

HMV Group plc

Announcement of Full Year Results

HMV Group plc today announces its financial results for the 52 weeks ended 24 April 2010

Financial Highlights

- Total Group sales growth of 3.1%, resulting in record sales in excess of £2bn
- HMV UK & Ireland like for like sales down 2.4%; Waterstone's like for like sales down 6.2%
- Profit before tax and exceptional items up 17.7% to £74.2m (2009: £63.0m)
- Adjusted eps up 13.8% to 12.7p (2009: 11.1p). Basic eps of 11.6p (2009: 10.8p)
- Profit after tax and exceptional items of £49.2m (2009: £44.2m)
- Final dividend of 5.6p making a total dividend of 7.4p (2009: 7.4p)
- Net debt at £67.6m (2009: £6.5m), reflecting cost of acquisitions during the year

Operational Highlights

- Market share gains across all product categories in HMV UK
- Strong trading in live venues, following entry into fast-growing live music market through joint venture with MAMA Group in January 2009
- Strengthened position in live through successful acquisition of MAMA in January 2010
- Acquisition of 50% joint venture with 7digital, positioning the Group for growth in digital entertainment
- Growth of Purehmv loyalty card to over one million members, ahead of expectations
- Clear strategy to turn around Waterstone's under new management team
- Excellent start for e-books at waterstones.com, approaching one million downloads

Simon Fox, Chief Executive, said:

"The Group's full year performance was pleasing, with record sales and a 17.7% increase in profits, driven by a strong performance at HMV UK, as we continue to transform this business into a broad-based entertainment brand.

"Whilst at an early stage, the three pillars of our new strategy to continue to evolve HMV's product mix, grow in live and ticketing and turn around Waterstone's are progressing on track, as we continue to position the Group for the changes that are taking place in our markets."

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	Nick Claydon / Laura Cummings / Saadia McGlinchey		020 7404 5959

*All enquiries on 30 June 2010 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 9 September 2010, the date of the Annual General Meeting.

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Chairman's Statement

The Group has delivered a further year of improved financial performance, led by HMV UK's continuing transformation from a one-dimensional retailer to a broader entertainment brand. In addition, in another active year, we have set out a clear three-year strategic plan and made significant moves in live music and in digital. The one area of disappointment was in the financial performance of Waterstone's, but we acted swiftly to introduce new management team and address the issues and our new strategy is already beginning to have a positive impact. As we expected, there has been no let up to the significant changes that are taking place in our markets, and we will continue to take a realistic view about how these are likely to impact our business and the steps we must take to adapt. We know that we need to be thoughtful and vigorous to address these changes, and this is reflected in the strategic plan set out by Simon Fox, our Chief Executive, in March 2010.

This year, HMV took maximum advantage of its strength as the only specialist retailer of scale in the UK entertainment market. Despite this, our environment remains highly competitive, with some retail and online competitors prepared to offer many of the same products to their customers at loss-leading prices. Therefore, particularly given these changes taking place in our markets it has been, and will continue to be, necessary for us to rapidly diversify into new and related retail products in a way that the powerful HMV brand allows us to do. These trends are also evident in our International division, where similar measures are being applied.

We have also shown that as well as extending the retail product range the HMV brand can successfully stretch beyond traditional retailing. Following 12 months in a highly promising joint venture with MAMA Group plc to own and operate live music venues, in January 2010 we successfully acquired the entire issued share capital of MAMA for £46.0m in cash. We expect our new Live division, including the related ticketing business, to be a significant driver of growth for the Group.

Opportunities to create real value in digital are scarce for all involved, not least because of widespread competition from the free illegal market. We therefore welcome the arrival onto the UK statute books of the Digital Economy Act, which introduces penalties for repeat copyright infringement. This should also ultimately benefit our joint venture with 7digital, a leading digital media company in which the Group acquired a 50% stake in September 2009 for £7.7m in cash. This is a long-term strategic investment for the Group, with significant potential beyond powering our own brands in digital. We are pleased with progress since the acquisition.

A number of the strategies that have been successful at HMV over the past three years are now being applied to Waterstone's. It is clear that the implementation of our new centralised distribution centre for books also adversely impacted performance last year by disrupting our core strength as a range bookseller. However, we are clear that this remains the correct supply chain for our national store network, and the fact that this is now in place and working effectively provides Waterstone's with a platform from which it can rebuild profitability.

The turnaround of Waterstone's is one of three pillars of the Group's new strategic plan – the other two being to continue the product mix evolution at HMV and to grow our business in live and digital. Simon Fox outlines this plan in detail over the following pages. With our traditional retail markets changing rapidly we know that delivering this strategy is critical, but we firmly believe that we have the capabilities and building blocks to execute our plans and so create value for our shareholders.

I am pleased to report that the results for the Group for the year ended 24 April 2010 saw a 17.7% increase in profit before tax and exceptional items to £74.2m, on revenue which grew by 3.1% to a record level of £2,016.6m. Our adjusted earnings per share rose by 13.8% to 12.7p, and the Board has recommended a final dividend of 5.6p per Ordinary Share. Together with the interim dividend of 1.8p per share, the total dividend for the year is 7.4p, the same as last year.

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Chairman's Statement continued

The Group continues to tightly manage its costs, particularly those associated with our predominantly leasehold property portfolio. Our average lease length in the UK is now under seven years, and 42% of our estate has a lease expiry within five years, providing us with greater flexibility to aggressively manage property costs and, where necessary, our space.

Our capital structure remains appropriate for the requirements of our plan. The acquisition of MAMA Group from existing cash resources increased our year-end net debt to £67.6m which, based on the strategic plan announced in March, we aim to largely eliminate by the end of 2013.

I would like to express my thanks to all of our teams across the Group world-wide, as well as to Simon Fox and his senior management team, whose commitment and dedication have made our progress this year possible. We all know that there is a great deal to do to adapt to the changing markets in which we operate, but throughout the Group there is a very clear willingness and energy to achieve a successful outcome through execution of the new plan. I continue to be particularly impressed by the real engagement of our employees at all levels.

There have been several changes to the composition of the Group Board this year. Gerry Johnson, an Executive Director and Managing Director of Waterstone's, left the Company in January 2010, and the Board thanks him for his contribution during his four-and-a-half years with the Company.

Lesley Knox, a Non-Executive Director since the Group's IPO in May 2002, retired from the Board on 1 February 2010, and I would like to place on record the Board's great appreciation for her outstanding contribution and commitment during this period. Philip Rowley succeeded Lesley as Senior Independent Director, and the Board was also delighted to welcome Orna Ni-Chionna in September 2009. She brings enormous experience of working with a wide range of retailing businesses, as well as considerable senior board experience.

In summary, the Group has again delivered a year of significant profit growth against a backdrop of challenging markets and continuing macro-economic uncertainty. Waterstone's disappointing performance issues are being tackled through a clear plan for the turnaround of this business. We moved decisively to invest in high quality assets in rapidly growing parts of the entertainment market where there is obvious synergy with our existing business, and have continued to successfully evolve the HMV brand within a changing entertainment market. Tight controls have been retained over our finances to give a firm footing for our future plans. We have a clearly focused strategic agenda for the next three years to build on our core strengths as the leading brands in our markets. Though there is much for us to do to execute this plan, we are confident that through its delivery we can create sustainable value for our shareholders.

Robert Swannell
Chairman

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Strategic Review

The end of the financial year marked the completion of our three-year strategy laid out in March 2007. During this time, the Group has delivered growth in profit before tax and exceptional items of over 50% and increased earnings per share by over 40%.

It is also pleasing that most of the strategic objectives that were laid out in March 2007 have been successfully achieved. The revitalisation of our stores, particularly HMV UK, has been a major highlight. We have evolved our product mix to compensate for rapid change in the entertainment markets, adding £166m of sales from new product categories, and outperformed the markets for music, visual and games. Across HMV and Waterstone's, we have accumulated four million loyalty card-holders, ahead of our expectations, which demonstrates our customers' affinity to our brands and better enables us to meet their preferences. We also reduced our costs by £30m per annum by realising the synergies that come from working more efficiently as a Group.

The one area of our business that was disappointing is Waterstone's, where insufficient focus on our core strengths as a range bookseller was exacerbated by the challenge of restructuring our supply chain. However, we have identified clear opportunities over both the short and medium term to significantly improve the performance of Waterstone's.

Following the transformation programme, the Group is on a much stronger financial footing than was the case three years ago. We are no longer a one-dimensional retailer facing rapidly changing product markets, as HMV stores have continued to evolve to respond quickly to the changing entertainment markets in which we operate. At the same time, we have accelerated the evolution of HMV as an entertainment brand by investing in high growth parts of the industry, namely live music and digital.

On 26 March 2010, we outlined a new, clearly focused strategic agenda for the Group, which will enable us to deliver further, sustainable earnings growth over the medium and long term. This strategy is built around the three main pillars. These are as follows:

Continuing to evolve HMV's product mix

Building on the significant success of the last three years, we intend to maintain sales within HMV, whilst progressively evolving the product mix through several new and existing strategies. We have clearly demonstrated that the HMV brand can successfully stretch into new related product areas to compensate for the broad-based changes taking place in our traditional markets. Our main focus over the last three years has been to build from a zero base a strong offer in technology products, which has grown to 6% of HMV UK's sales, and we are confident that we will increase this to 12% by 2013 through space and range extension.

Within the music industry, value is increasingly shifting from recorded music to other sources of revenue, including the high-growth market of entertainment-inspired fashion and related merchandise, which fits strongly with both the HMV offer and customer base. HMV has made a good start in fashion and merchandise, driven largely by a range of band merchandise. A broader range of fashion is now being rolled out to our stores, for which a team of buyers with fashion retailing expertise has been recruited. New in-store fit-out and display called The Studio is being rolled out across our store estate, with completion by September 2010, which will help to drive our mix of these products from 3% at the end of the last financial year to 9% by 2013. A similar product mix evolution is taking place in HMV International.

Mobile handsets are increasingly important as entertainment devices and complement the technology offer in our stores. Orange concessions offering a range of handsets tailored for music, film and games, including the Apple i-Phone, are therefore being rolled out across our stores.

Furthermore, we expect to maximise our position as the last remaining high street entertainment specialist by outperforming the markets for music, visual and games. This will be achieved by building on the loyalty of our most regular customers, offering product in the most compelling ways possible and establishing leadership and authority in new and emerging formats.

By focusing on these initiatives, as well as the continued tight management of costs and margins, we are targeting a net margin for HMV UK of c. 5.0-5.5% over the medium term.

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Strategic Review continued

Growing in Live and digital

The most significant development in HMV's evolution as an entertainment brand over the last 12 months has been our entry into the fast-growing live music market, which in the UK is forecast to become one third greater than the value of recorded music by 2012. Following a successful year as a joint venture partner with MAMA Group to own and operate live music venues, on 29 January 2010 we completed the acquisition of MAMA for £46.0m in cash.

The performance of these venues strengthened following the formation of our joint venture, with the two largest venues, the HMV Hammersmith Apollo and HMV Forum, enjoying record trading during 2009. During the last 12 months, we have successfully combined our live and retail assets to drive venue utilisation and product sales by leveraging HMV's artist and supplier relationships. These relationships also enabled us to launch in February 2010 the Next Big Thing, a brand new music festival across all MAMA venues.

The acquisition of MAMA also includes some of the most valuable summer music festival brands in the UK and globally, which were not within our previous joint venture. Over half-a-million visitors attended these festivals in 2009, including the international brands Global Gathering and Godskitchen, and in the UK, Lovebox, The Great Escape and Escape into the Park.

We expect this new division of the Group to grow organically through increasing the utilisation, occupancy and related sales at existing venues, and by adding two or three new venues per year. A new classic rock festival, High Voltage, has been added for 2010. A significant opportunity also exists in the market for tickets, where we aim to leverage our venue tickets to build a business of scale, with an aspiration to sell three million tickets by 2012/13. In total, the Group is targeting EBIT of c.£15m from the activities of its Live division in 2012/13.

In September 2009, we acquired a 50% equity stake in 7digital, whose leading technology platform now powers HMV's music download offer in the UK and Canada and an e-books store for Waterstone's. 7digital is also a leading B2B provider of digital entertainment, with a client base that includes Spotify, BlackBerry, Samsung and numerous FMCG brands, which enables the Group to participate in the growth in digital entertainment beyond our own branded websites. This investment strategically positions the Group in an emerging part of the market with potential for long-term growth.

Turnaround at Waterstone's

We have a clear strategy to turn around Waterstone's by reinforcing our core strength as a range bookseller, and to maximise our position as the last remaining specialist bookseller on the UK high street.

The Waterstone's front-of-store offer is being refocused to reflect better the local interests of our customers by reducing the number of centrally-selected discounted books and giving back this space to branches to mount their own promotional features. The customer experience generated by this is not easily replicated by the online or mass merchant competition, and so we expect our share of the book market to grow. A relaunch of the Waterstone's brand, to re-engage our customers with this new agenda took place in May 2010.

Sales of the deep range, those titles ranked beyond the 5,000 bestsellers, represent c.50% of the UK book market and continue to be a key driver of market growth. However, Waterstone's underperformed in this segment of the market during 2009, as availabilities of these titles were adversely impacted by issues arising from the roll-out of the book hub. This was corrected during our final quarter, when a fully functioning book hub restored availabilities, enabling local branches to carry a range more suited to their local markets and to focus on bringing to life individual titles beyond the most highly publicised.

There are further opportunities for Waterstone's to grow sales of non-book products, particularly stationery and e-book technology and related accessories, for which we are targeting a 10% sales mix by 2013, up from 6% in our last financial year. This includes the roll out of Paperchase stationery concessions in an initial 20 stores, which we are confident can be achieved with no impact on book sales or range.

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Strategic Review continued

We have made an excellent start selling e-books from waterstones.com, with approaching one million e-book titles downloaded from our site. As publishers increase the range of e-books from the existing 30,000 titles, we expect this to continue to grow strongly.

With the efficiency gains latent in the book hub now being realised, Waterstone's has a strong platform from which to deliver this turnaround agenda. The exit from the market at the end of 2009 of Borders UK, the last remaining national specialist competitor on the high street, is a further opportunity which we expect to contribute to improved net margins for Waterstone's of 2-3% in the short term, with a target of 3-4% in the medium term.

In January 2010, Dominic Myers was appointed Managing Director of Waterstone's, and I am pleased with the progress that has so far been made in this business as well as the positive reaction of our customers, suppliers and employees to the turnaround plans.

Outlook

Despite the significant changes we are pushing through our retail businesses, we are confident that by executing the strategies that have been laid out and having identified further operating cost opportunities, we can rebuild profits at Waterstone's and deliver consistent underlying profits in HMV. Overlaid onto this will be our rapid growth in the new HMV Live division. By maintaining a clear focus on these objectives, we believe the Group is in a stronger position to deliver long-term, sustainable growth. Our new financial year has begun with some further disruption to trading from the impact of the World Cup. However, the initiatives that comprise our new strategy are on track to position us for the more important trading periods that lie ahead.

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Financial Review

The period under review is the 52 weeks ended 24 April 2010, whilst the prior period covers the 52 weeks to 25 April 2009.

Key Performance Indicators	2010 £m	2009 £m	Growth %
Sales	2,016.6	1,956.7	3.1%
Like for like sales %	(4.2)%	(0.4)%	
Operating profit (before exceptional items)	80.4	70.3	14.2%
Exceptional items	(5.3)	(1.7)	
Profit before tax (before exceptional items)	74.2	63.0	17.7%
Profit before tax	68.9	61.3	
Adjusted basic earnings per share	12.7p	11.1p	13.8%
Basic earnings per share	11.6p	10.8p	7.5%
Total dividend per share	7.4p	7.4p	
Underlying net debt	67.6	6.5	
Free cashflow	22.4	12.3	
Store numbers	731	722	
Average trading square footage	3.97m	3.77m	6.6%

Total Group sales increased by £59.9m or 3.1% to £2,016.6m, including a 4.2% decline in like for like sales. At constant exchange rates, total sales grew by 1.8%. Beneficial exchange rate movements, primarily in the Euro and Canadian dollar, increased sales by £24.5m and operating profit by £0.4m.

Operating profit before exceptional charges increased by £10.1m, or 14.2%, to £80.4m. The improvement on last year reflects the total sales growth 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 supply chain efficiencies in HMV UK and Group buying synergies.

The operating profit also includes the results of acquisitions completed in the year. MAMA Group Plc contributed a seasonal operating loss of £0.2m before exceptional items following its acquisition on 29 January 2010. In addition, the post tax share of profits from the Mean Fiddler Group joint venture prior to full acquisition of MAMA was £0.9m. This joint venture income was partially offset by a £0.6m share of losses in 7digital during the period since its acquisition.

Net finance charges fell from £7.3m to £6.2m, reflecting lower interest rates, partially offset by higher average net debt as a result of the acquisitions during the year.

The profit before tax and exceptional items was £74.2m, up 17.7% on the prior period.

An exceptional charge before taxation of £5.3m (2009: £1.7m) was incurred in the year. This included restructuring costs in respect of Waterstone's and MAMA, combined with fixed asset impairments in Waterstone's and HMV Canada.

Underlying net borrowings at £67.6m (2009: £6.5m) were £61.1m higher than last year, primarily reflecting the acquisitions of MAMA Group and 7digital.

The Board is proposing a final dividend of 5.6p, making a total dividend for the year of 7.4p (2009: 7.4p).

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Sales	2010 £m	2009 £m	Year on year growth¹ %	Constant exchange growth (decline)² %	Like for like sales growth (decline)³ %
HMV UK & Ireland	1,241.9	1,154.6	7.6	7.3	(2.4)
HMV International	253.0	253.8	(0.3)	(8.5)	(8.8)
HMV Live	8.1	-	-	-	-
Waterstone's	513.6	548.3	(6.3)	(6.5)	(6.2)
Total HMV Group	2,016.6	1,956.7	3.1	1.8	(4.2)

Operating profit (before exceptional items)	2010 £m	2009 £m	2010 % of sales	2009 % of sales	Year on year growth (decline)¹ %	Constant exchange growth (decline)² %
HMV UK & Ireland	73.8	53.7	5.9	4.7	37.5	37.3
HMV International	3.7	6.4	1.5	2.5	(42.9)	(46.8)
HMV Live	(0.2)	-	-	-	-	-
Waterstone's	2.8	10.0	0.5	1.8	(71.8)	(72.3)
Share of post-tax profit of joint ventures	0.3	0.2	-	-	-	-
Total HMV Group	80.4	70.3	4.0	3.6	14.2	13.6

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 24 April 2010 and year ended 25 April 2009 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 25 April 2009.
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 2008) 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's total sales increased by 7.6% at statutory exchange rates, including a like for like sales decline of 2.4%. The business now trades from 285 stores, following the integration of 32 ex-Zavvi stores (seven during the period), and has a strong online presence. The first half of the financial year saw strong sales growth as the ex-Zavvi stores were successfully integrated and market share continued to increase, following the changes to the entertainment market landscape in the final quarter of the prior year. These factors contributed to strong trading at Christmas, a period that included the benefit of 10 short-lease seasonal stores. However, a combination of severe weather conditions, strong comparatives and reduced levels of campaign activity led to a decline in sales performance in the final quarter.

HMV UK & Ireland outperformed its markets in all product categories during the year. In visual, which remains HMV's largest product category (45% of sales), volume share increased by 2.9% in a market that declined by 1.9%. Visual performance benefited from the emerging Blu-ray format, in which market volumes grew by 85%, with HMV's volume share over 30%. As the last remaining specialist retail chain on the UK high street, music remains important to HMV, representing 28% of sales. The music market outperformed our own expectations, declining overall by 4.9% in volume, with HMV's market share up by 4.8%. As has been widely reported, the games market had a very challenging year, declining by 25% due to the maturity of the console cycle and the strength of software and hardware releases in the prior period. However, HMV gained market share, with an increasing contribution from Re/Play, our pre-played games offer. Technology and other products are also now a material contributor to sales, up to 9% of mix (from 7%), with further growth anticipated as new product lines are introduced.

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Operating profit grew £20.1m or 37.5% on the prior year, reflecting the total sales growth combined with good margin and cost control. Gross margin ended 50 basis points up on last year, with improvements in all product categories. Operating costs benefited from a £4.5m one-off benefit primarily from non-vesting share scheme credits and property disposals. Underlying like for like costs were well managed, reducing by 2.3% year on year.

HMV International

HMV International comprises 125 HMV stores in Canada, seven stores in Hong Kong and Singapore and local territory websites.

Total sales of £253.0m decreased by 8.5% on last year at constant exchange rates, including a like for like sales decline of 8.8%. Trading in HMV Canada remained difficult, with significant declines in core product markets, particularly music and visual markets. The strategic focus continues to be on offsetting the structural changes taking place in these markets by accelerating growth in games, technology and related products, as these are under-represented in Canada.

Overall the operating profit of HMV International fell to £3.7m, reflecting the like for like sales decline offset by tight control of operating costs. In addition, exceptional non-cash impairment costs of £1.0m have been charged following a review of certain assets given expected trading conditions.

HMV Live

The acquisition of MAMA Group Plc in January 2010 provided the basis for the new Live division of the Group. This incorporates the Mean Fiddler Group venues, which had been successfully operated in a joint venture with MAMA since January 2009, together with a number of summer festivals and a small artist management business. These activities are being combined with HMV Tickets to form an integrated live division.

For the period since acquisition, the Live division made a seasonal operating loss of £0.2m before exceptional items. The Group's result also includes £0.9m of profit after tax from the Mean Fiddler 50% joint venture for the period to 29 January 2010, following which it became a full subsidiary with the acquisition of MAMA.

Waterstone's

Waterstone's total sales decreased by 6.5% at constant exchange rates, including a like for like sales decline of 6.2%. The sales performance was particularly disappointing through the autumn and the key Christmas season, as the delayed implementation of supply chain changes through the book hub reduced stock availability and weakened our store proposition. Performance was further impacted by an overly promotional offer, which de-emphasised Waterstone's core strength as a range bookseller, as well as the disruption to the market caused by the failure of specialist competitor Borders UK prior to Christmas. These factors contributed to a 1% decline in share, in a market that was itself down by 2.6% year on year.

Senior management changes were made in January 2010, following which there has been a refocus on the breadth of our offer and local branch promotions, as well as a re-launch of our brand. Combined with the benefit of a fully-functioning supply chain and the market share opportunity following the exit of Borders, there was a marked improvement in Waterstone's performance during the final quarter.

Operating profit of £2.8m is down £7.2m on last year, primarily reflecting the disappointing sales performance. This was partially offset by a 50 basis points improvement in gross margin, and very tight control of operating costs, with like for like costs down 3.1% year on year.

Exceptional costs totalling £2.7m have been incurred, which includes £1.7m of management restructuring costs and £1.0m of non-cash asset impairment charges.

During the period, four new stores were opened, four stores closed and one store was resited, resulting in a total estate of 314 stores at the year-end.

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Net finance charges

Net finance costs decreased from £7.3m to £6.2m. This reflected lower interest base rates over the year partially offset by higher average net debt as a result of acquisitions.

Taxation

The effective tax rate on continuing operations before exceptional items is 28% (2009: 28%). The total tax expense in the current year includes a credit of £1.0m (2009: £0.5m) in relation to the exceptional items of £5.3m (2009: £1.7m).

Earnings per share

Adjusted earnings per share excluding the effect of exceptional items was 12.7p, an increase of 13.8% on last year. Basic earnings per share was 11.6p, an increase of 7.5% on last year.

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 (2009: 7.4p). Dividend cover has increased to 1.7x from 1.5x.

Subject to shareholder approval at the Annual General Meeting on 9 September 2010, the final dividend will be paid on 9 November 2010 to shareholders on the register at the close of business on 1 October 2010. Shares will be quoted ex-dividend from 29 September 2010.

Cash flow and net debt

Closing net debt of £67.6m was £61.1m higher than last year. This reflected the acquisitions in MAMA Group Plc and 7digital and a working capital outflow £16.6m higher than last year, partially offset by increased EBITDA, lower tax payments and lower capital expenditure. Free cash inflow was £22.4m (2009: £12.3m).

	2010 £m	2009 £m
EBITDA	123.9	112.9
Capital expenditure*	(39.9)	(57.6)
Working capital outflow	(32.2)	(15.6)
Exceptional charges and provision utilisation	(5.1)	(2.8)
Other	(4.0)	1.3
Net interest paid	(4.7)	(6.6)
Taxation	(15.6)	(19.3)
Free cashflow	22.4	12.3
Purchase of MAMA Group Plc including related fees and net debt acquired	(48.0)	-
Investments in joint ventures	(8.1)	(20.0)
Repayment of loan from joint venture	4.5	-
Dividends paid	(31.2)	(29.7)
Net proceeds from equity share placing	-	24.0
Other	(0.7)	7.1
Net cash outflow	(61.1)	(6.3)
Underlying opening net debt	(6.5)	(0.2)
Underlying closing net debt	(67.6)	(6.5)

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 in 2009 includes £6.1m of assets purchased using finance lease funding

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Cash flow and net debt continued

The Group secured additional funding following the MAMA acquisition, with a £40m extension to the core revolving credit facility agreed in March 2010, without adjustment to margin or covenants. This brought the total facility to £240m, which has a final maturity date of 9 October 2011. However, it is anticipated that a refinancing of this facility will be completed during 2010. The Group's funding also now includes a five-year term loan acquired through the Mean Fiddler Group, with an outstanding balance at 24 April 2010 of £8.8m and a final maturity of 13 November 2014.

Working capital

Working capital outflow of £32.2m (2009: outflow of £15.6m) reflects increased stock levels across the Group, particularly at Waterstone's, where initiatives to increase the range were implemented, impacting negatively on stock per square foot. Group stock turn fell to 4.8 times (2009: 5.4 times) also reflecting HMV's sales performance in the final quarter.

Capital expenditure

Capital expenditure in the period was £39.9m (2009: £57.6m, £6.1m of which was finance lease funded) including £7.2m on new stores and resites, £8.1m on store refurbishment, and £13.8m on IT projects and e-commerce development. This level of total capital expenditure is representative of expected future annual spend, inclusive of c.£5m per annum investment in growing the new HMV Live division.

Acquisition of MAMA Group Plc

The acquisition of MAMA Group Plc for £47.0m in cash (including fees of £1.0m) became unconditional on 29 January 2010. A consequence of this acquisition was to achieve control over the Mean Fiddler Group, which had operated as a joint venture with MAMA since January 2009. The combined investment in MAMA and its operations was therefore £62.5m, inclusive of £15.5m net investment in the joint venture.

Net assets acquired at provisional fair value totalled £20.5m, inclusive of an outstanding term loan of £8.8m and cash balances of £7.8m. After adjusting for minority interests and the share of Mean Fiddler JV profits previously recognised, total goodwill of £44.1m has been capitalised, primarily reflecting synergies arising to the enlarged group, particularly in ticketing, together with other intangible benefits that were not separately identifiable.

Joint venture – 7digital Inc

The Group acquired 50% of 7digital Inc, a digital media services company, in September 2009. The cash consideration paid for the joint venture interest was £8.1m (including fees of £0.4m). The Group's share of 7digital's post tax losses in the period since acquisition amounted to £0.6m.

Operating leases

All the Group's retail 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. However, lease flexibility has increased over recent years through natural ageing and the agreement of shorter lease lengths on both renewals and new store openings. Consequently, the average UK lease length is now less than seven years. Lease flexibility is even greater in the Group's International division, in which the majority of stores operate through turnover-related leases with an average length of less than four years.

The Group's net operating lease rentals were £161.8m in the financial year (2009: £154.3m). 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 six years.

HMV Group plc

Announcement of Full Year Results

Financial Review continued

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 was at 30 June 2007. The result of this valuation was a level of asset cover of 94%, representing a funding deficit of £5.1m, which has been funded by three special contributions of £2.2m 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 £28.1m (2009: £15.2m) at 24 April 2010.

The next triennial valuation is as at 30 June 2010 and the Company together with the Trustees and our advisors will review the results in due course.

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 24 April 2010 it operated 409 HMV and eight Fopp stores selling music, video and games in five countries and 308 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.

During the current year the Group completed the acquisition of the MAMA Group of companies, which comprise a diverse range of music-related businesses, including the operation of live music and entertainment venues, music festivals and artist management activities.

HMV Group websites

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

Supporting financial information

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HMV Group plc
Announcement of Full Year Results

Consolidated Income Statement

For the 52 weeks ended 24 April 2010 and 25 April 2009

	Note	Total 2010 £m	Exceptional items 2010 £m	Before exceptional items 2010 £m	Before exceptional items 2009 £m	Exceptional items 2009 £m	Total 2009 £m
Revenue		2,016.6	-	2,016.6	1,956.7	-	1,956.7
Cost of sales		(1,855.6)	(2.0)	(1,853.6)	(1,799.5)	(4.5)	(1,804.0)
Gross profit		161.0	(2.0)	163.0	157.2	(4.5)	152.7
Administrative expenses		(86.2)	(3.3)	(82.9)	(87.1)	2.8	(84.3)
Trading profit		74.8	(5.3)	80.1	70.1	(1.7)	68.4
Share of post-tax profits of associates and joint ventures accounted for using the equity method		0.3	-	0.3	0.2	-	0.2
Operating profit		75.1	(5.3)	80.4	70.3	(1.7)	68.6
Finance revenue	4	0.4	-	0.4	1.2	-	1.2
Finance costs	4	(6.6)	-	(6.6)	(8.5)	-	(8.5)
Profit before taxation		68.9	(5.3)	74.2	63.0	(1.7)	61.3
Taxation	5	(19.7)	1.0	(20.7)	(17.6)	0.5	(17.1)
Profit for the period		49.2	(4.3)	53.5	45.4	(1.2)	44.2
Attributable to:							
Shareholders of the parent company		49.2	(4.3)	53.5	45.4	(1.2)	44.2
Minority interests		-	-	-	-	-	-
		49.2	(4.3)	53.5	45.4	(1.2)	44.2
Earnings per share for profit attributable to shareholders:							
Basic	7	11.6p	(1.1p)	12.7p	11.1p	(0.3p)	10.8p
Diluted	7	11.6p	(1.1p)	12.7p	11.0p	(0.3p)	10.7p
Dividend per share	6			7.4p	7.4p		

For details of exceptional items, see note 3.

HMV Group plc
Announcement of Full Year Results

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 24 April 2010 and 25 April 2009

	2010	2009
	£m	£m
Profit for the period	49.2	44.2
Exchange differences on translation of foreign operations	(1.1)	6.4
Tax effect	(0.5)	1.0
	(1.6)	7.4
Cash flow hedges:		
Gain on forward foreign exchange contracts	-	0.1
Transfers to the income statement on cash flow hedges	-	0.4
	-	0.5
Actuarial loss on defined benefit pension schemes	(19.3)	(11.0)
Tax effect	5.4	3.1
	(13.9)	(7.9)
Other comprehensive loss for the period, net of tax	(15.5)	-
Total comprehensive income for the period, net of tax	33.7	44.2
Attributable to:		
Shareholders of the parent company	33.7	44.2
Minority interests	-	-
	33.7	44.2

HMV Group plc
Announcement of Full Year Results

Consolidated Balance Sheet

	Note	As at 24 April 2010 £m	As at 25 April 2009 £m
Assets			
Non-current assets			
Property, plant and equipment	8	167.3	161.9
Intangible assets		122.2	73.0
Investments accounted for using the equity method	10	13.0	14.7
Deferred income tax asset		30.1	26.1
Trade and other receivables		12.7	1.2
		345.3	276.9
Current assets			
Inventories		247.8	213.9
Trade and other receivables		80.7	71.6
Derivative financial instruments		0.1	0.1
Current tax recoverable		1.8	1.3
Cash and short-term deposits		29.7	52.7
		360.1	339.6
Total assets		705.4	616.5
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		(1.6)	(0.1)
Retirement benefits liabilities		(39.0)	(21.0)
Interest-bearing loans and borrowings	12	(11.8)	(5.0)
Provisions		(1.1)	(0.2)
		(53.5)	(26.3)
Current liabilities			
Trade and other payables		(442.4)	(415.5)
Current income tax payable		(20.8)	(17.2)
Interest-bearing loans and borrowings	12	(84.5)	(53.3)
Derivative financial instruments		(0.8)	-
Provisions		(3.0)	(4.6)
		(551.5)	(490.6)
Total liabilities		(605.0)	(516.9)
Net assets		100.4	99.6
Equity			
Equity share capital		347.1	347.1
Other reserve - own shares		(0.6)	(2.7)
Hedging reserve		0.1	0.1
Foreign currency translation reserve		12.9	14.0
Capital reserve		0.3	0.3
Retained earnings		(260.4)	(259.2)
Equity attributable to shareholders of the parent company		99.4	99.6
Minority interests		1.0	-
Total equity		100.4	99.6

HMV Group plc
Announcement of Full Year Results

Consolidated Statement of Changes in Equity

	Equity share capital	Own shares	Hedging reserve	Foreign currency translation reserve	Capital reserve	Retained earnings	Total	Minority interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 26 April 2008	323.1	(2.0)	(0.4)	7.6	0.3	(269.8)	58.8	-	58.8
Profit for the period	-	-	-	-	-	44.2	44.2	-	44.2
Other comprehensive income	-	-	0.5	6.4	-	(6.9)	-	-	-
Total comprehensive income	-	-	0.5	6.4	-	37.3	44.2	-	44.2
Ordinary dividend	-	-	-	-	-	(29.7)	(29.7)	-	(29.7)
Issue of equity shares	24.7	-	-	-	-	-	24.7	-	24.7
Share issue costs	(0.7)	-	-	-	-	-	(0.7)	-	(0.7)
Purchase of own shares	-	(1.0)	-	-	-	-	(1.0)	-	(1.0)
Share-based payment awards	-	0.3	-	-	-	(0.3)	-	-	-
Charge for share-based payments	-	-	-	-	-	1.7	1.7	-	1.7
Deferred tax relating to share-based payments	-	-	-	-	-	1.6	1.6	-	1.6
At 25 April 2009	347.1	(2.7)	0.1	14.0	0.3	(259.2)	99.6	-	99.6
Profit for the period	-	-	-	-	-	49.2	49.2	-	49.2
Other comprehensive (loss)	-	-	-	(1.1)	-	(14.4)	(15.5)	-	(15.5)
Total comprehensive (loss) income	-	-	-	(1.1)	-	34.8	33.7	-	33.7
Ordinary dividend	-	-	-	-	-	(31.2)	(31.2)	-	(31.2)
Purchase of own shares	-	(0.3)	-	-	-	-	(0.3)	-	(0.3)
Share-based payment awards	-	2.4	-	-	-	(2.4)	-	-	-
Credit for share-based payments	-	-	-	-	-	(1.5)	(1.5)	-	(1.5)
Deferred tax relating to share-based payments	-	-	-	-	-	(0.9)	(0.9)	-	(0.9)
Minority interests acquired with subsidiary	-	-	-	-	-	-	-	1.0	1.0
At 24 April 2010	347.1	(0.6)	0.1	12.9	0.3	(260.4)	99.4	1.0	100.4

HMV Group plc

Announcement of Full Year Results

Consolidated Cashflow Statement

For the 52 weeks ended 24 April 2010 and 25 April 2009

	Note	2010	2009
		£m	£m
Cash flows from operating activities			
Profit before tax		68.9	61.3
Net finance costs		6.2	7.3
Share of post-tax profits of joint venture accounted for using the equity method		(0.3)	(0.2)
Depreciation		43.4	42.5
Amortisation		0.1	-
Impairment charges		2.0	3.4
Profit on disposal of property, plant and equipment		(0.9)	(0.5)
Equity settled share-based payment (credit) charge		(1.5)	1.7
Pension contributions less income statement charge		(2.4)	(6.8)
		115.5	108.7
Movement in inventories		(29.6)	(3.6)
Movement in trade and other receivables		(6.0)	(6.5)
Movement in trade and other payables		3.4	(5.4)
Movement in provisions		(1.8)	1.1
Cash generated from operations		81.5	94.3
Income tax paid		(15.6)	(19.3)
Net cash flows from operating activities		65.9	75.0
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(39.9)	(51.5)
Proceeds from sale of property, plant and equipment		1.1	1.5
Interest received		0.4	1.2
Acquisition of subsidiary including fees		(47.0)	-
Cash acquired with subsidiary		7.8	-
Repayment of loan from joint venture		4.5	-
Payments to acquire investments in joint ventures		(8.1)	(20.0)
Net cash flows from investing activities		(81.2)	(68.8)
Cash flows from financing activities			
Movements in funding		35.0	11.0
Costs of raising debt		(0.2)	(1.1)
Proceeds of issue of equity shares, net of costs		-	24.0
Purchase of own shares		(0.3)	(1.0)
Interest paid		(5.1)	(7.8)
Equity dividends paid to shareholders		(31.2)	(29.7)
Repayment of capital element of finance lease		(0.9)	(0.8)
Net cash flows from financing activities		(2.7)	(5.4)
Net (decrease) increase in cash and cash equivalents		(18.0)	0.8
Opening cash and cash equivalents		45.5	35.5
Effect of exchange rate changes		(0.2)	9.2
Closing cash and cash equivalents	11	27.3	45.5

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. Segmental information

For both management and financial reporting purposes the Group is organised into four operating businesses – HMV UK & Ireland, HMV International (comprising HMV Canada, HMV Hong Kong and HMV Singapore), HMV Live and Waterstone's.

The following tables present revenue (all from third parties), profit, employee numbers and certain asset information regarding the Group's reportable segments, for the periods ended 24 April 2010 and 25 April 2009.

	52 weeks ended 24 April 2010				
	HMV UK & Ireland £m	HMV International £m	HMV Live £m	Waterstone's £m	Total operations £m
Segment revenue	1,241.9	253.0	8.1	513.6	2,016.6
Segment trading profit (loss) before exceptional items	73.8	3.7	(0.2)	2.8	80.1
Operating exceptional items:					
Impairment charge	-	(1.0)	-	(1.0)	(2.0)
Restructuring costs	-	-	-	(1.7)	(1.7)
Integration costs	-	-	(1.6)	-	(1.6)
Total exceptional items	-	(1.0)	(1.6)	(2.7)	(5.3)
Share of post-tax profits of associates and joint ventures allocated to segments	-	-	0.9	-	0.9
Segment operating profit (loss)	73.8	2.7	(0.9)	0.1	75.7
Share of post-tax profits of other associates and joint ventures					(0.6)
Total operating profit					75.1
Net finance costs					(6.2)
Profit before taxation					68.9
Taxation					(19.7)
Profit for the period					49.2
Average employees (number)	6,740	2,349	129	4,936	14,154
Segment assets	227.7	57.3	87.1	283.2	655.3
Unallocated assets managed on a Group basis:					
Investments accounted for using the equity method					7.6
Deferred income tax asset					30.1
Current income tax recoverable					1.8
Centrally held cash and short-term deposits					10.6
Total assets					705.4
Depreciation	23.1	3.8	0.4	16.1	43.4

HMV Group plc
Announcement of Full Year Results

Notes to the Financial Statements continued

2. Segmental information continued

	52 weeks ended 25 April 2009			
	HMV UK & Ireland £m	HMV International £m	Waterstone's £m	Total operations £m
Segment revenue	1,154.6	253.8	548.3	1,956.7
Segment trading profit before exceptional items	53.7	6.4	10.0	70.1
Operating exceptional items:				
Store closure costs	-	-	(1.6)	(1.6)
Impairment charge	(2.1)	(2.2)	-	(4.3)
Reversal of impairment charge	0.9	-	-	0.9
Restructuring costs	-	-	(2.3)	(2.3)
Defined benefit pension scheme past service credit	3.5	-	2.1	5.6
Total exceptional items	2.3	(2.2)	(1.8)	(1.7)
Segment operating profit	56.0	4.2	8.2	68.4
Share of post-tax profits of associates and joint ventures				0.2
Total operating profit				68.6
Net finance costs				(7.3)
Profit before taxation				61.3
Taxation				(17.1)
Profit for the period				44.2
Average employees (number)	6,020	2,404	5,377	13,801
Segment assets	233.8	53.7	270.7	558.2
Unallocated assets managed on a Group basis:				
Investments accounted for using equity method				14.7
Deferred income tax asset				26.1
Current income tax recoverable				1.3
Centrally held cash and short-term deposits				16.2
Total assets				616.5
Depreciation	22.0	4.2	16.3	42.5

HMV Group plc
Announcement of Full Year Results

Notes to the Financial Statements continued

The following tables present revenue and certain asset information regarding the Group's geographic locations for the periods ended 24 April 2010 and 25 April 2009.

	52 weeks ended 24 April 2010				
	United Kingdom £m	Rest of Europe £m	Asia £m	Canada £m	Total £m
Segment revenue from third party customers	1,662.7	100.9	31.1	221.9	2,016.6
Non-current assets	291.0	4.1	2.4	10.1	307.6
Unallocated non-current assets					37.7
Total non-current assets					345.3

	52 weeks ended 25 April 2009				
	United Kingdom £m	Rest of Europe £m	Asia £m	Canada £m	Total £m
Segment revenue from third party customers	1,616.1	86.8	32.5	221.3	1,956.7
Non-current assets	217.5	5.5	2.7	10.4	236.1
Unallocated non-current assets					40.8
Total non-current assets					276.9

Non-current assets for this purpose consist of property, plant and equipment, intangible assets, investment in joint ventures and trade and other receivables.

3. Exceptional items

	2010 £m	2009 £m
Recognised in arriving at operating profit:		
Impairment of property, plant and equipment	(2.0)	(4.3)
Restructuring costs	(1.7)	(2.3)
Integration of Live division	(1.6)	-
Acquisition of Ottakar's: store closure costs	-	(1.6)
Reversal of impairment of property, plant and equipment	-	0.9
Defined benefit pension scheme past service cost credit	-	5.6
	(5.3)	(1.7)

Included within cost of sales are exceptional impairment charges of £2.0m (Waterstone's £1.0m, HMV Canada £1.0m) following a review of the carrying value of certain retail assets based on prevailing market trading conditions. Administration expenses include restructuring costs of £1.7m relating to Waterstone's and £1.6m of integration costs following the acquisition of MAMA Group Plc. A tax credit of £1.0m arose in respect of these charges.

During the previous period, included within cost of sales were exceptional costs of £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 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 was an exceptional credit totalling £5.6m (£2.8m within cost of sales and £2.8m within administrative expenses), which represented 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.

HMV Group plc
Announcement of Full Year Results

Notes to the Financial Statements continued

4. Net finance costs

	2010	2009
	£m	£m
Finance revenue		
Bank interest receivable	0.4	0.9
Other interest receivable	-	0.3
Total finance revenue	0.4	1.2
Finance costs		
Bank loans and overdrafts	5.2	7.5
Amortisation of deferred financing fees	0.4	0.5
Other finance expense – pensions	1.0	0.5
Total finance costs	6.6	8.5
Net finance costs	6.2	7.3

5. Taxation

	2010	2009
	£m	£m
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax	19.8	16.2
Over provision in prior periods	(0.3)	(1.0)
	19.5	15.2
Overseas tax, current year:		
Corporation tax	0.9	1.3
Total current tax	20.4	16.5
Deferred tax:		
United Kingdom	(0.7)	1.2
Overseas	-	(0.6)
Total deferred tax	(0.7)	0.6
Total taxation expense in the income statement	19.7	17.1

The effective tax rate on continuing operations before exceptional items is 28% (2009: 28%). The tax expense in the current year includes a credit of £1.0m (2009: £0.5m) in relation to the exceptional items of £5.3m (2009: £1.7m).

6. Equity dividends

	2010	2009
	£m	£m
Ordinary final dividend of 5.6p per share for 2009 (2008: 5.6p)	23.6	22.5
Ordinary interim dividend of 1.8p per share for 2010 (2009: 1.8p)	7.6	7.2
	31.2	29.7

The Directors have proposed a final dividend of 5.6p per share (2009: 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 2010 of 7.4p (2009: 7.4p).

The proposed final dividend for 2010 of £23.7m (2009: £23.6m), subject to approval by shareholders at the Annual General Meeting, will be paid on 9 November 2010 to shareholders on the Register at the close of business on 1 October 2010. Shares will be quoted ex-dividend from 29 September 2010.

HMV Group plc

Announcement of Full Year Results

Notes to the Financial Statements continued

7. Earnings per share

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

	2010	2009
	£m	£m
Profit attributable to shareholders of the parent company	49.2	44.2
Exceptional items, less tax thereon (see note 3)	4.3	1.2
Adjusted profit attributable to shareholders of the parent company	53.5	45.4

	2010	2009
	Number Million	Number million
Weighted average number of Ordinary Shares - basic	422.5	408.5
Dilutive share options	-	4.9
Weighted average number of Ordinary Shares - diluted	422.5	413.4

Earnings per Ordinary Share is calculated as follows:

	2010	2009
	Pence	Pence
Basic	11.6	10.8
Adjusted	12.7	11.1
Basic diluted	11.6	10.7
Adjusted diluted	12.7	11.0

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

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 nil (2009: 4.9m). At the year end, 1.5m anti-dilutive share awards were in issue (2009: 1.6m).

8. Property, plant and equipment

The net book value of the Group's property, plant and equipment as at 24 April 2010 was £167.3m (2009: £161.9m).

During the 52 weeks ended 24 April 2010, the Group acquired assets with a cost of £39.9m (2009: £57.6m, including £6.1m purchased using finance lease funding). In addition, £10.2m of assets were acquired on the acquisition of MAMA Group Plc (see note 9).

Assets with a net book value of £0.5m were disposed of by the Group during the 52 weeks ended 24 April 2010 (2009: £1.5m), resulting in a net gain on disposal of £0.9m (2009: £0.5m).

HMV Group plc

Announcement of Full Year Results

Notes to the Financial Statements continued

9. Business combinations

On 29 January 2010 the Group completed its acquisition of MAMA Group Plc, when its offer for the entire issued share capital became unconditional. MAMA comprised a diverse range of music-related businesses, and was the Group's joint venture partner in Mean Fiddler Group, the UK's second largest multiple live music venue operator. The consideration paid to acquire MAMA's shares was £46.0m, which included £4.2m incurred in December 2009, when 10% of share capital was acquired at 5.25p per share, with the remaining share capital subsequently purchased at 5.4p per share. Associated fees totalled £1.0m. The total consideration also includes £15.5m (including £1.7m fees) incurred in the Group's earlier investment in Mean Fiddler Group. This gives a total cost of acquisition of £62.5m, all of which was satisfied in cash. There has been no change in the fair value of Mean Fiddler Group since the original acquisition except for the share of profits of £1.1m recognised in the period during which it was equity accounted.

As a result of the acquisition, goodwill of £44.1m has been capitalised. The Group has paid an amount in excess of the fair value of the net assets based on the expected future profitability and cash generation of the business, as well as a number of synergy benefits including using the HMV brand and business relationships to improve operating metrics, and the opportunity with MAMA to build a wider ticketing business of scale. As part of the fair value exercise, historic goodwill of £22.0m in the books of MAMA Group was written-off. In addition, intangible assets totalling £5.2m (£3.6m over the book value) have been recognised on acquisition, reflecting the fair value of various brands predominantly relating to MAMA's festivals business.

From the date of acquisition to 24 April 2010, the operations of MAMA Group contributed £8.1m of revenue and made a loss before tax and exceptional items of £0.2m. In addition, exceptional costs of £1.6m were charged in the period relating to integration costs (see note 3). If the acquisition had taken place at the beginning of the period, revenue for the Group would have been £2,053.9m, operating profit before exceptional items would have been £83.3m and profit before tax and exceptional items would have been £76.5m.

The fair value of the identifiable assets and liabilities as at the date of acquisition, and the corresponding carrying amounts immediately before the acquisition were:

	Book value £m	Provisional fair value to Group £m
Property, plant and equipment	10.7	10.2
Intangible assets	1.6	5.2
Goodwill	22.0	–
Investments	5.8	5.5
Inventories	0.4	0.4
Receivables	21.3	20.1
Cash	7.8	7.8
Payables	(14.2)	(14.8)
Provisions	(0.2)	(1.2)
Taxation	(2.1)	(3.1)
Borrowings	(8.8)	(8.8)
Derivative financial instruments	(0.8)	(0.8)
	43.5	20.5
Minority interest		(1.0)
Effect of the change in fair value of equity previously owned		(1.1)
HMV Group share of net assets acquired		18.4
Goodwill arising on acquisition		44.1
Consideration (satisfied by cash)		62.5

The fair values on acquisition of MAMA Group Plc are provisional due to the timing of the transaction and are expected to be finalised prior to publication of the Group's Interim Financial Statements for the period to 23 October 2010.

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10. Investments accounted for using the equity method

	Investment in joint ventures £m	Investment in associates £m	Total £m
At 26 April 2008	–	–	–
Additions (including fees incurred)	14.5	–	14.5
Share of results for the period	0.2	–	0.2
At 25 April 2009	14.7	–	14.7
Additions (including fees incurred)	9.1	–	9.1
Additions via acquisition of subsidiary	2.8	2.7	5.5
Share of results for the period	0.3	–	0.3
Transfer to subsidiary investment upon full acquisition	(16.6)	–	(16.6)
At 24 April 2010	10.3	2.7	13.0

During the year the Group invested in a jointly controlled entity through the acquisition of a 50% equity interest in 7digital Inc, a leading international digital media services company for £8.1m in cash (including fees incurred).

Also included in additions for the year was a £1.0m increase in the investment in Mean Fiddler Group, a 50% joint venture with MAMA Group Plc, which operates live music and entertainment venues in the UK. The Group had outstanding a £5.5m loan note granted by Mean Fiddler during the acquisition process in January 2009. On 13 November 2009, £4.5m of this loan note was repaid to the Group, with the balance converting to ordinary shares. On 29 January 2010 the Group completed the acquisition of MAMA Group (see note 9), thereby also completing the 100% acquisition of Mean Fiddler Group. As a result, the £16.6m carrying value of the investment, including £15.5m cost of investment and £1.1m share of joint venture profits since acquisition, was reflected in the assessment of the acquisition of the wider MAMA Group.

11. Cash and cash equivalents

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

	2010 £m	2009 £m
Cash at bank and in hand	27.8	52.1
Short-term deposits	1.9	0.6
Bank overdrafts	(2.4)	(7.2)
	27.3	45.5

12. Loans and borrowings

At 24 April 2010 the Company had a £240m multi-currency revolving credit facility, with a final maturity date of 9 October 2011. The facility amortised by £20m on 20 November 2009 but was subsequently extended by £40m on 1 March 2010 following the acquisition of MAMA Group Plc. The facility extension amortises on 1 January 2011. At 24 April 2010 £81.0m had been drawn down. Interest on the facility is payable at a rate equal to LIBOR plus a margin of 2.50%.

The Group also has a five year term loan in Mean Fiddler Group Ltd, a wholly owned subsidiary acquired with MAMA Group Plc, repayable by £0.2m quarterly, with an outstanding balance at 24 April 2010 of £8.8m and a final maturity of 13 November 2014. Interest on the term loan is payable at a rate equal to LIBOR plus a margin of 4.25%. The Group also has some locally arranged bank facilities, totalling £5.6m, which do not have a fixed maturity date but are reviewed annually.

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13. 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 2010.

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 statement of changes in equity, consolidated cash flow statement and notes to the financial statements are extracted from the Group's full financial statements for the 52 weeks ended 24 April 2010. The Group's full financial statements were approved by the Directors on 29 June 2010 and received an unqualified audit report. This financial information is abridged and does not constitute statutory accounts for the 52 weeks ended 24 April 2010 and 25 April 2009. Full financial statements for the 52 weeks ended 24 April 2010 will be filed with the Registrar of Companies in due course and will then be available on the Group's website at www.hmvgroup.com. The 2009 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.