers of music, video and games and the leading retailer of books in the United Kingdom and Ireland in terms of total sales. As at 24 October 2009, it operated 420 HMV stores selling music, video and electronic games in five countries and 312 Waterstone's stores, principally in the United Kingdom and Ireland.

This report sets out its financial results for the 26 weeks ended 24 October 2009.

Financial highlights

- Total sales £797.0m (2008: £754.5m), up 5.6%. Like for like sales down 2.1% (2008: flat)
- HMV UK & Ireland total sales up 12.8%, including like for like sales up 1.6%
- Waterstone's total sales down 4.3%. Like for like sales down 5.1%
- Reduced seasonal loss before tax of £24.9m (2008: loss of £27.5m)
- Loss after tax of £17.8m (2008: loss of £19.8m)
- Basic EPS loss of 4.2p (2008: loss of 4.9p)
- Interim dividend 1.8p per share (2008: 1.8p)
- Underlying net debt increased by £14.5m to £88.1m (2008: £73.6m), primarily reflecting acquisition of 7digital.

Operational highlights

- Successful conversion of 32 former Zavvi stores to HMV; and 10 temporary Christmas stores secured
- Strong market share gains in all entertainment categories
- Excellent customer response to launch of Purehmv loyalty card. One million card-holders expected in first year
- Waterstone's book hub fully operational for all UK stores and Internet
- Live: increased activities, including enhanced HMV Tickets offer; first cinema opening; and further pay-to-play gaming centres
- Digital: acquisition of 50% of 7digital to accelerate growth in digital entertainment and books.

Outlook

The Group continues to operate in challenging and highly competitive markets, particularly the book market, where Waterstone's performance remains weak, although the recent administration of Borders UK may benefit the Group in the medium and long term. Performance in HMV UK & Ireland remains on track, with a strong line-up in music this Christmas, and is further underpinned by good margin and cost control. Although our peak trading weeks lie ahead of us, we remain confident in the outlook for the Group for the current financial year.

Commenting, Chief Executive Simon Fox said:

"With a good line-up of products across all categories, our stores and websites are very well prepared for Christmas and we are confident that customers will receive great service and availability however they choose to shop."

Chief Executive's Review

In a tough consumer environment, the Group's performance during the first half was solid, with good trading in HMV UK & Ireland offsetting weaker trading in HMV International and Waterstone's.

We have continued to make good progress on the initiatives that comprise the Group's strategic and operational review, which was announced on 13 March 2007, whilst further extending the reach of HMV into live and digital, where we believe there are attractive opportunities to create significant growth for the long term.

An update on our strategic initiatives is provided below. Over a three-year period, the Group's plan is to protect and revitalise our retail stores, grow revenue from new channels and drive cost efficiency.

Protecting and revitalising our retail stores

The exit of competitors from the UK entertainment market at the beginning of 2009 has created opportunities to capture sales in markets where these stores formerly overlapped with HMV. Sales transfers in these locations have been in line with our expectations, which has continued to lead to significant market share gains, particularly in music and video. In addition, during the first half a further 7 ex-Zavvi stores were converted to HMV, taking the total to 32, and the first of 10 short-lease stores for Christmas were opened, located primarily in new markets for HMV.

HMV UK & Ireland has continued to make progress in diversifying its product mix. Technology and related entertainment products grew to 9% of sales (2008: 7%), while in games, share gains have accelerated in a weak market, helped by Re/Play, our pre-played offer, which has reinforced the appeal of our overall games proposition. In addition, Orange concessions selling entertainment-related mobile handsets were successfully rolled out to 20 stores, with more expected in the second half.

The Purehmv multi-channel loyalty scheme was successfully launched at the beginning of the period, and continues to exceed our expectations for customer registrations and use, with one million cardholders expected in the first year. Preparations have now commenced to launch a comparable loyalty offer in HMV Canada in 2010.

Following customer research confirming the brand's ability to stretch beyond books, Waterstone's commenced trials of an extended related product offer. This included children's educational products, gift cards, stationery and technology, with next generation models of the Reader from Sony having their UK launch through all branches and waterstones.com.

Growing revenue from new channels

The Group took an important step to accelerate its growth in the fast-growing markets for digital entertainment and books by acquiring for £7.7m in cash 50% of the equity of 7digital, a leading international digital media company. HMV's digital offers will be transformed by 7digital's technology and catalogue of over six million music tracks and video entertainment, and this platform will also support Waterstone's in building on its leading position in the fast-growing e-books market.

Following this investment, HMV Canada recently launched a new music downloading store on hmv.ca powered by 7digital, and this will be followed in early 2010 by a new and enhanced downloads store for the UK via hmv.com and an enhanced e-books store for Waterstone's.

Mean Fiddler Group, our live music venue joint venture, has already established a powerful combination with HMV's store network, online presence and label relationships. By leveraging these assets, we are able to create exciting opportunities for both artists and our customers, and this in turn is driving improved performance at our venues. In addition, our increasing presence in live music is also benefiting our related HMV Tickets offer, which has been rolled out to 25 stores, and online has been relaunched with enhanced search and home pages for each of our live venues. This offer has been further strengthened by a new partnership with Seatwave, a fan-to-fan ticket exchange service, which offers customers the convenience of collecting tickets at an HMV store right up to the start of an event.

We have continued to develop new initiatives with the Group's long-term growth in mind. A pilot HMV Curzon cinema opened in Wimbledon, London, occupying non-trading space above our high street store. Curzon's knowledge of film programming and operating cinemas has been combined with HMV's prime store location and marketing expertise to create a high-quality, three-screen digital cinema which could be rolled out to further locations.

Chief Executive's Review (continued)

Our pay-to-play gaming centres located in selected HMV stores are in their own right a profitable use of space, and also provide good uplifts in sales of games hardware and software. New locations were successfully opened during the period at Manchester and Reading, taking the current total to five.

Driving cost efficiency

The key area of activity in our the cost efficiency programme this year has been the migration of the Waterstone's store estate and Internet fulfilment to a new centralised book hub. This became fully operational for all stores in September, and met the key requirement to successfully process c.2million books in the week leading up to 'Super Thursday' on 1 October 2009, when approximately 800 new titles were published. As this project has been delivered later and at a greater financial cost than originally planned, the initial £5m financial benefit will now be deferred until 2010/11. However, this shortfall will be fully offset by further cost savings across the Group, together with the strong performance of the ex-Zavvi stores acquired during the year and the opening of 10 temporary HMV stores for Christmas.

The hub is transforming the way that Waterstone's operates for the long term and, in addition to cost savings, we remain confident that it will improve business performance on several levels, including: enabling our booksellers to focus their skills and knowledge on customers; reducing returns to suppliers; and transforming our Internet business to enable us to more rapidly achieve scale.

Business and financial review

These interim results are for the 26 weeks ended 24 October 2009.

Financial highlights	26 weeks ended 24 October 2009	26 weeks ended 25 October 2008
	£m	£m
Sales	797.0	754.5
Like for like sales %	(2.1)%	0.0%
Operating loss	(21.8)	(22.8)
Loss before tax	(24.9)	(27.5)
Loss after tax	(17.8)	(19.8)
Loss per share	(4.2)p	(4.9)p
Dividend per share	1.8p	1.8p
Underlying net debt	88.1	73.6
Free cash outflow	(48.3)	(52.3)

Underlying net debt – cash and short-term deposits less external borrowings, before unamortised deferred financing fees

Free cash flow – Cash flow from operating activities after capital expenditure and net interest

Total sales increased by 5.6% against the same period last year, including a like for like sales decline of 2.1%. HMV UK & Ireland's total sales increased by 12.8%, including a like for like increase of 1.6%. In Waterstone's, total sales fell by 4.3%, and like for like sales decreased by 5.1%.

The Group generated a reduced seasonal operating loss of £21.8m in the period (2008: £22.8m). Net finance costs fell from £4.7m to £3.1m reflecting the marked reduction in base rates in the past year. This contributed to a loss before tax of £24.9m, £2.6m better than the prior period.

Underlying net borrowings were £88.1m, £14.5m higher than last year, primarily reflecting £8.1m cash investment (including fees) in the 7digital joint venture. Free cash outflow was £48.3m (2008: outflow of £52.3m), with an adverse working capital timing effect being offset by reduced capital expenditure.

The Board has declared an interim dividend of 1.8p per share (2008: 1.8p per share).

Business and financial review (continued)

Sales	26 weeks ended 24 October 2009 £m	26 weeks ended 25 October 2008 £m	Year on year growth (decline) ¹ %	Constant exchange growth (decline) ² %	Like for like sales growth (decline) ³ %
HMV UK & Ireland	470.7	417.5	12.8	12.1	1.6
HMV International	101.3	101.9	(0.6)	(10.6)	(11.1)
Total HMV	572.0	519.4	10.1	7.7	(0.8)
Waterstone's	225.0	235.1	(4.3)	(4.8)	(5.1)
Total HMV Group	797.0	754.5	5.6	3.8	(2.1)

Operating loss	26 weeks ended 24 October 2009 £m	26 weeks ended 25 October 2008 £m	26 weeks ended 24 October 2009 % of sales	26 weeks ended 25 October 2008 % of sales
HMV UK & Ireland	(6.7)	(12.7)	(1.4)	(3.1)
HMV International	(2.6)	(0.8)	(2.6)	(0.8)
Total HMV	(9.3)	(13.5)	(1.6)	(2.6)
Waterstone's	(12.9)	(9.3)	(5.7)	(3.9)
Share of post-tax profit of joint ventures	0.4	-	-	-
Total HMV Group	(21.8)	(22.8)	(2.7)	(3.0)

1 Year on year growth (decline) over the corresponding period last year is based on results translated at the actual exchange rates being the weighted average exchange rates for the 26 weeks ended 24 October 2009 and the 26 weeks ended 25 October 2008 respectively.

2 Constant exchange growth (decline) over the corresponding period last year is based on the weighted average exchange rates for the 26 weeks ended 25 October 2008.

3 Like for like sales growth (decline) over the corresponding period last year is based on the weighted average exchange rates for the 52 weeks ended 25 April 2009.

HMV UK & Ireland

HMV UK & Ireland's total sales increased by 12.8% at statutory exchange rates in the first half, including like for like sales up 1.6%. The growth in total sales reflected the successful acquisition of 32 Zavvi stores since January 2009, together with the capture of market share following the closure of competitors, which also supported like for like sales performance.

HMV UK & Ireland market share performance reflected these trends, with share gains in all product categories. In music, which accounted for 30% of sales, HMV gained a 7.7% volume share in a market down 8%, while in visual (45% of sales) share grew 5.0% in a market where volumes were broadly held on the prior year. In the games market, the very strong prior period release schedule contributed to a 32% value decline. However, HMV performed significantly ahead of this, with share up 2.2%, with increasing contribution from the new pre-played games offer. Technology and other new product lines also continue to grow in importance, up to 9% of sales from 7%.

The operating loss of £6.7m is down £6.0m on the prior period. This reflects the strong total sales growth combined with good cost control, including the benefit of strategic cost savings. Gross margin was also up 40 basis points reflecting the lower mix of games sales, particularly hardware. The gross margin for the second half of the year is expected to remain broadly in line with the prior period as the games release schedule improves.

Business and financial review (continued)

HMV International

HMV International's total sales fell 10.6% at constant exchange rates in the first half, including like for like sales down 11.1%. The result reflected challenging trading in Canada, Hong Kong and Singapore, combined with the impact of a weak games release schedule.

The operating loss of HMV International increased by £1.8m to £2.6m, reflecting the impact of the sales decline partly offset by good cost control, with operating costs down 5.2% at constant exchange rates. Gross margin rate was maintained year on year.

During the period HMV Canada opened two and resited two further stores.

Waterstone's

Waterstone's total sales decreased by 4.3% at constant exchange rates in the period, including a like for like sales decline of 5.1%. Although this was broadly in line with the underlying high street book market, Waterstone's performance weakened as the period progressed. The total consumer book market was down only 0.5% year on year, reflecting continued market share gains by supermarket and online competitors. Although less than 5% of sales, related product ranges, such as gift stationery and technology, including the Sony Reader, continued to deliver encouraging growth, up a combined 19% year on year.

The operating loss for the period was £3.6m higher than last year at £12.9m. The increased loss reflected the flow through of the sales result, with a small dilution in gross margin that is expected to reverse in the balance of the year, partially offset by tight control of operating costs, down 2.2% on the prior period. The book hub generated a net cost of £0.9m inclusive of final implementation costs, £0.6m better than the prior period. Since becoming fully operational in September, margin and store efficiency savings from the hub have been in line with expectations, but running costs have been greater than planned. Consequently, significant focus is now being given to hub processes to deliver improved efficiency.

During the period Waterstone's opened two new stores, resited one and closed four stores resulting in a total store portfolio of 312.

Live and digital joint ventures

In September 2009, the Group acquired 50% of 7digital Inc, a digital media services company. The consideration paid for the joint venture interest was £8.1m (including fees). The Group's share of 7digital's post tax losses in the period since acquisition amounted to £0.1m.

In January 2009, the Group acquired 50% of Mean Fiddler Group from MAMA Group plc to form a joint venture that 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. No adjustment has been made to the cost of investment as at 24 October 2009 as payment or receipt of this contingent consideration is not considered to be probable at the balance sheet date. In addition, Mean Fiddler Group had granted on acquisition a £5.5m loan note payable to each joint venture partner, which remained outstanding at 24 October 2009. Subsequent to the period end, on 13 November 2009, Mean Fiddler Group repaid £4.5m of this loan note to each partner, with the outstanding balances converting to ordinary shares. The Group's share of Mean Fiddler Group's post tax income in the period since amounted to £0.5m.

Net finance costs

Net finance costs decreased in the period from £4.7m to £3.1m primarily due to the marked decrease in interest base rates over the past year.

Taxation

The taxation credit for the period on operating losses is based on the estimated effective tax rate on profits for the full year of 28% (2008: 28%).

Business and financial review (continued)

Earnings per share

Earnings per share was a loss of 4.2p, an improvement of 0.7p on the prior period.

Dividend

The Board is recommending an interim dividend of 1.8p, which has been maintained in line with last year.

Cash flow and net debt

	2009 £m	2008 £m
EBITDA	(1.0)	(2.7)
Capital expenditure	(16.9)	(30.1)
Working capital outflow	(15.0)	(4.0)
Provision spend and other	(2.7)	(0.5)
Special pension contribution	(2.2)	-
Net interest paid	(2.3)	(4.6)
Taxation	(8.2)	(10.4)
Free cash flow	(48.3)	(52.3)
Investment in joint venture	(8.1)	-
Dividends paid	(23.6)	(22.5)
Other	(0.3)	(2.2)
Effect of exchange rate changes	(1.3)	3.6
Net cash outflow	(81.6)	(73.4)
Underlying opening net debt	(6.5)	(0.2)
Underlying closing net debt	(88.1)	(73.6)

EBITDA – Earnings before interest, taxation, depreciation and amortisation

Closing net debt of £88.1m was £14.5m higher than last year, inclusive of the £8.1m investment in 7digital in the period. Free cash outflow was £48.3m (2008: outflow of £52.3m), with an adverse working capital timing effect being offset by reduced capital expenditure.

Pensions

The Group has a number of pension schemes in operation, including defined benefit arrangements for approximately 600 employees almost entirely in the United Kingdom. The most recent valuation of the Pension Benefit Section of the UK scheme as at 30 June 2007, indicated a level of asset cover of 94%, representing a funding deficit of £5.1m. This deficit is being funded by three special contributions of £2.17m, the second of which was paid on 1 May 2009, with the final payment due on 1 May 2010. 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 at 24 October 2009, net of deferred tax, of £25.2m (October 2008: £11.5m, April 2009: £15.2m). The increase since April 2009 primarily reflects a reduction in the corporate bond yield (5.5% at October 2009, from 6.5% at April 2009) used to calculate the current value of scheme liabilities. This has more than offset the benefit of improved investment returns in the period.

Board developments

Orna Ni-Chionna joined the Group's Board as a Non-Executive Director on 30 October 2009, and took on the role of Chair of the Remuneration Committee with immediate effect. Lesley Knox, the previous chair of the Remuneration Committee and Senior Independent Director, will step down from the Board on 1 February 2010.

Business and financial review (continued)

Principal risks and uncertainties

The Board has a policy of continuous identification and review of key business risks and uncertainties, which are set out on page 40 of the Annual Report and accounts for the 52 weeks ended 25 April 2009. The Board considers that these remain the principal risks affecting the Group in respect of the current financial year and they are, in summary, as follows; highly competitive markets for the Group's products, the growth of digital entertainment, seasonality of the business, external factors such as consumer confidence in the UK economy, credit risk and liquidity risk, failure of supply, damage to the reputation or brands of the Group, reliance on a number of Information Technology systems, availability and retention of key personnel, retaining a good quality store network and the success of key initiatives.

Forward-looking statements

Certain statements in this interim report 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.

Interim consolidated income statement

		26 weeks to 24 October 2009	26 weeks to 25 October 2008	52 weeks to 25 April 2009		
	Notes	Total (Unaudited) £m	Total (Unaudited) £m	Before exceptional items (Audited) £m	Exceptional items (Audited) £m	Total (Audited) £m
Revenue	4	797.0	754.5	1,956.7	-	1,956.7
Cost of sales		(776.4)	(733.3)	(1,799.5)	(4.5)	(1,804.0)
Gross profit		20.6	21.2	157.2	(4.5)	152.7
Administrative expenses		(42.8)	(44.0)	(87.1)	2.8	(84.3)
Trading (loss) profit	4	(22.2)	(22.8)	70.1	(1.7)	68.4
Share of post-tax profits of joint ventures accounted for using the equity method		0.4	-	0.2	-	0.2
Operating (loss) profit		(21.8)	(22.8)	70.3	(1.7)	68.6
Finance revenue		0.4	0.4	1.2	-	1.2
Finance costs		(3.5)	(5.1)	(8.5)	-	(8.5)
(Loss) profit before taxation		(24.9)	(27.5)	63.0	(1.7)	61.3
Taxation	6	7.1	7.7	(17.6)	0.5	(17.1)
(Loss) profit for the period attributable to shareholders of the parent company		(17.8)	(19.8)	45.4	(1.2)	44.2
(Loss) earnings per share for the period attributable to shareholders of the parent company:						
Basic	7	(4.2)p	(4.9)p	11.1p	(0.3)p	10.8p
Diluted	7	(4.2)p	(4.8)p	11.0p	(0.3)p	10.7p
Dividend per share	8	1.8p	1.8p			7.4p

The notes on pages 14 to 20 form an integral part of the interim condensed consolidated financial statements.

See note 5 for a description of exceptional items.

Interim consolidated statement of comprehensive income

	26 weeks to 24 October 2009 (Unaudited) £m	26 weeks to 25 October 2008 (Unaudited) £m	52 weeks to 25 April 2009 (Audited) £m
(Loss) profit for the period	(17.8)	(19.8)	44.2
Foreign exchange translation differences	(1.5)	3.6	6.4
Tax effect	-	-	1.0
	(1.5)	3.6	7.4
(Loss) gain on forward foreign exchange contracts	(0.4)	0.5	0.1
Transfers to the income statement on cash flow hedges (cost of sales)	-	-	0.4
Actuarial (loss) gain on defined benefit pension schemes	(15.4)	1.3	(11.0)
Tax effect	4.0	(0.5)	3.1
	(11.4)	0.8	(7.9)
Other comprehensive (loss) income for the period, net of tax	(13.3)	4.9	-
Total comprehensive (loss) income for the period, net of tax, attributable to shareholders of the parent company	(31.1)	(14.9)	44.2

The notes on pages 14 to 20 form an integral part of the interim condensed consolidated financial statements.

Interim consolidated balance sheet

		24 October 2009 (Unaudited) £m	25 October 2008 (Unaudited) £m	25 April 2009 (Audited) £m
	Notes			
Assets				
Non-current assets				
Property, plant and equipment	9	157.9	159.5	161.9
Intangible assets		73.0	73.1	73.0
Investments accounted for using the equity method	13	23.2	-	14.7
Deferred income tax asset		28.9	20.0	26.1
Trade and other receivables		1.1	0.8	1.2
		284.1	253.4	276.9
Current assets				
Inventories		319.2	269.0	213.9
Trade and other receivables		67.7	56.0	71.6
Derivative financial instruments		-	0.1	0.1
Current income tax recoverable		1.6	1.6	1.3
Cash and short-term deposits	10	41.2	42.0	52.7
		429.7	368.7	339.6
Total assets		713.8	622.1	616.5
Liabilities				
Non-current liabilities				
Deferred income tax liabilities		(0.1)	(0.1)	(0.1)
Retirement benefit liabilities		(34.9)	(16.0)	(21.0)
Interest-bearing loans and borrowings	11	(4.7)	(5.8)	(5.0)
Provisions	12	(0.2)	(0.1)	(0.2)
		(39.9)	(22.0)	(26.3)
Current liabilities				
Trade and other payables		(502.8)	(465.6)	(415.5)
Current income tax payable		(0.7)	(2.1)	(17.2)
Interest-bearing loans and borrowings	11	(123.9)	(108.7)	(53.3)
Derivative financial instruments		(0.3)	-	-
Provisions	12	(1.9)	(1.7)	(4.6)
		(629.6)	(578.1)	(490.6)
Total liabilities		(669.5)	(600.1)	(516.9)
Net assets		44.3	22.0	99.6
Equity				
Equity share capital	14	347.1	323.1	347.1
Other reserve – own shares		(0.8)	(2.7)	(2.7)
Hedging reserve		(0.3)	0.1	0.1
Foreign currency translation reserve		12.5	11.2	14.0
Capital reserve		0.3	0.3	0.3
Retained earnings		(314.5)	(310.0)	(259.2)
Total equity		44.3	22.0	99.6

The notes on pages 14 to 20 form an integral part of the interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity

	26 weeks to 24 October 2009						
	Equity share capital £m	Own shares £m	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	Retained earnings £m	Total £m
As at 25 April 2009 (Audited)	347.1	(2.7)	0.1	14.0	0.3	(259.2)	99.6
Loss for the period	-	-	-	-	-	(17.8)	(17.8)
Other comprehensive income	-	-	(0.4)	(1.5)	-	(11.4)	(13.3)
Total comprehensive income (loss)	-	-	(0.4)	(1.5)	-	(29.2)	(31.1)
Ordinary dividend (note 8)	-	-	-	-	-	(23.6)	(23.6)
Vesting of share-based payment awards	-	2.2	-	-	-	(2.2)	-
Purchase of own shares	-	(0.3)	-	-	-	-	(0.3)
Share-based payments	-	-	-	-	-	(0.1)	(0.1)
Deferred tax relating to share-based payments	-	-	-	-	-	(0.2)	(0.2)
As at 24 October 2009 (Unaudited)	347.1	(0.8)	(0.3)	12.5	0.3	(314.5)	44.3

	26 weeks to 25 October 2008						
	Equity share capital £m	Own shares £m	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	Retained earnings £m	Total £m
As at 26 April 2008 (Audited)	323.1	(2.0)	(0.4)	7.6	0.3	(269.8)	58.8
Loss for the period	-	-	-	-	-	(19.8)	(19.8)
Other comprehensive income	-	-	0.5	3.6	-	0.8	4.9
Total comprehensive income (loss)	-	-	0.5	3.6	-	(19.0)	(14.9)
Ordinary dividend (note 8)	-	-	-	-	-	(22.5)	(22.5)
Vesting of share-based payment awards	-	0.3	-	-	-	(0.3)	-
Purchase of own shares	-	(1.0)	-	-	-	-	(1.0)
Share-based payments	-	-	-	-	-	0.6	0.6
Deferred tax relating to share-based payments	-	-	-	-	-	1.0	1.0
As at 25 October 2008 (Unaudited)	323.1	(2.7)	0.1	11.2	0.3	(310.0)	22.0

The notes on pages 14 to 20 form an integral part of the interim condensed consolidated financial statements.

Interim consolidated cash flow statement

	Notes	26 weeks to 24 October 2009 (Unaudited) £m	26 weeks to 25 October 2008 (Unaudited) £m	52 weeks to 25 April 2009 (Audited) £m
Cash flows from operating activities				
(Loss) profit before tax		(24.9)	(27.5)	61.3
Net finance costs		3.1	4.7	7.3
Share of post-tax profits of joint ventures accounted for using the equity method		(0.4)	-	(0.2)
Depreciation		20.8	20.1	42.5
Net impairment charges		-	-	3.4
Loss (profit) on disposal of fixed assets		-	-	(0.5)
Equity-settled share-based payment (credit) charge		(0.1)	0.6	1.7
Pension contributions less income statement charge		(2.0)	0.6	(6.8)
		(3.5)	(1.5)	108.7
Movement in inventories		(103.8)	(63.0)	(3.6)
Movement in trade and other receivables		3.9	2.0	(6.5)
Movement in trade and other payables		84.9	57.0	(5.4)
Movement in provisions		(2.5)	(1.9)	1.1
Cash generated from operations		(21.0)	(7.4)	94.3
Income tax paid		(8.2)	(10.4)	(19.3)
Net cash flows from operating activities		(29.2)	(17.8)	75.0
Cash flows from investing activities				
Purchase of property, plant and equipment	9	(16.9)	(24.0)	(51.5)
Proceeds from sale of property, plant and equipment		0.2	0.2	1.5
Interest received		0.4	0.4	1.2
Payments to acquire investments in joint ventures		(8.1)	-	(20.0)
Net cash flows from investing activities		(24.4)	(23.4)	(68.8)
Cash flows from financing activities				
Movements in short-term facilities		76.0	71.0	11.0
Costs of raising debt		-	(1.1)	(1.1)
Proceeds of issue of equity shares, net of costs		-	-	24.0
Purchase of own shares		(0.3)	(1.0)	(1.0)
Interest paid		(2.7)	(5.0)	(7.8)
Equity dividends paid to shareholders		(23.6)	(22.5)	(29.7)
Repayment of capital element of finance lease		(0.4)	(0.2)	(0.8)
Net cash flows from financing activities		49.0	41.2	(5.4)
Net increase in cash and cash equivalents		(4.6)	-	0.8
Opening cash and cash equivalents		45.5	35.5	35.5
Effect of exchange rate changes		(1.3)	3.6	9.2
Closing cash and cash equivalents	10	39.6	39.1	45.5

The notes on pages 14 to 20 form an integral part of the interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

1. General information

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is Shelley House, 2-4 York Road, Maidenhead, Berkshire, SL6 1SR.

The Company is listed on the London Stock Exchange.

The interim condensed consolidated financial statements of the Group were approved for issue on 10 December 2009.

These interim financial results do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the 52 weeks ended 25 April 2009 were approved by the Board of Directors on 29 June 2009 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

2. Basis of preparation

The interim condensed consolidated financial statements for the 26 weeks ended 24 October 2009 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. The interim condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 25 April 2009, which have been prepared in accordance with IFRSs as adopted by the European Union.

The Group's business activities, together with the factors likely to affect its future development, performance and position are discussed in the Business and Financial Review. The Group's borrowing facilities are disclosed within note 11 of the interim condensed consolidated financial statements. The Directors report that having reviewed current performance and forecast they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these interim condensed consolidated financial statements.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the 52 weeks ended 25 April 2009, as described in those annual financial statements.

The Group has additionally adopted the provisions of IAS 1 Presentation of Financial Statements (revised 2007) for the first time within these interim condensed consolidated financial statements for the 26 weeks ended 24 October 2009. This is a presentational change only, affecting the naming and positioning of items within the interim condensed consolidated financial statements. It has no impact on reported profits (losses) or total equity.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year ending 24 April 2010, but have no material impact on the Group.

- Amendments to IFRS 1 and IAS 27 Cost of an investment in a subsidiary, joint-controlled entity or associate
- Amendment to IFRS 2 Share-based Payment vesting conditions and cancellations
- Amendment to IFRS 7 Improving disclosures about financial instruments
- IAS 23 Borrowing Costs (Revised)
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
- IAS 39 Eligible Hedged Items

Notes to the interim condensed consolidated financial statements (continued)

3. Accounting policies (continued)

- IFRIC 9 Reassessment of Embedded Derivatives, IAS 39 Financial Instruments: Recognition and Measurement
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers
- Annual improvements to IFRS (various)

4. Segmental information

The following tables present certain revenue and profit information regarding the Group's reportable segments:

	26 weeks to 24 October 2009 (Unaudited)				
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m
Segment revenue	470.7	101.3	572.0	225.0	797.0
Segment operating loss	(6.7)	(2.6)	(9.3)	(12.9)	(22.2)
Share of post-tax profits of joint ventures					0.4
Net finance costs					(3.1)
Loss before taxation					(24.9)
Taxation					7.1
Loss for the period					(17.8)

	26 weeks to 25 October 2008 (Unaudited)				
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m
Segment revenue	417.5	101.9	519.4	235.1	754.5
Segment operating loss	(12.7)	(0.8)	(13.5)	(9.3)	(22.8)
Net finance costs					(4.7)
Loss before taxation					(27.5)
Taxation					7.7
Loss for the period					(19.8)

Notes to the interim condensed consolidated financial statements (continued)

4. Segmental information (continued)

	52 weeks to 25 April 2009 (Audited)				
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m
Segment revenue	1,154.6	253.8	1,408.4	548.3	1,956.7
Segment operating profit before exceptional items	53.7	6.4	60.1	10.0	70.1
Operating exceptional items:					
Store closure costs	-	-	-	(1.6)	(1.6)
Impairment charge	(2.1)	(2.2)	(4.3)	-	(4.3)
Impairment charge reversal	0.9	-	0.9	-	0.9
Restructuring costs	-	-	-	(2.3)	(2.3)
Defined benefit pension scheme past service credit	3.5	-	3.5	2.1	5.6
	2.3	(2.2)	0.1	(1.8)	(1.7)
Segment operating profit	56.0	4.2	60.2	8.2	68.4
Share of post-tax profits of joint ventures					0.2
Net finance costs					(7.3)
Profit before taxation					61.3
Taxation					(17.1)
Profit for the period					44.2

The following table presents certain asset information regarding the Group's reportable segments:

	26 weeks to 24 October 2009 (Unaudited)				
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m
Assets	274.6	73.6	348.2	308.3	656.5
Unallocated assets					57.3
Total assets					713.8

	52 weeks to 25 April 2009 (Audited)				
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m
Assets	233.8	53.7	287.5	270.7	558.2
Unallocated assets					58.3
Total assets					616.5

Unallocated assets include balances relating to cash, taxation and investments in joint ventures, which are managed on a Group basis.

Notes to the interim condensed consolidated financial statements (continued)

5. Exceptional items

	26 weeks to 24 October 2009 (Unaudited) £m	26 weeks to 25 October 2008 (Unaudited) £m	52 weeks to 25 April 2009 (Audited) £m
Recognised in arriving at operating profit:			
Acquisition of Ottakar's - store closure costs	-	-	(1.6)
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 credit	-	-	5.6
	-	-	(1.7)

In the 52 weeks ended 25 April 2009, exceptional items totalling £1.7m included £1.6m in connection with the review of the combined Waterstone's store portfolio and associated store closures following the acquisition of Ottakar's, £4.3m of impairment of certain assets, partially offset by a £0.9m reversal of previous asset impairments, based on current market trading conditions in HMV UK and HMV Canada and store restructuring costs of £2.3m as a result of the implementation of the Waterstone's book hub. A tax credit of £2.0m arose in respect of these costs. Partially offsetting these charges is an exceptional credit totalling £5.6m, which represents a past service credit as a result of changes to the Group's defined benefit pension scheme with effect from 1 November 2008. A tax charge of £1.5m arose in respect of this credit.

6. Taxation

The taxation credit for the period is based on the estimated effective tax rate on profits for the full year of 28% (2008: 28%).

7. Earnings per share

Earnings per share attributable to shareholders of the Company arises as follows:

	26 weeks to 24 October 2009 (Unaudited) £m	26 weeks to 25 October 2008 (Unaudited) £m	52 weeks to 25 April 2009 (Audited) £m
(Loss) profit attributable to shareholders	(17.8)	(19.8)	44.2
Exceptional items less tax thereon	-	-	1.2
Adjusted (loss) profit attributable to shareholders	(17.8)	(19.8)	45.4

	26 weeks to 24 October 2009 (Unaudited) Number million	26 weeks to 25 October 2008 (Unaudited) Number million	52 weeks to 25 April 2009 (Audited) Number million
Weighted average number of Ordinary shares – basic	422.0	401.9	408.5
Dilutive share options	3.8	8.1	4.9
Weighted average number of Ordinary shares – diluted	425.8	410.0	413.4

Notes to the interim condensed consolidated financial statements (continued)

7. Earnings per share (continued)

	26 weeks to 24 October 2009 (Unaudited) Pence	26 weeks to 25 October 2008 (Unaudited) Pence	52 weeks to 25 April 2009 (Audited) Pence
Basic	(4.2)	(4.9)	10.8
Adjusted	(4.2)	(4.9)	11.1
Diluted basic	(4.2)	(4.8)	10.7
Diluted adjusted	(4.2)	(4.8)	11.0

Basic earnings per share is calculated by dividing the (loss) profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding interests in own shares held by the Employee Benefit Trust, which are accounted for as Treasury Shares. The diluted earnings per share calculations reflect the weighted average dilutive effect of options outstanding during the period of 3.8 million (2008: 8.1 million).

8. Dividends

	26 weeks to 24 October 2009 (Unaudited) £m	26 weeks to 25 October 2008 (Unaudited) £m	52 weeks to 25 April 2009 (Audited) £m
Ordinary final dividend of 5.6p per share (2008: 5.6p)	23.6	22.5	22.5
Ordinary interim dividend of 1.8p per share	-	-	7.2
	23.6	22.5	29.7

In addition, the Directors have approved an interim dividend of 1.8p per share (2008: 1.8p), which has not been recognised within these results in line with IAS 10 Events after the Balance Sheet Date. This results in an interim dividend of £7.6m (2008: £7.2m) and will be paid on 1 February 2010 to shareholders on the Register at the close of business on 4 January 2010. Shares will be quoted ex-dividend from 30 December 2009.

9. Property, plant and equipment

During the 26 weeks ended 24 October 2009, the Group acquired assets with a cost of £16.9m (2008: £30.1m, including £6.1m purchased using finance lease funding).

Assets with a net book value of £0.4m were disposed of by the Group during the 26 weeks ended 24 October 2009 (2008: £0.4m), resulting in a net gain on disposal of £nil (2008: £nil).

10. Cash and cash equivalents

For the purpose of the interim consolidated cash flow statement, cash and cash equivalents comprise the following:

	26 weeks to 24 October 2009 (Unaudited) £m	26 weeks to 25 October 2008 (Unaudited) £m	52 weeks to 25 April 2009 (Audited) £m
Cash at bank and in hand	30.2	41.9	52.1
Short-term deposits	11.0	0.1	0.6
Bank overdrafts	(1.6)	(2.9)	(7.2)
	39.6	39.1	45.5

Notes to the interim condensed consolidated financial statements (continued)

11. Loans and borrowings

At 24 October 2009, the Company had a Senior Bank Facility, consisting of a multi-currency £220m revolving credit facility, with a final maturity date of 9 October 2011. On 20 November 2009, £20m of the facility was voluntarily cancelled in advance of a scheduled £20m amortisation on 1 January 2010. At 24 October 2009, £122.0m had been drawn down (2008: £106.0m). Interest on the facility is payable at a rate equal to LIBOR plus a margin of 2.50%.

12. Provisions

	£m
As at 26 April 2008 (Audited)	3.7
Provisions utilised	(2.0)
Currency retranslation	0.1
As at 25 October 2008 (Unaudited)	1.8
As at 25 April 2009 (Audited)	4.8
Provisions utilised	(2.7)
As at 24 October 2009 (Unaudited)	2.1
Analysed as:	
Current	1.9
Non-current	0.2
	2.1

Provisions, and their utilisation in the period, almost entirely consist of amounts in respect of store closure and restructuring costs. The remaining provisions are expected to be largely utilised in the next two years.

13. Investments accounted for using the equity method

During the 26 weeks ended 24 October 2009, the Group invested in a jointly controlled entity through a 50% equity interest in 7digital Inc, a leading international digital media services company, for £7.7m in cash. Put and call arrangements are in place over the residual shareholdings in 7digital at valuations based on financial performance for the years ending 31 December 2011 to 2013. No amounts have been required to be reflected in the financial statements in respect of these options.

In the prior year, the Group invested in a jointly controlled entity through a 50% equity interest in Mean Fiddler Group Limited, an operator of live music and entertainment venues in the UK, for £12.8m in cash. During the period, a review was undertaken of the fair value on acquisition of Mean Fiddler Group's assets, which resulted in a £0.5m increase in the Group's share of the net asset value acquired. This reduces the underlying goodwill in the investment but does not alter the investment's carrying value.

The Group accounts for its interest in joint ventures using the equity method, as follows:

	Mean Fiddler Group £m	7digital £m	Total £m
Cost of investment, satisfied by cash	12.8	7.7	20.5
Professional fees incurred	1.7	0.4	2.1
Share of joint venture's profit:			
2008/09	0.2	-	0.2
2009/10	0.5	(0.1)	0.4
	15.2	8.0	23.2

Notes to the interim condensed consolidated financial statements (continued)

13. Investments accounted for using the equity method (continued)

The Group had outstanding at 24 October 2009 a £5.5m loan note granted by Mean Fiddler Limited during the acquisition process. Subsequent to the period end, on 13 November 2009, £4.5m of this loan note was repaid to the Group, with the balance converting to ordinary shares.

Further consideration of up to £3.3m is payable or refundable based on an assessment of the Mean Fiddler Group's EBITDA for the year to October 2009. No adjustment has been made to the cost of investment as at 24 October 2009 as payment or receipt of this contingent consideration is not considered to be probable at the balance sheet date.

14. Share capital

	Number of ordinary shares Thousands	Ordinary shares £m	Share premium £m	Total £m
As at 26 April 2008 (Audited)	403,370	4.0	319.1	323.1
Shares issued	49	-	-	-
As at 25 October 2008 (Unaudited)	403,419	4.0	319.1	323.1
As at 25 April 2009 (Audited)	423,587	4.2	342.9	347.1
Shares issued	-	-	-	-
As at 24 October 2009 (Unaudited)	423,587	4.2	342.9	347.1

15. Related party transactions

The Group had outstanding at 24 October 2009 a £5.5m loan note granted by Mean Fiddler Limited during the acquisition process. Subsequent to the period end, on 13 November 2009, £4.5m of this loan note was repaid to the Group, with the balance converting to ordinary shares.

16. Seasonality

Retail sales of entertainment products are subject to seasonal fluctuations, with peak demand in the Christmas trading period, which falls in the second half of the financial year. For the 26 weeks ended 24 October 2009, the level of sales represented 41% (2008: 40%) of the annual level of sales in the 52 weeks ended 25 April 2009.

17. Post balance sheet event

On 10 December 2009, the Group announced the acquisition of 66.5 million shares in MAMA Group plc at 5.25p, representing 8.23% of MAMA Group's issued share capital. Total consideration was £3.5m. MAMA Group plc is the Group's partner in the Mean Fiddler Group, our live music venue joint venture.

Statement of Directors' responsibilities

The Directors confirm that this interim condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- The interim management report includes a fair review of the important events during the first 26 weeks and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and
- The interim management report includes a fair review of disclosure of related party transactions and changes therein.

The Directors of HMV Group plc are listed in the HMV Group plc Annual Report for the 52 weeks ended 25 April 2009, with subsequent changes as listed on page 7 of this statement. A list of current Directors is maintained on the HMV Group plc website www.hmvgroup.com.

By order of the Board

Simon Fox
Chief Executive Officer
10 December 2009

Neil Bright
Group Finance Director
10 December 2009

INDEPENDENT REVIEW REPORT TO HMV GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 week period ended 24 October 2009 which comprises the interim consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes 1-17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 week period ended 24 October 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

Birmingham

10 December 2009

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Store portfolio

	Store numbers 24 October 2009	Square footage '000 sq ft 24 October 2009	Store numbers 25 October 2008	Square footage '000 sq ft 25 October 2008
HMV UK & Ireland	282	1,556	252	1,341
HMV International	138	594	135	585
Total HMV	420	2,150	387	1,926
Waterstone's	312	1,821	320	1,827
HMV Group	732	3,971	707	3,753