

hmvgroup

HMV Group plc  
Annual report and accounts 2008





**HMV**  
HMV is the leading specialist entertainment retailer in five territories. It operates from 379 stores and online in the UK & Ireland, Canada, Hong Kong and Singapore.



**Waterstone's**  
Waterstone's is the UK's leading specialist high street bookseller, whose brand is synonymous with range authority and quality of customer advice. It operates through 313 stores, predominantly in the UK & Ireland, and online through [waterstones.com](http://waterstones.com)

## Financial summary 2008

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Total sales from continuing operations of £1,874.9m (up 11.3% on 2007), including like for like growth of 7.3%

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Profit before tax and exceptional items from continuing operations up 25.2% to £56.6m (2007: £45.2m)

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Exceptional profit after tax on disposal of HMV Japan of £51.8m

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Adjusted earnings per share from continuing operations of 10.1p (2007: 7.4p). Total basic earnings per share of 22.1p (2007: 4.0p)

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Net debt virtually eliminated at £0.2m (2007: £130.6m)

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Final dividend of 5.6p, making a total dividend of 7.4p (2007: 7.4p)

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## Introduction

This year we put into action our three-year transformation plan. We have set about revitalising our stores business, driving growth from new channels and generating significant cost savings.

We are managing change in the entertainment markets, which is evident in the HMV product mix, and maximising our strong market position in existing categories. An inspiring store format has been created for the next generation of entertainment retailing.

Waterstone's continues to lead with books on the high street, where our ranges and product passion are unrivalled. We have given a renewed focus to the genres that are growing fastest through our shops, and we have enhanced our related product offer.

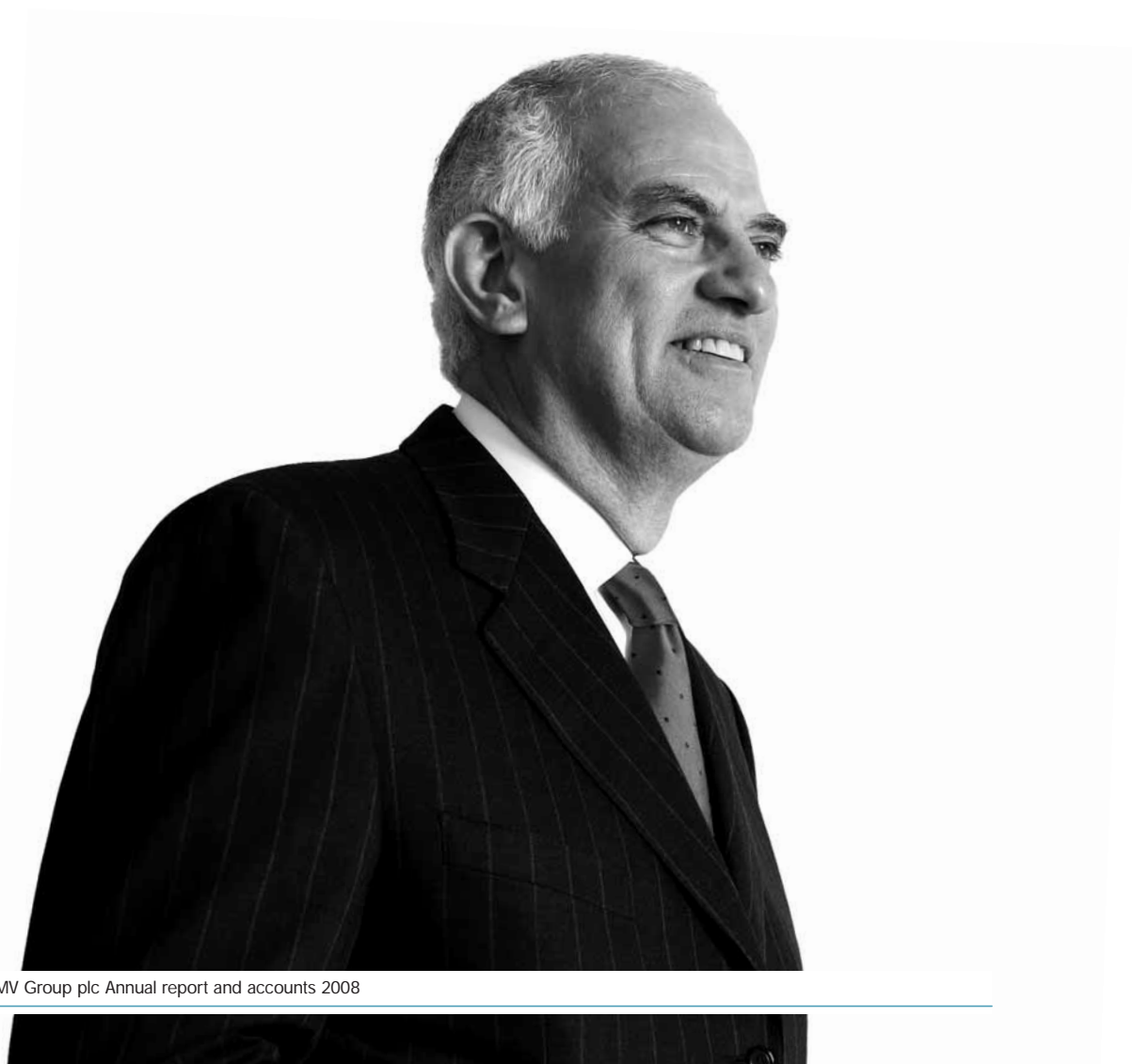
Both our brands have established credibility online, and we have made the first steps to rewarding customers' loyalty, regardless of how or where they choose to shop with us. As digital delivery becomes a reality across a wider range of our product categories, we are now poised to grow faster.

We are acting more like a Group. As our business and markets are changing, so too are our ways of doing business, and we are driving out unnecessary cost.

We set ourselves the task of stabilising the financial performance of the Group in Year One of our Plan, but we exceeded expectations by achieving excellent profit growth.

## Chairman's statement

"Recognising the structural changes taking place in our markets, we now have a clear vision of how to grow in new channels and exploit alternative formats to re-balance our business."



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

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

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

Results for the Group for the year ended 26 April 2008 saw an increase in profit before tax from continuing operations of £11.4m to £56.6m, on revenue which grew by 11.3% to £1,874.9m. As a result of strong cash generation, we virtually eliminated our year end net debt by £130.4m to £0.2m. Our earnings per share rose by 22.8% to 10.1p and the Board has recommended a final dividend of 5.6p per Ordinary Share. Together with the interim dividend of 1.8p per share, the total dividend for the year is 7.4p, the same as last year.

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

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

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

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

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

**Carl Symon** Chairman  
30 June 2008





**HMV**

HMV operates from 379 stores in the UK & Ireland, Canada, Hong Kong and Singapore and through local territory websites. The HMV brand is one of the world's best known and respected retailers of entertainment products.

**379**

Stores in five countries

**1.9m**

sq ft of prime retail space

**£1.3bn**

Total sales

**40m** CD

**54m** DVD  
 units sold in HMV UK & Ireland

**DVD**  
**32% of total Group sales**

**Overview**

DVD maintained its position as HMV's largest product category, accounting for 46% of sales in HMV UK & Ireland and 47% in HMV International. The UK DVD market grew by 8% in volume in 2007/08, driven by a strong new release schedule. Longer term, the DVD category is expected to slow as new video distribution channels gain traction, however, for the medium term this is expected to be offset by growth in the high definition Blu-Ray format. HMV is well positioned to take advantage of these opportunities.

**Bestselling DVDs 2007/08 (UK market):**

Harry Potter and the Order of the Phoenix



The Simpsons Movie



Pirates of the Caribbean 3: At World's End



Hot Fuzz



Transformers



**Music**  
**25% of total Group sales**

**Overview**

The UK music market declined by 12% in 2007/08, which was in line with the Group's expectations. We are anticipating similar rates of decline for the next few years, and are managing our product mix accordingly. Music now accounts for a quarter of the Group's sales, down from 31% last year. However, music will remain crucial to the HMV brand, as we continue to develop our digital offer.

**Bestselling CDs 2007/08 (UK market):**

Leona Lewis: Spirit



Amy Winehouse: Back to Black



Various: Now 68



Mika: Life in Cartoon Motion



Westlife: Back Home



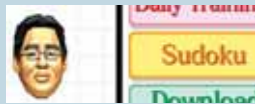
## Games and technology 12% of total Group sales

### Overview

The UK market for games hardware and software grew by over 40% during the year, across consoles including the Nintendo DS, Xbox360, PS3, PSP and Nintendo Wii. HMV UK & Ireland outperformed the market and grew share. Games represented 17% of sales in HMV UK & Ireland, up from 12% last year. HMV Canada also rolled out games during the year and the category is now 7% of its sales mix. Technology products, predominantly MP3/MP4 players and related accessories, have also been introduced into the HMV offer and in the UK & Ireland these represented 4% of sales for the year.

### Bestselling games software 2007/08 (HMV UK and Ireland):

More Brain Training



Brain Training:  
How Old Is Your Brain?



Mario & Sonic  
at the Olympic Games



Fifa 08



Pro Evolution  
Soccer 2008



### Waterstone's

Waterstone's is the UK's leading specialist high street bookseller, renowned for both its wide range and quality of advice. The chain operates through 313 stores and a transactional website, waterstones.com

## 313

Stores throughout the UK and Ireland

## 1.8m

sq ft of prime retail space

## £564m

Total sales

## 75m

books sold by Waterstone's

## Books 29% of total Group sales

### Overview

Books are 29% of total Group sales. The total UK book market has seen steady but modest growth over the past five years but this accelerated to 8% in 2007/08, of which approximately 2% was due to the publication of Harry Potter and the Deathly Hallows in July 2007. The market continues to be highly competitive and promotional, particularly on bestselling new release titles, although price deflation in the market remained broadly stable.

### Bestselling books 2007/08 (Waterstone's):

Harry Potter and  
the Deathly Hallows:  
JK Rowling



Nigella Express:  
Nigella Lawson



A Thousand  
Splendid Suns:  
Khaled Hosseini



A Spot of Bother:  
Mark Haddon



Jamie at Home:  
Jamie Oliver



## Strategic review

“We continued to plan and adapt for structural change taking place in our markets by refocusing our mix of products to higher growth lines, improving the communication with our customers and enhancing our store environments.”



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

### Protecting and revitalising our stores business

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

#### HMV

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

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

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

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



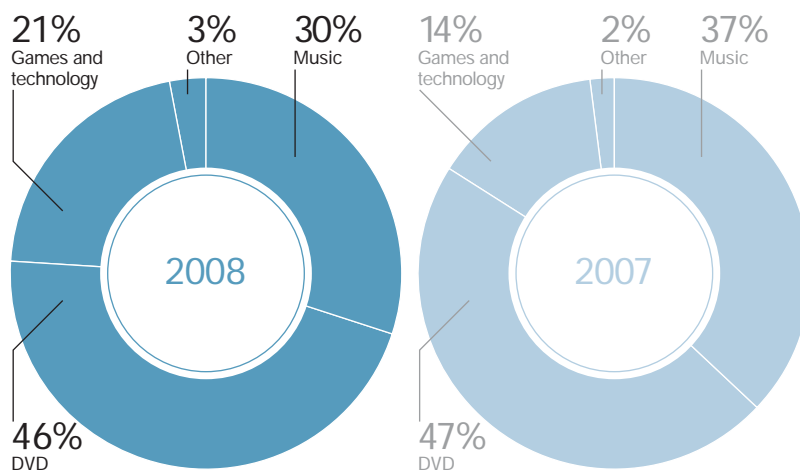


Above:  
Trials of 'next generation' stores have been a great success, with more openings to follow.

Right:  
Multi-player gaming zones attract customers to this high growth format.



Below:  
HMV UK & Ireland mix progression



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

### Waterstone's

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

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

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

**Below:**  
Waterstone's loyalty card had 1.5 million members after just nine months.

**Right:**  
Waterstones.com functionality includes the ability to check stock availability in local stores.



**Above:**  
Fopp's differentiated customer offer has been retained following the acquisition of seven shops and related trademarks.



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

## Growing revenue from new channels

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

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

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

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

## Driving cost efficiency

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

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

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

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

## Creating value

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

## Outlook

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

**Simon Fox** Chief Executive Officer  
30 June 2008

Below:  
getcloser.com, our social discovery site, is now live.



## Group performance

### Financial highlights

Following the disposal of HMV Japan during the period, the Group's results and comparatives shown below exclude HMV Japan to reflect continuing operations only, except where specified.

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

Total sales from the Group's continuing operations increased by £190.1m or 11.3% to £1,874.9m, including like for like sales growth of 7.3%.

At constant exchange rates, total sales grew by 10.3%. Beneficial exchange rate movements, primarily in the Euro and Canadian dollar, increased sales by £17.3m and operating profit by £0.9m.

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

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

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

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

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

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

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

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

1. Year on year growth for the 52 week period compared with the corresponding period last year is based on results translated at the actual exchange rates being the weighted average exchange rates for the year ended 26 April 2008 and year ended 28 April 2007 respectively.

2. Constant exchange growth for the 52 week period compared with the corresponding period last year is based on the weighted average exchange rates for the year ended 28 April 2007.

3. HMV Group's like for like sales performance is calculated at constant exchange rates and measures stores that were open at the beginning of the previous financial year (ie open at the beginning of May 2006) and that have not been resized, closed or re-sited during that time. It includes sales from internet sites and is only ever the net amount received.

4. HMV International comprises the results of HMV Canada, Hong Kong and Singapore.

5. Waterstone's results include Ottakar's, which was acquired on 3 July 2006.

### HMV UK & Ireland

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

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

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

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

### HMV International

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

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

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

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

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



## Waterstone's

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

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

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

Above:

Strong brand promotions helped both UK businesses to deliver a successful Christmas.

### Net finance charges

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

### Taxation

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

### Earnings per share

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

### Dividend

The Board is recommending a final dividend of 5.6p per share in addition to the 1.8p per share interim dividend already paid, bringing the total dividend for the year to 7.4p (2007: 7.4p). By maintaining the dividend level, dividend cover has increased to 1.4 times from 1.1 times, in line with the Board's policy of rebuilding dividend cover towards a target of 2.0 times by 2009/10.

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

### Cash flow and net debt

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

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

EBITDA – Earnings Before Interest, Taxation, Depreciation, Amortisation and exceptional items.  
 Free cash flow – Cash flow from operating activities after capital expenditure and net interest.  
 Underlying net debt – Underlying net debt is stated before unamortised deferred financing fees.

**Working capital**

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

**Capital expenditure**

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

**Discontinued operations**

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

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

**Operating leases**

All the Group's stores are held under operating leases. In HMV UK and Waterstone's the majority of leases are on typical institutional lease terms, subject to five year upwards only rent reviews. The majority of the Group's international stores and a minority of UK leases operate through turnover related leases, usually with minimum rent guarantees, and lease terms of five to 10 years.

The Group's net operating lease rentals were £151.1m in the financial year (2007: £154.0m). The total future rental commitment at the balance sheet date amounted to £1.2 billion, or £0.8 billion at net present value, while the existing portfolio has an average remaining lease period of 10 years. Retaining a portfolio of good quality real estate, in prime retail areas, at commercially reasonable rates remains critical to the performance of the Group. Where a store location becomes surplus to requirements, the Group's policy of occupying prime, highly marketable locations serves to limit any lease exposure.

**Pensions**

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

A valuation is undertaken on at least a triennial basis by a qualified actuary. The most recently completed actuarial valuation of the scheme, as at 30 June 2004, identified a deficit of £11.5m on assets of £43.9m. This deficit was funded through three contributions of £4.4m, the final amount of which was paid on 31 May 2006. Furthermore, the Group increased its contributions to a rate of 14.9% of pensionable pay from 1 July 2005 (from 12.9%), while the members' contribution rate increased to 5% of pensionable salaries from 4%. The actuarial valuation as at 30 June 2007 is now close to completion and following this, the next actuarial review will take place no later than 30 June 2010.

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

## Board of Directors



**Carl Symon**  
Chairman  
Aged 62

Carl Symon, a US national, was appointed to the Board as Chairman on 1 February 2006. He is a non-executive director of BT Group plc, BAe Systems plc and Senior Independent Director of Rexam PLC, and retired as a non-executive director of Rolls-Royce Group plc on 7 May 2008. He is also Chairman of Clearswift Systems Ltd, BT Group's Equality of Access Board and an advisory board member of Cross Atlantic Capital Partners. He retired from IBM in May 2001 after a 32-year international career during which he held several senior executive positions.

Chairman of the Nomination Committee



**Simon Fox**  
Chief Executive Officer and Managing Director  
HMV UK & Ireland  
Aged 47

Simon Fox was appointed to the Board with effect from 4 September 2006 and became Chief Executive Officer on 28 September 2006. He became Managing Director of HMV UK & Ireland on 1 February 2007. He was previously Chief Operating Officer for Kesa Electricals plc with responsibility for Comet in the UK, Kesa's subsidiaries in Continental Europe and e-commerce developments. Prior to his appointment as COO of Kesa, he was Managing Director of Comet, which he led through its demerger from Kingfisher. Prior to this he founded Office World, the UK's first out-of-town office supplies retailer. He began his career as a graduate trainee at Security Pacific Bank and thereafter worked at Boston Consulting Group and Sandhurst Marketing plc.



**Roy Brown**  
Senior Independent Director  
Aged 61

Roy Brown was appointed to the Board as Senior Independent Director on 23 April 2002. He is Chairman of GKN plc and a non-executive director on the Franchise Board of Lloyd's of London. He is non-executive Deputy Chairman and Senior Independent Director of Alliance & Leicester plc and a member of the CBI International Advisory Board. He is a former non-executive director of Brambles plc and British United Provident Association Limited BUPA and a former executive director of Unilever plc and Unilever NV.

Chairman of the Remuneration Committee

Member of the Audit and Nomination Committees



**Christopher Rogers**  
Non-Executive Director  
Aged 48

Christopher Rogers was appointed to the Board on 1 October 2006. He is Group Finance Director of Whitbread plc, having been appointed in May 2005. Previously he was Group Finance Director of Woolworths Group plc and Chairman of the Woolworths Group Entertainment and Wholesale Publishing businesses. He qualified as an accountant with Price Waterhouse and joined Kingfisher Group as Corporate Finance Manager in 1988. Subsequent appointments included Group Financial Controller at Kingfisher plc and Finance Director and Commercial Director of Comet Group plc.

Chairman of the Audit Committee

Member of the Nomination and Remuneration Committees



**Neil Bright**  
Group Finance Director  
Aged 45

Neil Bright was appointed to the Board as Group Finance Director in March 1998. He joined HMV in August 1996 as Group Finance Director from its then parent company, Thorn EMI plc where he was Group Planning Manager. He is a Chartered Accountant, having trained and qualified with Coopers & Lybrand in London.



**Gerry Johnson**  
Managing Director, Waterstone's  
Aged 47

Gerry Johnson was appointed to the Board with effect from 26 July 2007. He joined Waterstone's as Managing Director on 1 October 2005, and led Waterstone's through its acquisition and successful integration of Ottakar's. He is a career retailer having started his working life at Tesco in 1978, holding a variety of roles over 11 years, latterly as Superstore Manager. He spent five years at Asda Group's Allied Maples Division before moving to Wickes PLC in 1994. In 2001 he was appointed Managing Director of Booker and was a main board director of its parent company, Big Food Group PLC.



**Lesley Knox**  
Non-Executive Director  
Aged 54

Lesley Knox was appointed to the Board on 23 April 2002. She was a founder director of British Linen Advisors, a specialist merchant bank focusing on growth companies. Prior to that she was Corporate Finance Director then Head of Institutional Asset Management at Kleinwort Benson Group. She is Chairman of Alliance Trust PLC and a non-executive director of Hays plc and Signet Group plc. She is also a member of the Board of Governors of the Museum of London and a former director of the arts charity The Federation of British Artists Limited.

Member of the Audit, Nomination and Remuneration Committees



**Philip Rowley**  
Non-Executive Director  
Aged 55

Philip Rowley was appointed to the Board on 1 October 2007. He was Chairman and CEO of AOL Europe until February 2007. He is a qualified chartered accountant and was Group Finance Director of Kingfisher plc from 1998 to 2001. Prior to that his roles included Executive Vice President and Chief Financial Officer of EMI Music Worldwide, and Chief Operating Officer and CFO of Golden Books Family Entertainment, the largest children's book publisher in the US. He was also the co-founder and Managing Director of Tribeca Technologies, a New York-based technology company and a former non-executive director of Tradus plc (previously QXL Ricardo plc) until its delisting in March 2008. He is currently a non-executive director of ARM Holdings Plc and Chairman of Skinkers Ltd.

Member of the Audit, Nomination and Remuneration Committees

# Corporate governance

## Compliance with the Code

The Company has complied throughout the year with the provisions set out in Section 1 of the June 2006 FRC Combined Code on Corporate Governance (the 'Combined Code'). The following paragraphs, together with the Directors' remuneration report on pages 22 to 31, provide a description of how the Combined Code has been applied.

## The Board

As at the end of the year under review the Board comprised four independent Non-Executive Directors, the Chairman, and three Executive Directors being the Chief Executive Officer, the Group Finance Director and the Managing Director of Waterstone's Booksellers. The biographical details of the members of the Board are set out on pages 16 and 17. The Board considers that each of Roy Brown, Lesley Knox, Christopher Rogers and Philip Rowley are independent. In addition, the Board determined that Carl Symon was independent at the time of his appointment as Chairman on 1 February 2006. The Company used external search consultants in respect of the appointment of Mr Rowley.

Whilst the Board is collectively responsible for the success of the Company, the Chairman manages the Board to ensure that:

- the Company has appropriate objectives and an effective strategy;
- there is a Chief Executive Officer with a team to implement the strategy;
- there are procedures in place to inform the Board of performance against objectives; and
- the Company is operating in accordance with the principles of corporate governance.

The Chairman's other significant commitments are noted on page 16. The Board considers that these are not a constraint on the Chairman's agreed time commitment to the Company.

The Senior Independent Director acts as an alternative channel of communication for shareholders. He also oversees senior executives' remuneration and remuneration policy as Chairman of the Remuneration Committee. The Chief Executive Officer has overall responsibility for running the Company's business.

The Board has a schedule of matters specifically reserved to it for decision. These include the following major matters:

- approval of any material investments, capital expenditure, acquisitions and disposals by Group companies;
- substantial alteration in the general nature of the business;
- approval of the operating plan and the three year strategic plan;
- setting of financial and dividend policies;
- consideration of interim and final dividends;
- change of auditors, accounting policies and practices;

- changes to the share capital of the Company;
- appointment and removal of all Directors and senior management; and
- corporate governance and corporate social responsibility of the Company.

In accordance with the Combined Code at least half the Board, excluding the Chairman, comprise independent Non-Executive Directors. Non-Executive Directors are appointed for an initial term of three years and the Articles of Association include a requirement that all Directors submit themselves for re-election by the shareholders at the first Annual General Meeting following appointment and thereafter every third calendar year. Details of those Directors who will stand for re-election at the forthcoming Annual General Meeting can be found on page 37. Each of these Directors has been subject to evaluation, as indicated below, and continue to demonstrate commitment to the role and be an effective member of the Board. Accordingly, the Board believes these Directors should be re-elected.

On appointment to the Board, Directors are given a formal induction and thereafter receive further guidance and training as and when required. There are also procedures for the Directors to take independent professional advice at the cost of the Company, if appropriate. All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures and applicable rules and regulations are followed. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

## Performance evaluation

The Board has an established process for evaluating the individual Directors, the Board as a whole and each of the Board Committees. This evaluation process involves an objective and comprehensive evaluation of the balance of skills, knowledge and experience of the Board and any development plans for the Board. The evaluation process for the Board as a whole and for each of its Committees was conducted by means of detailed questionnaires completed by all Directors. The results of the evaluation of each of the Board Committees were reviewed and discussed by each of the relevant Committees and then reported to the Board as a whole, together with the results of the appraisal of the Board itself. A number of recommendations were agreed for the Board and its Committees and these will be implemented during 2008.

The Chairman appraises the performance of the individual Board members through discussion with all Directors individually. The Senior Independent Director is responsible for the evaluation of the Chairman and the views of the other Directors are canvassed. The results of the performance evaluation for each of the Directors and the Chairman were reported to the Board. The development plans for the Board and the performance evaluation process will continue to be reviewed annually.

The Non-Executive Directors met on several occasions without the Executive Directors being present during the year under review. They also met on several occasions without the presence of the Chairman.

### **Board Committees**

There are three principal Board Committees, each of which regularly reports to the Board and each of which has clear terms of reference which can be found on the Company's website [www.hmvgroup.com](http://www.hmvgroup.com). Each Committee has and will keep under review its terms of reference and its effectiveness and make recommendations to the Board of any appropriate changes. The chairman of each of the Board Committees will be available to answer shareholders' questions at the forthcoming Annual General Meeting.

### **Audit Committee**

The Audit Committee, as at the end of the financial year, comprised Christopher Rogers (Chairman), Lesley Knox, Roy Brown and Philip Rowley. Mark McCafferty was a member of the Committee until he retired from the Board on 6 September 2007. Mr Rogers was appointed to the Committee on 1 October 2006, Mr Brown and Mrs Knox were appointed to the Committee on 23 April 2002 and Mr Rowley was appointed on 1 October 2007. The Chairman, Chief Executive Officer, Group Finance Director, the Head of Internal Audit, and the external auditors were invited and attended meetings of the Audit Committee.

Christopher Rogers, Chairman of the Committee, is a qualified Chartered Accountant, and Finance Director of Whitbread plc, and thus, has recent relevant financial experience. The Board believes that the other Committee members have relevant experience to serve on this Committee.

The Committee is required to meet a minimum of three times a year and members' attendance at the Committee can be found on page 20. Both the Head of Internal Audit and the external auditors have direct access to the Chairman of the Committee outside the formal Committee meetings.

The main duties of the Committee are as follows:

- (i) monitoring the integrity of and reviewing the financial statements;
- (ii) the appointment of and the review of the effectiveness and independence of the external auditors;
- (iii) approval of the scope of the Company's risk management programme and review of the risk management process;
- (iv) reviewing the operation and effectiveness of the internal audit function; and
- (v) to oversee the establishment and maintenance of good business practices throughout the Group.

During the period under review, the Committee met on four occasions in order to review a wide range of financial matters, including annual and half year profit figures, financial statements, trading statements and other regulatory information disclosed to the public, to conduct a review of the internal audit function and to receive regular reports from internal audit, before making appropriate recommendations to the Board.

### **Nomination Committee**

The Nomination Committee, as at the end of the year under review, comprised Carl Symon, who was appointed Chairman of the Committee on 1 February 2006, Roy Brown, Lesley Knox, Christopher Rogers and Philip Rowley. Mr Brown and Mrs Knox were appointed to the Committee on 23 April 2002 and Mr Rogers and Mr Rowley were appointed to the Committee on 1 October 2006 and 1 October 2007 respectively. Mark McCafferty was a member of the Committee until he retired from the Board on 6 September 2007. The Company Secretary is the Secretary to the Committee. The Committee meets as and when required and during the period under review the Committee met on four occasions. These meetings were to evaluate the Committee's own performance and to deal with succession planning issues.

Members' attendance at meetings of the Committee during the period under review is set out on page 20. The Committee is responsible for identifying and nominating executive and non-executive candidates for approval by the Board to fill vacancies as and when they arise and to put in place succession plans for Directors and other senior managers. The Committee has access to such information and advice both from within the Group and externally, at the cost of the Company, as it deems appropriate. External consultants are used to assist in identifying suitable external candidates based on a written specification for each appointment. Committee members prepare a shortlist of candidates for consideration by the Board. The final candidate is then subject to formal nomination by the Committee and approval by the Board. In addition, the Committee will review the Board structure, size and composition and from time to time make any relevant recommendations to the Board.

### **Remuneration Committee**

The Remuneration Committee is required to meet at least twice a year. As at the end of the year under review, the Committee comprised Roy Brown (Chairman), Lesley Knox, Christopher Rogers and Philip Rowley. Mark McCafferty was a member of the Committee until he retired from the Board on 6 September 2007. Mr Brown and Mrs Knox were appointed to the Committee on 23 April 2002, and Mr Rogers and Mr Rowley, were appointed to the Committee on 1 October 2006 and 1 October 2007 respectively. No person other than the members of the Committee is entitled to be present at meetings but others may be invited by the Committee to attend. No Director is present when the Committee considers matters relating to him or her or acts in matters relating to them.

The Committee is responsible for approving the terms of service and setting the remuneration for the Executive Directors and other senior managers of the Group in accordance with a remuneration policy which is approved by the Board. It is also responsible for determining the fees of the Chairman and the terms upon which the service of Executive Directors is terminated, having regard to a severance policy adopted by the Board. It also prepares for approval by the Board the annual report on Directors' remuneration (set out on pages 22 to 31).

A record of members' attendance at the Board and Committee meetings is as follows:

**Board attendance chart**

	Board	Audit	Remuneration	Nomination
Roy Brown	12(13)	4(4)	6(6)	4(4)
Neil Bright	12(13)	4*	1*	–
Simon Fox	13(13)	4*	5*	1*
Gerry Johnson	8(8)	–	–	–
Lesley Knox	12(13)	4(4)	6(6)	4(4)
Mark McCafferty	5(6)	2(2)	3(4)	2(2)
Christopher Rogers	13(13)	4(4)	5(6)	3(4)
Philip Rowley	7(7)	1(2)	2(2)	2(2)
Carl Symon	13(13)	4*	5*	4(4)

Figures in brackets denote the maximum number of meetings that each Director could have attended.

\* Not a Committee member but invited to attend all or part of the number of meetings indicated.

Instances of non-attendance were in respect of additional meetings arranged at short notice or where a Director had a conflict with another meeting.

**Internal control**

The Board attaches considerable importance to, and acknowledges its responsibility for, the Group's system of internal control and risk management and carries out regular reviews of their effectiveness. A system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration. The Board confirms it has reviewed the Group's system of internal controls including financial, operational and compliance controls as well as risk management, and that these accord with the guidance on internal controls set out in the Internal Control: Revised Guidance for Directors on the Combined Code, issued by the Financial Reporting Council in October 2005, and that such controls have been in place during the year under review and up to the date of approval of the Annual Report and accounts and that there are satisfactory ongoing processes for identifying, evaluating and managing the significant risks faced by the Group. The systems of internal control and the processes used by the Board to review the effectiveness of those systems include:

- detailed risk registers, which describe the significant risks and control strategies in each area of the business and which are reviewed annually;
- a comprehensive system of financial reporting, which includes an annual budget process, monthly reporting with rolling forecasts, and half year and annual reporting to enable the Group to meet its public financial reporting requirements;
- regular performance monitoring, with remedial action taken where necessary;
- regular Board meetings, with a formal schedule of matters reserved to the Board for decision;
- established procedures for planning, approving and monitoring major projects;
- a policies and procedures manual, which sets out, inter alia, authority limits and guidelines for capital expenditure, which include annual budgets and appraisal and review procedures. All operating businesses have to confirm compliance with the manual on an annual basis;
- certain centralised functions, that are staffed by appropriately qualified individuals who draw on external professional advice. These functions include finance, tax, treasury, management information systems, legal, company secretarial and internal audit; and
- clearly defined organisational structures and appropriate delegated authorities.

**Group**

- an internal audit function, which carries out a programme of audits covering the management of significant corporate risks and reports directly to the Audit Committee and the Board on the effectiveness of key internal controls;

### **Audit Committee**

- approving the scope of the annual Group risk management programme;
- reviewing the results of the risk identification process;
- providing input on risks and internal controls into the annual Board strategy discussions;
- reviewing the effectiveness of the risk management process and discussing significant risk issues with the Board;
- considering reports from internal and external audit on the system of internal control and any material control weaknesses;
- reviewing the internal audit and external audit work plans; and
- at the year end, before producing the Statement of Directors' Responsibilities in the Annual report and accounts, the Board, through the Audit Committee, considers reports generated from the internal and external auditors on any major problems that have occurred during the year.

### **Relations with shareholders**

The Board places high importance on maintaining good relationships with both institutional and private investors and ensures, through its investor relations programme, that shareholders are kept informed of significant Group developments. Shareholders can access further information on the Group via the Company's website at [www.hmvgroup.com](http://www.hmvgroup.com). The Chief Executive Officer and Group Finance Director meet regularly with institutional shareholders and analysts. Major institutional shareholders are given the opportunity to meet with the Chairman and the Senior Independent Director. In addition, the Directors welcome the opportunity to meet with private investors at the Company's general meetings, where shareholders are invited to ask questions and express views on the Company's business. The views of shareholders are reported to the Board as and when appropriate.

### **Accountability and audit**

The Board is aware of its responsibility to present a clear and balanced assessment of the Group's financial position and prospects. This assessment is provided in the statement of the Chairman on page 3 and the Business and financial review on pages 4 to 15.

The Audit Committee reviews the independence and objectivity of the external auditors with a view to confirming that, in its view, the maintenance of objectivity on the one hand and value for money on the other has been kept appropriately in balance. The external auditors have in place processes to ensure their independence is maintained including safeguards to ensure that where they provide non-audit services their independence is not threatened. In this context, the Audit Committee considers that it is appropriate for the external auditors to provide to the Group tax advice and other accounting services, including those in connection with supporting and reporting on financial representations in public documentation.

During the year under review the auditors were used for tax advice work and the Company foresees using the auditors for this advice in the future. The provision of other services is considered on an ad hoc case-by-case basis. Details of the fees paid to the auditors in the year, for audit and non-audit services, are given on page 55.

By order of the Board

**Elaine Marriner**  
Company Secretary

30 June 2008

# Directors' remuneration report

The Board presents its Remuneration Report to the members of the Company. In preparing this report and establishing its policy the Board has given full consideration to, and follows the provisions of, the Combined Code, the Companies Act 1985 and the relevant parts of the Listing Rules of the UK Listing Authority.

In accordance with the Companies Act, the tables setting out Directors' remuneration, benefits under long-term incentive schemes, interests in the share incentive plan, pension arrangements and Directors' interests in share options of the Company on pages 26 to 29 have been audited. The information on pages 22 to 25, 30 to 31 and the Directors' interests in shares on page 27 are not required to be audited.

## Constitution of the Remuneration Committee

The Remuneration Committee is chaired by Roy Brown and also comprises Lesley Knox, Christopher Rogers and Philip Rowley (all of whom the Board considers to be independent). Mark McCafferty retired from the Committee on 6 September 2007 and Mr Rowley was appointed to the Committee with effect from 1 October 2007. The Committee meets as required (not normally fewer than three times a year) on behalf of the Board. Its remit is to determine the Company's policy for executive remuneration (having regard to pay and employment conditions elsewhere in the Group, especially when determining annual salary increases), to determine the remuneration packages of the Chairman, the Executive Directors, the Company Secretary and certain other senior executives that report to Board members, including pension rights and compensation payments, and to oversee the implementation and operation of share incentive schemes. The Committee's terms of reference are available on the Company's website, [www.hmvgroup.com](http://www.hmvgroup.com).

## Advisers

The Remuneration Committee has appointed Towers Perrin as its advisers in respect of executive salaries, incentives and employee share schemes. Towers Perrin provides no other services to the Company. In addition, the Company appointed the following advisers:

- (a) Jersey Trust Company Limited on employee share schemes;
- (b) Watson Wyatt LLP on pension matters; and
- (c) Freeth Cartwright, solicitors, on employment contracts and associated legal issues.

The Remuneration Committee also received advice from the Group Human Resources and Corporate Services Director, who assisted the Remuneration Committee by providing recommendations on the grants under the various incentive schemes and reviewing incentive arrangements.

The Chairman of the Board, the Chief Executive Officer and Group Human Resources and Corporate Services Director are normally invited by the Remuneration Committee to attend meetings of the Committee but are not present for any discussion about their own remuneration.

## General policy

The Company's remuneration policy aims to align the interests of Executive Directors and other senior executives with those of its shareholders. It is the Remuneration Committee's policy that variable performance-related pay and incentives should account for a significant proportion of the overall remuneration package of Executive Directors so that the remuneration of Executive Directors is aligned with the Group's performance. Generally, for target performance the performance-related element accounted for just over half of the total package. For superior performance this would rise to almost two-thirds of the total package.

These figures exclude pension values, which can vary significantly from person to person and from year to year. The Committee confirms that there are appropriate policies and procedures in place to monitor the size of potential awards.

In setting the Company's remuneration policy, therefore, the Remuneration Committee believes that the Company should provide:

- (a) competitive rewards, which will attract and retain high calibre management necessary to enable the Company to operate in the highly competitive retail sector and which reflect individual responsibilities and experience; and
- (b) incentive arrangements which are subject to challenging performance targets reflecting the Company's objectives and which motivate executives to focus on both annual and longer term performance.

Performance targets set for the incentive schemes are designed to provide maximum awards for exceptional performance and to place emphasis on the successful delivery of short-term performance goals as well as ensuring that the Company's long-term initiatives are less dependent on annual performance. The Remuneration Committee intends that Executive Directors' basic salaries should be positioned at or around the median level in the marketplace with the incentive arrangements (provided performance targets are met) in order to bring overall remuneration into the upper quartile for the marketplace. When assessing the marketplace, the Remuneration Committee refers to survey data supplied by Towers Perrin, which concentrates on companies with a broadly similar scope to that of the Company. This is made up of both general industry companies (excluding financial services companies), which have broadly similar revenues and are drawn primarily from the FTSE 250, and major UK retail companies from the Towers Perrin Top Executive Survey.

It is the Company's policy that no Executive Director should have a fixed term service contract or notice period exceeding one year, and that no Non-Executive Director should have a letter of appointment for a term of more than three years. All the current Directors' service contracts or letters of appointment comply with this policy. Further details are found on page 30.

The Remuneration Committee intends that remuneration policy should be, as far as possible, enduring, but also believes that it is appropriate to keep it under review.

### **Components of the Executive Directors' remuneration**

Executive Directors' remuneration is provided in the form of a combination of basic salary, an annual cash bonus, a proportion of which is deferred for three years and paid in shares, and an award of shares under the HMV Performance Share Plan (further details of each are given below).

The main components of the Executive Directors' remuneration for the financial year under review were as follows:

#### **Salary**

The Remuneration Committee, taking into account each Executive Director's performance, experience and responsibilities, determines the basic salary for each Executive Director. The Committee also has regard to salaries paid in the marketplace (as described above). Salaries are usually reviewed with effect from 1 July each year.

#### **Benefits in kind**

Benefits in kind include provision of a car allowance, pension, medical and life insurance, permanent health insurance and staff discount.

#### **HMV Group plc Incentive Plan for Senior Executives (the 'HIPS')**

The HIPS comprises two elements – (i) an annual non-pensionable performance-related cash bonus, a proportion of which is deferred and paid in shares; and (ii) an award of shares under The HMV Performance Share Plan. The HIPS is designed to provide an incentive for senior management to achieve and exceed targets set by the Remuneration Committee.

**Annual bonus** The annual bonus (the 'annual award') awarded to each Executive Director is equivalent to 60% of base salary for on target performance and 120% at maximum, dependent on the performance of the Group and the achievement of Company and personal key business objectives ('KBOs'). The annual award comprises a payment in cash of two-thirds of the earned bonus, which is paid after the end of the financial year to which the performance relates, with the remaining one-third payable in shares, the vesting of which is deferred for three years provided that the Executive Director remains in the employ of the Group.

The performance targets are determined each year by the Remuneration Committee. For the year under review the performance targets were profit after notional interest ('PANI'), which for Simon Fox and Neil Bright is Group profit before interest and tax and for Gerry Johnson is a combination of HMV Group and Waterstone's profit before interest and tax, each reduced by a 10% notional interest rate applied to the Group's average capital employed, as well as the achievement of Company and Waterstone's (as the case may be) and personal KBOs. These performance targets were chosen because the Remuneration Committee believe they bring incentive levels closer to market norms and place greater emphasis on short-term operating performance which will grow shareholder value in the long term.

If the target PANI is reached then, for the Executive Directors, a sum equivalent to 45% of their salary is awarded, a further 7.5% of salary is awarded if the Company KBO is achieved and a further 7.5% of salary if the personal KBO is met. No KBO payment can be made to an Executive if the PANI performance is less than 90% of target.

The Remuneration Committee has carried out the assessment of whether these performance targets have been met by reference to the audited accounts for the 52 weeks to 26 April 2008. Bonuses for Executive Directors ranged from 90% to 120% of salary, which reflected the superior PANI performance as described in the Business and financial review on pages 4 to 15. An annual bonus will be awarded to the Executive Directors for the financial year under review.

**Performance share awards** At the 2006 Annual General Meeting, the shareholders approved The HMV Performance Share Plan (the 'Plan'). Awards under the Plan are usually made in August each year. Apart from exceptional circumstances, the Executive Directors are granted an award of shares under the Plan at a level no greater than 200% of base salary as at the date of the award. The awards vest after three years provided that the preset performance criteria are met. The Remuneration Committee sets the performance criteria each year.

To support the turnaround plan launched in March 2007, the Committee, on a one-off basis for 2007, made some changes to the way in which remuneration arrangements were applied. The changes required Mr Fox to purchase shares to the value of one times' salary. After three years, he may receive up to five shares for every one share purchased dependent on the achievement of the EPS performance target noted below. Mr Fox's co-investment arrangement was made under the rules of the Plan and replaced the regular 2007 Plan award. As part of these arrangements, the share options granted to Mr Fox shortly after his appointment in September 2006 lapsed. In addition, the Committee made an enhanced award under the Plan of 200% of base salary, this being within the limits of the Plan, to Mr Bright, Mr Johnson and other senior management to emphasise the importance of, and to further support the delivery of, the three year business plan. Regular annual Plan awards will resume in 2008. Details of the awards made to the Executive Directors appear on page 28.

In light of the three year business plan and the disposal of the Japanese business, the Remuneration Committee have set the performance criteria to be no less stretching than those set in previous years. For the awards made in August 2007, an award will vest on the satisfaction of a target based on basic adjusted earnings per share ('EPS'). The EPS targets have been set based on the Group's performance without the contribution of HMV Japan, which was sold during the year under review. If the EPS in the financial year 2009/10 is less than 14.4p the award will not vest. Mid point EPS is 16.0p at which point 65% of the award will vest. If EPS is above 18.4p the award will vest in full. The award will vest on a straight-line basis from 14.4p to 16.0p and then from 16.0p to 18.4p, with 30% of the award vesting on the achievement of the minimum target, except in the case where an award exceeds 150% of base salary, when only 25% of the award will vest on achieving the minimum target and 62.5% of the award will vest on the achievement of the mid point.

These performance targets were selected because the Remuneration Committee believes they align the interests of the Executive Directors with those of the Company's shareholders and place emphasis on the successful delivery of short-term performance goals, as well as ensuring that the Company's long-term initiatives are less dependent on annual performance.

**Share options** Options to acquire shares under the HMV Group plc 2002 Executive Share Option Scheme (the '2002 Scheme') were previously granted on an annual basis, thus ensuring reward was spread over a number of years and was allied to the long-term growth in shareholder value. The rules of the 2002 Scheme permit the granting of options to Executive Directors to a maximum of 300% of basic salary per annum. Options are granted at the five-day average of the market value of the Company's shares on the date of grant.

Options granted under the 2002 Scheme can normally only be exercised after three years and then subject to the achievement of EPS targets imposed by the Remuneration Committee at the date of grant. 40% of the option shall be exercisable if the Company's adjusted basic EPS exceeds the growth in the Retail Prices Index by at least 3% per annum. 100% of the option shall be exercisable if the Company's adjusted basic EPS growth exceeds the growth in the Retail Prices Index by at

least 7% per annum. For all options granted to date, EPS will be assessed on an adjusted UK GAAP basis. Vesting will occur on a straight-line basis between these two points. EPS was determined by the Remuneration Committee to be the appropriate criterion given its clear linkage with shareholder value as well as providing a clearly definable target for executives. The Remuneration Committee assesses whether these performance conditions have been met by reference to the audited accounts. There is no Remuneration Committee discretion to re-test the performance criteria in the event that they are not met.

The Remuneration Committee has carried out the assessment of whether the relevant performance targets have been met by reference to the audited accounts for the 52 weeks ended 26 April 2008 in respect of options granted on 8 July and 5 October 2005. As the minimum performance criteria have not been met, these options will lapse.

No options were granted during the year under review and the outstanding options held by the Executive Directors are set out on page 29.

### Share Incentive Plan

The HMV Group plc Share Incentive Plan (the 'SIP') is intended to allow the Company to align the interests of its UK employees (including the Executive Directors, all of whom are eligible to participate) more closely with the interests of shareholders.

Under the SIP, UK employees may acquire Ordinary Shares in three ways. Firstly, the Company can use the SIP as part of its broad incentive arrangements by awarding free shares to employees; in this regard an award of 120 free shares was made to every eligible employee, including Mr Bright, on the Initial Public Offering. There have not been any further awards of free shares and there are no plans to award further free shares to any employees. The free shares are held by a UK employee benefit trust (the 'Trust'), subject to the rules of the SIP. Secondly, the Company may invite UK employees to purchase Ordinary Shares, known as Partnership Shares, and thirdly, the Company may, if it wishes, agree to match the shares purchased with additional shares, known as Matching Shares. The Company has matched on a one-for-one basis since the inception of the SIP and these Matching Shares do not vest until the employee has completed one year's service from the date of the award. All shares held in the Trust attract dividend shares which, except in exceptional circumstances, are retained in the Trust for a period of three years.

All Executive Directors participate in the SIP and their awards are set out on page 28.

The Company reviews the awards of shares made under the various all-employee and executive share plans in terms of their effect on dilution limits and seeks to comply with the dilution limits recommended by the Association of British Insurers. At the end of the financial year under review, the Company was within the dilution limits for the issue of new shares for all of its share plans, as set out in the rules of those share plans.

The Company operates a shareholding policy which requires the Executive Directors, and other senior executives, to build and retain a shareholding in HMV Group plc equivalent in value to 100% of their salary.

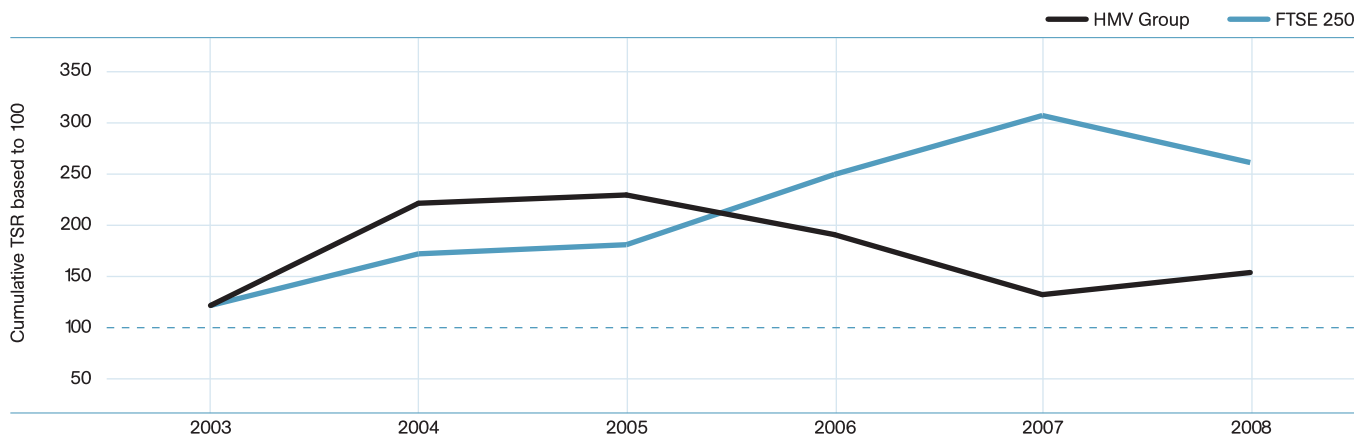
**Performance graphs**

The graphs below show the percentage change in the total shareholder return from the date of flotation to the end of the financial year against both the FTSE 250 and the FTSE General Retailers Index, both of which the Board considers to be appropriate peer groups for the Company as the Company is a constituent member of both these indices.

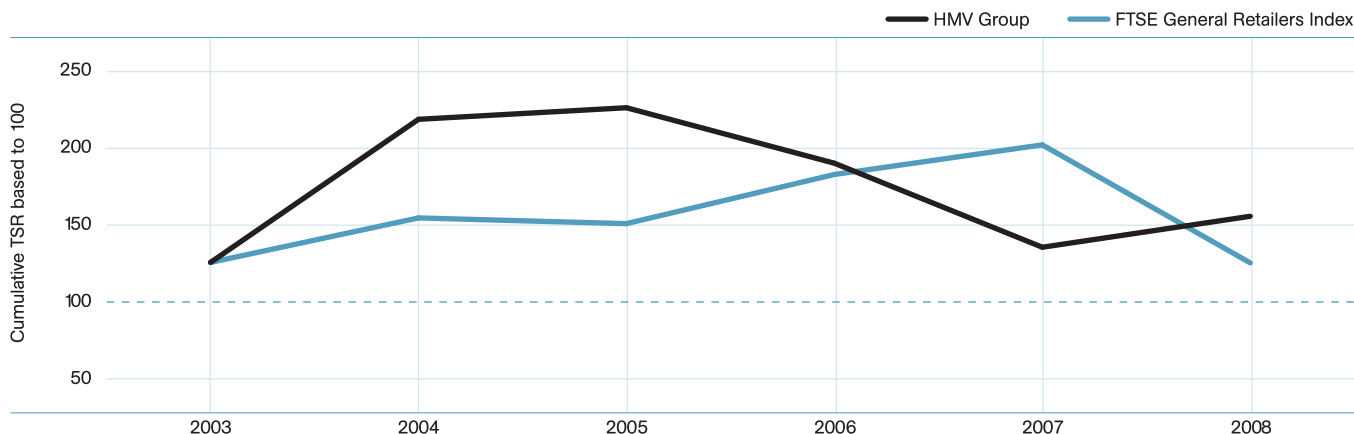
**Total Shareholder Return Graphs**

For the period 26 April 2003 to 26 April 2008

**HMV Group v FTSE 250 Index**



**HMV Group v FTSE General Retailers Index**



**Pension arrangements**

For each Executive Director, only basic salary is pensionable. Simon Fox, Neil Bright and Gerry Johnson are members of the HMV Group Pension Scheme, which is a contracted-out defined benefit scheme, providing them with benefits of up to one-thirtieth of final pensionable pay for each year of service. They are subject to the Company's salary 'capping' which was introduced in April 2006, which is currently £112,800. The HMV Group Pension Scheme, therefore, provides Mr Fox, Mr Bright and Mr Johnson with benefits of up to one-thirtieth of their respective 'capped' salaries for each year of service. Mr Bright received a cash

supplement in lieu of pension contributions above the cap from the beginning of the year under review up to and including March 2008 and the Company made a contribution to a Self Invested Pension Plan ('SIPP') in respect of the April 2007 payment. Mr Johnson received a cash supplement in lieu of pension contributions above the cap from his date of appointment up to and including July 2007 and thereafter the Company made a contribution to a SIPP. In respect of Mr Fox, the Company makes a contribution to a SIPP.

In the event of death during employment, the dependants of the Executive Directors would receive a pension and a lump sum.

Name	Simon Fox	Neil Bright	Gerry Johnson
Age as at 26 April 2008	47	45	47
Accrued pension at 26 April 2008 – £000 pa	6	35	10
Increase in accrued pension during the period or from date of appointment – £000 pa	3	4	6
Increase in accrued pension during the period or from date of appointment (net of inflation) – £000 pa	3	2	6
Transfer value of accrued pension at 26 April 2008 – £000	46	195	61
Transfer value of accrued pension at 28 April 2007 or date of appointment – £000	23	215	28
Directors' contributions during the period or from date of appointment – £000	6	6	4
Increase (decrease) in transfer value over the year or from date of appointment (net of Directors' contributions) – £000	17	(26)	29
Transfer value of increase in accrued pension during the period or from the date of appointment (net of inflation and Directors' contributions) – £000	21	8	35

Notes:

1. Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.
2. Transfer values have been calculated in accordance with guidance note GN11 issued by the Institute of Actuaries.
3. The value of the net increase or decrease represents the incremental value to the Director of his service during the year or from the date of his appointment, as appropriate, calculated on the assumption that service is terminated at the year end. It is based on the accrued pension increase or decrease after an adjustment for inflation.
4. The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Directors' contributions.
5. Voluntary contributions paid by Directors and resulting benefits are not shown.
6. The figures above exclude Mr Bright's cash supplement of £38,114 which was made to Mr Bright and £3,966 which was paid into his SIPP. Mr Fox received a cash supplement of £90,725 which was paid to his SIPP. Mr Johnson received a cash supplement of £33,907, of which £33,225 was paid to his SIPP.

## Details of Directors' remuneration

	Base salary, benefits in kind and fees 2008 £000	Non-cash taxable expenses 2008 £000	Annual bonus 2008 £000	Total remuneration 2008 £000	Total remuneration 2007 £000
<b>Executive Directors</b>					
Simon Fox	493	1	498	992	333
Neil Bright	356	1	360	717	358
Gerry Johnson	234	1	360	595	–
<b>Non-Executive Directors</b>					691
Carl Symon	190	–	–	190	190
Roy Brown	65	–	–	65	64
Lesley Knox	40	–	–	40	40
Christopher Rogers	45	–	–	45	26
Philip Rowley	23	–	–	23	–
Mark McCafferty	14	–	–	14	37
<b>Total</b>	<b>1,460</b>	<b>3</b>	<b>1,218</b>	<b>2,681</b>	1,048

### Notes:

1. Taxable expenses consist of private healthcare during the financial year under review.
2. At the end of the period under review the base salary for the Executive Directors was Simon Fox £475,000, Neil Bright £300,000 and Gerry Johnson £290,000.
3. Mark McCafferty did not serve as a Director for the full financial year 2007/08 and his remuneration above reflects this accordingly.
4. One-third of the annual bonus earned in the year is deferred for three years and will be payable in shares.
5. £99,375 of the bonus awarded to Gerry Johnson related to the integration of the Ottakar's business, of which £33,125 will be deferred for 12 months.

## Directors' interests in shares

The Directors who held office at the end of the financial period had the following interests (beneficial and non-beneficial) in the share capital of the Company in addition to the interests in executive share options and other employee share schemes set out on page 28 and 29:

	26 April 2008	Ordinary Shares 28 April 2007 or as at the date of appointment
<b>Executive Directors</b>		
Simon Fox	340,152	64,717
Neil Bright	307,800	254,425
Gerry Johnson	38,000	38,000
<b>Non-Executive Directors</b>		
Carl Symon	101,392	76,392
Roy Brown	1,041	1,041
Lesley Knox	32,312	32,312
Christopher Rogers	5,580	5,580
Philip Rowley	17,150	17,150

For those Directors who served at the end on the financial year there have been no changes to the shareholdings since 26 April 2008 subject only to the participation by the Executive Directors in the SIP, details of which can be found on page 28.

## Directors' remuneration report continued

### Share Incentive Plan

The Directors who served as Directors at the end of the year under review and who held shares under the SIP as at 26 April 2008 are as follows:

	Total SIP shares held at 28 April 2007 or date of appointment	Partnership Shares purchased by participants on a monthly basis at prices between 105p–129p	Matching Shares awarded on a monthly basis at prices between 105p–129p which will vest one year after the date of purchase	Dividend Shares purchased using dividends paid on Free, Partnership and Matching Shares	Total SIP shares held at 26 April 2008
Simon Fox	608	1,247	1,247	100	<b>3,202</b>
Neil Bright	8,647	1,247	1,247	592	<b>11,733</b>
Gerry Johnson	2,371	1,247	1,247	209	<b>5,074</b>

Notes:

- (i) Simon Fox, Neil Bright and Gerry Johnson have continued to acquire Partnership Shares and be awarded Matching Shares on a monthly basis between 26 April 2008 and 30 June 2007 in accordance with the terms of the SIP. These total 185 Partnership Shares and 185 Matching Shares each for Mr Fox and Mr Johnson and 186 Partnership Shares and 186 Matching Shares for Mr Bright.

### Performance Share Plan

The following Performance Share Plan awards are being held for the following Directors:

Executive Directors	Interests in shares as at 28 April 2007 or date of appointment	Date of award	Number of shares conditionally awarded	Market price of shares at award	Performance period ending	Interests in shares as at 26 April 2008
Simon Fox	586,419	6 October 2006	586,419	162.25p	25 April 2009	<b>586,419</b>
	–	7 August 2007	2,060,737	115.25p	24 April 2010	<b>2,060,737</b>
Neil Bright	277,777	6 October 2006	277,777	162.25p	25 April 2009	<b>277,777</b>
	–	7 August 2007	520,607	115.25p	24 April 2010	<b>520,607</b>
Gerry Johnson	163,580	6 October 2006	163,580	162.25p	25 April 2009	<b>163,580</b>
	–	7 August 2007	503,253	115.25p	24 April 2010	<b>503,253</b>

Notes:

- (i) The performance conditions for the 2006 awards are as follows:- a maximum of 75% of an award will vest on satisfaction of a basic adjusted EPS target and a maximum of 25% of an award will vest on satisfaction of an e-commerce revenue ('ECR') target, which broadly means sales (net of discount and tax) delivered online, which includes digital downloads and the sale of any products through the Internet throughout the Group. 100% of the EPS award will vest if the EPS in the financial year 2008/09 is 21.3p or over. If the EPS is less than 18.8p the EPS portion of the award will not vest. If the ECR in the financial year 2008/09 is six times or more than the ECR in the financial year 2005/06 (£320m), the ECR portion of the award will vest in full. If the ECR is less than three times the ECR in the financial year 2005/06 (£180m), the ECR portion of the award will not vest. Both the EPS and ECR portions of the award will vest on a straight-line basis between the two targets, with 30% of the award vesting on achieving the minimum target, except where an award exceeds 150% of base salary, when 25% of the award will vest on achieving the minimum target.
- (ii) No shares vested in the year under review.
- (iii) The performance conditions for the 2007 awards are set out on pages 23 and 24.

## Deferred annual bonus

The following deferred bonus awards held by each person who was a Director of the Company at the end of the financial year under review:

Executive Directors	Number of shares held conditionally as at 28 April 2007	Date of award	Market price of shares at award	Performance period ending	Number of shares vested in the year and market price on vesting date	Number of shares lapsed in the year	Number of shares held conditionally as at 26 April 2008
Neil Bright	73,500	7 July 2004	237p	28 April 2007	18,375 114.75p	55,125	–
	44,677	8 July 2005	242p	26 April 2008	–	–	<b>44,677</b>

### Notes:

- (i) These awards are linked to the annual bonus award which operated prior to the annual bonus award which was implemented during the previous financial year. The deferred share awards usually vest three years following their grant, subject to the achievement of cumulative budgeted profit before interest and tax, after notional interest charged over capital employed over the three-year period and the performance of the individual over the same three-year period.
- (ii) Neither Mr Fox nor Mr Johnson holds any deferred shares.
- (iii) The release of shares to Mr Bright was made in accordance with the rules of the plan.
- (iv) With regard to the 2005 award, the Remuneration Committee has carried out the assessment of whether the relevant performance targets have been met by reference to the audited accounts for the 52 weeks ended 26 April 2008. On this basis, only 25% of the award will vest and will be released to Mr Bright in the near future.

## Executive share options

The share options held by each person who was a Director of the Company as at the end of the financial year under review are as follows:

	Date of grant	Exercise price	Number of options at 28 April 2007 or date of appointment	Granted in year	Lapsed in year	Exercised in year	Number of options at 26 April 2008	Exercisable from	Exercisable to
Simon Fox	11 Sep 06	154p	925,324	–	925,324	–	–	–	–
Neil Bright	22 May 02	167p	485,030	–	–	–	<b>485,030</b>	22 May 05	22 May 12
	4 Aug 04	237p	167,721	–	167,721	–	–	–	–
	8 July 05	242p	179,752	–	–	–	<b>179,752</b>	8 July 08	8 July 15
Gerry Johnson	5 Oct 05	242p	154,958	–	–	–	<b>154,958</b>	5 Oct 08	5 Oct 15

### Notes:

- (i) No share options have been exercised in the year ended 26 April 2008 or between that date and the date of this report by any of the Directors who served at the end of the year under review.
- (ii) The options granted on 4 August 2004 lapsed during the financial year.
- (iii) The market price of an Ordinary Share as at 26 April 2008 was 128p, the highest market price for the year under review being 137p and the lowest market price being 96.75p.
- (iv) The options were granted pursuant to the terms of the 2002 scheme set out on page 24.
- (v) The options granted on 8 July and 5 October 2005 with an exercise price of 242p would be exercisable from 8 July 2008 and 5 October 2008 subject to the achievement of certain performance targets. As the minimum conditions have not been met, these options will lapse.

**Service agreements**

No Executive Director has a service agreement containing a notice period exceeding one year.

The Remuneration Committee has considered the notice periods and termination arrangements set out below in light of the Combined Code, and continues to believe they are appropriate for the Executive Directors given their seniority and value to the Company.

The service contracts in respect of the Executive Directors who served at any time during the period under review are summarised below:

	Date of service contract	Notice period from Company	Notice period from individual
Simon Fox	18 July 2006	12 months	12 months
Neil Bright	23 April 2002	12 months	12 months
Gerry Johnson	8 September 2005	12 months	12 months

Note:

(i) The service contract under which Mr Johnson was appointed as Managing Director of Waterstone's Booksellers Limited was the new model service contract as mentioned below and, therefore, remained in place on his appointment to the Board.

The Chairman and Non-Executive Directors do not have service agreements but have been engaged under letters of appointment. All are terminable by the Company without liability for compensation. All Non-Executive appointments are for an initial period of three years and can be extended for a subsequent period of three years. The periods of appointment for Roy Brown, and Lesley Knox are until 22 April 2009, to 30 September 2009 for Christopher Rogers and 30 September 2010 for Philip Rowley.

Philip Rowley and Roy Brown, who are standing for re-election at the forthcoming Annual General Meeting, have letters of appointment as Non-Executive Directors and Simon Fox, who is also standing for re-election at the forthcoming Annual General Meeting, has a service contract which provides for a notice period of 12 months.

Copies of the Executive Directors' service agreements and the letters of appointment for the Chairman and each of the Non-Executive Directors are available at the registered office of the Company and will be available at the Annual General Meeting.

During the period under review, the Board carried out a process for evaluating the individual Directors, the Board as a whole and each of the Board Committees. Details of this performance evaluation process can be found in the Corporate Governance Report on page 18.

**Compensation for early termination**

The arrangements for early termination of an Executive Director's service agreement are decided by the Remuneration Committee and will be made in accordance with the service agreement provisions of each of the Executive Directors. Each service agreement provides for a payment in lieu of notice on early termination to the Executive Director, which shall consist of base salary and the cash equivalent of all other benefits. In the case of Mr Bright this would also include accrued bonus to date, if any. The Remuneration Committee may exercise discretion over unvested share options and/or deferred bonus entitlement and/or awards made under the performance share plan in accordance with the rules of the appropriate schemes.

In addition, Mr Bright's service agreement contains provisions that in the case of termination in breach of contract by the Company or termination by the Executive Director following material breach of contract by the Company within one year of a change of control of the Company, Mr Bright is entitled to compensation calculated on the same basis as set out above save that, in addition, he shall be entitled to an amount equal to the annual bonus he would have received for the 12 months after termination calculated on the basis of the Group's latest forecasts prior to the date of termination; the immediate vesting of all outstanding deferred bonus awards, the enhancement of pension arrangements by increasing his pensionable salary by 12 months, the provision of all other benefits to which Mr Bright is entitled for a period of 12 months (or the financial equivalent thereof) and, subject to the discretion of the Remuneration Committee, the vesting of any unexercised share options and awards made under the performance share plan.

If payments for termination are dealt with in accordance with the above provisions the restrictive covenants contained in Mr Bright's service agreement in favour of the Company will continue to apply.

A new model service agreement was introduced in 2006 which does not include any change of control provisions and requires the Executive Director to mitigate his loss. This service agreement was used for the appointment of Messrs Fox and Johnson and will be used for any future appointments of Executive Directors.

#### **Outside directorships**

No Executive Director may accept a non-executive directorship without the prior approval of the Board to ensure that they do not give rise to conflicts of interest. During the period under review no Executive Director held any non-executive appointments.

#### **Chairman and Non-Executive Directors' remuneration**

The Chairman and the Executive Directors determine the remuneration of the Non-Executive Directors for their services as members of the Board and its Committees in accordance with the Company's Articles of Association. The Remuneration Committee determines the remuneration of the Chairman.

A review takes place in January every two to three years. The policy is to pay fees at a market competitive level in comparison with companies of broadly similar size in terms of market capitalisation. The Company takes into account each individual's responsibilities and time commitments when setting fee levels. The Chairman, Carl Symon, receives a basic fee of £190,000 pa. The Non-Executive Directors receive a basic fee of £40,000 pa. Christopher Rogers and Roy Brown each receive an additional £5,000 pa for chairing the Audit Committee and Remuneration Committee respectively. Roy Brown also receives a further £5,000 pa for acting as Senior Independent Director and £15,000 pa for chairing the Board of HMV Group Pension Trustees Limited. Mr Brown ceased to chair the Board of HMV Group Pension Trustees Limited with effect from 30 April 2008 and his payment in this respect ceased at that date.

The Chairman and Non-Executive Directors do not participate in any of the incentive or benefit schemes of the Group other than the provision of staff discount cards.

#### **Shareholder approval**

A resolution to approve the Remuneration Report is being proposed at the Annual General Meeting.

For and on behalf of the Board

#### **Roy Brown**

Chairman of the Remuneration Committee

30 June 2008

# Corporate responsibility

HMV Group recognises that its businesses have social and environmental impacts and that we have a responsibility to manage these impacts effectively at a strategic and operational level. In some areas we are in direct control of these impacts, while in others we can only attempt to influence the actions of others.

This statement contains our approach towards our social and environmental behaviour and management at Group and operational level. The Group encourages its businesses to implement, where practicable, CSR programmes and initiatives, and to manage their social and environmental impacts in ways that are relevant to their business, location and stakeholders. Our CSR approach pays particular regard to the following areas:

- health and safety
- environmental management
- human resources
- community affairs
- product responsibility
- marketing.

## Rewarding ability

The Group recognises the commitment and passion its employees have towards our products and serving our customers. We encourage continual learning and development, recognise ability and reward effort. We work hard to provide opportunities for empowerment and fulfilment. We are proud of the individual service that our employees are able to provide through their product knowledge.

## Celebrating difference

We value the different skills that our employees can bring to their work; product knowledge and customer service, and celebrate the difference in individuals. The Group does not discriminate on any grounds; respects individual preference, providing it is within the law; and encourages a widening of knowledge about people with different abilities, cultures, needs and personalities.

## Listening and responding

We are interested in the views of our employees, customers and other stakeholders and, where possible and when relevant, try to make changes in response to feedback we receive. We believe in communicating openly and transparently, including feedback we have received and our response.

## Product accessibility

We are proud of the wide range of products we are able to provide our customers; products that reflect the broad interests of diverse people and cultures, around the world. We believe in making these products available to all people who wish to have access to them, providing we comply with legal, health and safety requirements. Our policy regarding accessibility is reflected in our marketing practices and store configurations.

## Accountability and good governance

We recognise that we have responsibilities in all areas of our business, to many different stakeholders, not least our investors. We act with integrity at all times, comply with the law and are truthful in all our communication. We have sound systems to identify and rectify instances that could potentially damage the Group and/or its reputation.

## Progress in 2007/08

### Health and safety

HMV UK & Ireland complies with all legislation regarding health and safety, and takes all possible steps to ensure that the working environment is free from risks as far as is reasonable. We aim to minimise incidences of accident or incident while in our locations, and we are committed to preventing a reoccurrence of an accident or incident, should it happen. We are committed to a system of monitoring and recording our health and safety performance in order to enable us to continually improve. HMV UK & Ireland uses an intranet-based, Health and Environmental (SHE) management system to report all accidents and near misses. 2007/08 was the third year that accurate accident reporting figures were recorded. The number of total accidents reported during the year under review increased by 13%, which had been anticipated due to employees being encouraged to report all violence-related incidents, both physical and verbal. However, reportable RIDDOR accidents fell by 58%.

## HMV UK & Ireland

Reporting year	Number of accidents (total)	Number of RIDDOR reportable accidents
2004/05	134 accidents in total	12 RIDDOR reportable
2005/06	224 accidents in total	9 RIDDOR reportable
2006/07	125 accidents in total	7 RIDDOR reportable
2007/08	142 accidents in total	3 RIDDOR reportable

56 Local Authorities conducted inspections of HMV stores, a slight decrease on the previous year. Three formal notices were served, all at the Guernsey distribution site. All were resolved within the notice periods served.

Twelve Chartered Institute of Environmental Health one-day courses were conducted with 100 store managers, assistant managers and loss prevention staff attending, and all attained the required standard. Two in-store health and safety briefs were produced and delivered to stores, with subjects covered including slips, trips and falls and fire prevention awareness.

Sixteen conflict management courses were carried out for store Loss Prevention Officers who are permitted by means of the risk assessment process to make arrests within stores. This process will be repeated for all remaining Loss Prevention staff during the next financial year who are not currently permitted to make arrests but may in future as their careers progress.

A company car driver's policy was introduced to ensure risks to individuals are reduced, as far as is reasonable. To complement this, a system of driver licence checks directly via the DVLA and an individual specific risk assessment were conducted by each driver and is reviewed by the risk and safety manager.

The Group's UK distribution centres received two health and safety audits over the course of the year conducted by the Risk and Safety Manager. An average audit mark of 96% was achieved, the pass mark being 80%. To date, Store Health and Safety Audits have been carried out in 132 stores, with 61% achieving the required pass mark.

The increase in violence-related accident reporting meant that the targeted 20% reduction was not achieved in 2007/08, but all other objectives were met, including a 10% reduction in RIDDOR accidents; the introduction of a company car drivers policy; the assessment of all security offices and shoplifting detention areas; introduction of a violence at work policy; training for LPOs in defusing aggression and dealing with violence; and improved reporting of violent incidents.

We continue to comply with DDA legislation in new and existing stores and proactively react to any concerns or issues raised by customers or enforcing bodies.

Support for local CSR initiatives continued, with sponsorship of the Police Community Clubs anti-bullying and vandalism campaign and the Wandsworth Borough anti-shoplifting DVD programme for senior schools.

Objectives for HMV UK & Ireland for 2008/09 include:

- 10% reduction in all accidents
- Continued reduction in staff RIDDOR reportable accidents
- High-risk company car drivers to receive bespoke training
- Delivery to all remaining store-based loss prevention officers of Conflict Management training
- The re-writing of the Republic of Ireland safety manual
- Translation of warehouse induction training to cater for the needs of migrant workers to comply with new safety legislation
- Further improvement in accident reporting in order to enable unjustified liability claims to be refuted.

In Waterstone's an annual compliance audit is carried out each year to assess the company's progress on health and safety issues and to set the target and action plan for future years. Significant progress has been made since 2002, reaching a compliance score in 2006 of 89%. This score reduced following the acquisition of Ottakar's in 2006, but an 80% compliance target was met this year and the company is on target to return to standards prior to the acquisition of Ottakar's by 2010.

Key achievements included improved training, internal liaison and consistency and a reduction in the number of accidents reported in branches, down from 191 in 2006/2007 to 129 in 2007/2008.

### Environmental management

We are committed to continually improving our environmental performance and, where practicable, to having measurement and reporting systems in place to help us do this. The Group ensures that all of its subsidiaries comply with all relevant environmental laws and standards, including those particular to their operations. We are committed to continuously improving our environmental impact, particularly in the areas of energy, waste and water. Wherever possible and practicable, we look to increase our practice of recycling and re-use. The Group's businesses work with our suppliers to try, as a team, to reduce our environmental impact and find solutions. Where we are able to, we encourage our suppliers to be environmentally responsible in their own businesses.

Towards the end of the year, Carbon Trust commenced an environmental audit of HMV and Waterstone's stores, head offices and distribution centres, which will result in a new Energy Action Plan to be implemented from 2008/09.

In Waterstone's, in October 2007 British Safety Council carried out a 5-Star Environmental Audit of the business to provide an action plan for the future. Waterstone's achieved three stars, with an overall score of 81%, compared to an average of 65% for companies that have so far taken the BSC audit. Waterstone's now has an action plan to achieve four stars by 2010, and five stars by 2012.

Waterstone's carrier bags are 75% recycled material content, and to complement this and to incentivise customers to reduce their use of plastic bags customers are offered points on the Waterstone's loyalty card each time they decline or reuse a plastic carrier bag. In January 2008, a new cloth bag for life was introduced.

Through the work of energy champions in its stores and head office support, Waterstone's reduced annual energy usage by 4.4% over the previous year, and aims to reduce it by a further 5% by April 2009. All areas of the Waterstone's business operate a lights out policy at the close of business, and energy contracts are under review. Energy from renewable sources is also increasing, including in Waterstone's Drogheda branch, which is now powered exclusively by energy sourced from wind farms.

206 High Street stores have waste collected and managed by Greenstar, with shopping centre store recycling managed locally.

Waterstone's also works with the Bookseller's and Publisher's Associations environmental group to consider industry-wide approaches to environmental improvements.

### Human resources

The Group does not discriminate on any grounds, including: gender, nationality, ethnic or racial origin, non-job related disability, sexual orientation or marital status. We encourage learning and development and are committed to providing opportunities for all colleagues. We also understand that work is one aspect of an employee's responsibilities in life and that there may at times be a conflict regarding time availability between work and family needs. Wherever possible, we work with colleagues to provide flexibility and appropriate leave arrangements. We believe in open communication and provide a range of opportunities for our colleagues to provide feedback, directly to their manager, or through confidential means.

In 2007/08 HMV UK & Ireland focused on a set of initiatives to enhance colleague benefits, further develop open communication between employees and a number of new initiatives support vision and values.

In 2007/08 HMV UK & Ireland head office, stores and warehouse colleagues completed the Your Shout survey, designed to measure engagement across the company. The survey provides an opportunity for all colleagues to put forward views on working life and to openly comment on their personal motivation and engagement. Further improvements were made in communicating and involving colleagues from all areas of the business with the introduction of open forums through which 150 stores, head office and warehouse employees meet on a quarterly basis to discuss business developments and offer suggestions to senior management on how to improve performance.

Developing colleagues continues to be a focus for HMV UK & Ireland and to support the launch of vision and values this year a series of road shows took place across the UK for store management teams, head office and warehouses. In addition, a new and comprehensive induction programme was introduced for all new employees. Fast Track programmes continued for all colleagues who wish to develop to manager level, and this was enhanced to reflect the changing roles of management teams in HMV & Ireland and to reflect new vision and values for the business.

Colleague benefits and terms and conditions were reviewed. Significant changes to the benefits included improvements to current flexible working policies, a result of which was the introduction of career breaks, enhanced paternity leave and the award of additional holiday for long service. In addition, 'giving and green' benefits were introduced to encourage support for the company's environmental aims.

In order to support flexible working and improve the efficiency of store teams, five out of seven day working was introduced for store employees.

Waterstone's Fast Track scheme, 'Booksellers into Management', progressed well, with 95 booksellers taking part in the programme. More than 4,000 booksellers benefited from the 'Get Selling' training programme which was introduced during the year, and Waterstone's Buying Team participated in a Development Programme designed to equip them with improved negotiation skills, as well as commercial and financial awareness training. Waterstone's also reviewed its existing employee benefits package with the aim of providing new and diverse benefits during the new financial year.

Many established authors began their careers as Waterstone's booksellers and so this year Waterstone's launched the 'Bookseller's Bursary', a scheme aimed at encouraging and developing budding authors within the company. Booksellers were invited to submit examples of their work and a panel made up of publishers and agents was asked to select two winners from hundreds of entries received.

### Community affairs

The Group recognises the importance of Community Engagement, and supports this through a number of activities.

HMV UK & Ireland continued to work with a number of nominated charities, including Nordoff-Robbins Music Therapy. One of the key channels of this support is the annual HMV Football Extravaganza, which raised approximately £500,000 during the year, contributing to an overall total raised since inception of £3.9m. HMV also continued its £10,000 sponsorship of the 'Best New Music' Award at the annual NRMT 'Silver Clef' Luncheon, while a further £55,000 was raised for the charity through sales of 'Nipper' key-ring merchandise and branded 'MP3 socks' in stores.

HMV maintained its support for Comic Relief by stocking copies of Sport Relief's 'Football Managers: Uncut'. In addition, HMV renewed its relationship with War Child, which raises awareness and funds for children affected by military conflicts around the World, by selling approximately £100,000 of 'dog tags', and using stores to promote awareness of the charity. HMV's Guernsey store also helped to raise £1,000 in funds for BBC's Children In Need.

HMV is committed to supporting the promotion and appreciation of music, particularly by new and emerging artists, and in 2007/08 continued its sponsorship of the NME Awards, NME New Music Tours and the Mojo Honours List Awards, while also giving marketing support to the BRITs and Mercury Music Prize. HMV also supported numerous events promoting 'live' music, including the Reading, Leeds, Wireless, Download and T In The Park festivals. In Ireland HMV sponsored the Choice Music Prize, which recognises outstanding achievement by predominantly new artists; The Meteors; and The Irish Film and Television Awards.

HMV receives numerous requests for fundraising support and sponsorship from local charities, non-profit groups and individuals each year, covering such areas as health, wellbeing and medical research; education and the arts; community social responsibility and initiatives; and the environment. The value of these fundraising donations is estimated at approximately £50,000 per annum.

Waterstone's continued to support its partner charity, Dyslexia Action through fundraising and awareness-raising activities. This year £90,000 was raised for Dyslexia Action, whilst stores worked with local media to support Dyslexia Action centres throughout the UK.

Support was provided to further charities and organisations to promote writing and reading in all its forms, including The London Library, acquiring on its behalf £20,000 of books. Sponsorship of the Children's Laureate and laureate-led initiatives continued, including the distribution of the *Rough Guide to Picture Books* free to Waterstone's customers. Sixteen literary festivals across the UK were supported, including the Bath Festival of Children's Literature, Glasgow's Aye Write and the Cheltenham Festival.

Waterstone's stores were incentivised by a regional award to further improve links with their local communities, resulting in over 6,300 events, including 1,700 children's events, author visits to schools, reading groups, links with local libraries and activity days. Waterstone's Oban 'out and about' delivery van serves communities in the Hebrides with no access to a local bookshop, and during the year the van made visits to more than 100 different locations.

## Directors' report

The Directors submit their report and audited financial statements for the 52 weeks ended 26 April 2008, which were approved on behalf of the Board on 30 June 2008.

### Principal activities and business review

The principal activities of the Group are the retailing of pre-recorded music, video and electronic games under the HMV and Fopp brands and the retailing of books principally under the Waterstone's brand. The Group has operations in seven countries, with the principal markets being those of the UK and Canada.

During the period under review the Company disposed of its interest in its Japanese business for the sum of Yen17.0bn (£70.6m). In addition it purchased seven Fopp stores for the sum of £0.4m.

Commentary on the strategy of the Company, the performance of the Group during the year, likely future developments and details of the disposal of HMV Japan and acquisition of the Fopp stores can be found in the Chairman's statement on pages 2 and 3, and the Business and financial review on pages 4 to 15, which are deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

### Risks and uncertainties

The Board has a policy of continuous identification and review of key business risks and uncertainties. It oversees the development of processes to ensure that these risks are managed appropriately and operational management are delegated with the tasks of implementing these processes and reporting to the Board on their outcomes. The key risks identified by the Board are as follows:

#### Competition

The Group operates in highly competitive markets where, for certain of its product ranges at certain times in the product life cycle, the Group must adapt and invest in strategies to remain competitive with supermarket and pure Internet retailers. In addition, such is the competitive nature of its markets that at times in the past pressure has been brought to bear on the Group's weaker competitors, which has led to one-off closing or liquidation activity for a limited period of time. In the past, such competitor actions have adversely impacted the Group's pricing, margins and profitability which, in the future, may also have an adverse impact on the Group's business and financial condition.

#### Growth of digital entertainment

Physical entertainment media is a key driver of footfall to the Group's stores and of online customers to its various Internet sites. Technological advances and changing consumer preferences have given rise to new methods of digital delivery, both legal and illegal, of music, film, electronic games and books, thereby reducing the purchase of physical media formats.

The Group has responded to these challenges by the launch of its own websites and continued investment to grow these businesses, however further unforeseen technological developments could have a further adverse impact on the Group's future profitability and cash flows.

#### Seasonality

The business of the Group is highly seasonal with the Christmas season being the most important trading period in terms of sales, profitability and cash flow. Lower than expected performance in this period may have an adverse impact on results for a full financial year.

#### External factors

Retail markets are sensitive to economic conditions and if consumers lose confidence in the UK economy, overall spending on the high street will reduce which could affect revenue and profit. Other external factors which could affect the Group include acts of terrorism or war or an outbreak of a pandemic disease, which could reduce the number of customers visiting the Group's stores, causing a decline in revenue and profit.

#### Failure of supply

The Group has agreements with key suppliers and an interruption or loss of supply of core category products from these suppliers would affect the Group's ability to trade.

#### Damage to reputation or brands

The HMV and Waterstone's brands are material assets of the Group and maintaining their reputation is key to the success of the Group. Failure to protect these brands, an event that materially damaged the reputation of these brands and/or a failure to sustain their appeal to customers could have an adverse impact on the financial performance of the Group.

#### Information Technology systems

The Group relies on a number of important IT systems, both for its stores and its Internet sites. Any significant system performance problems could affect the Group's ability to trade as well as its profitability.

#### Key personnel

The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's people are frequently targeted by other companies for recruitment.

#### Retail store network

Retaining a portfolio of good quality real estate, in prime retail areas and at commercially reasonable rates remains critical to the performance of the Group. All of the Group's stores are held under operating leases, and consequently the Group is exposed to the extent that any stores become unviable as a result of rental inflation. Where a store location becomes surplus to requirements, the Group's policy of occupying prime, highly marketable locations serves to limit such lease exposure.

### Strategic initiatives

In March 2007, a new strategic plan was laid out for the transformation of the Group, which included a number of key initiatives for improving the financial performance of the Group over a three-year period. Good progress was made during the year on the transformation programme, which remains on track. However, the failure of one or more of these initiatives could result in an adverse impact on the profitability and cash flows of the Group.

### Results and dividends

The consolidated profit after deducting taxation amounted to £89.0m (2007: £16.1m). The Board of Directors recommends a final dividend of 5.6p per Ordinary Share. This together with the interim dividend of 1.8p, already declared and paid, makes a total for the year of 7.4p per Ordinary Share (2007: 7.4p per Ordinary Share). Subject to approval at the forthcoming Annual General Meeting the final dividend will be paid on 10 October 2008 to those shareholders whose names are on the register of members on 29 August 2008.

### Directors

Mark McCafferty retired as a Director on 6 September 2007. Gerry Johnson was appointed a Director on 26 July 2007 and Philip Rowley was appointed as a Non-Executive Director on 1 October 2007. All other Directors served throughout the year under review and details for all present Directors are listed, together with their biographical details, on pages 16 and 17. Carl Symon will retire as a Director and Chairman at the forthcoming Annual General Meeting. In accordance with the Articles of Association of the Company, Philip Rowley will offer himself for re-election at the forthcoming Annual General Meeting. The Company's Articles of Association require one-third of the Directors to retire by rotation at each Annual General Meeting and, in any event, each Director must offer himself or herself for re-election at least once every three years. Accordingly, Roy Brown and Simon Fox will offer themselves for re-election at the forthcoming Annual General Meeting.

With regards to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of the Directors are detailed in the Corporate Governance Report on page 18.

The Directors' interests in the shares of the Company, together with their remuneration (where applicable) and further details of their service agreements are detailed in the Directors' Remuneration Report on pages 22 to 31.

No Director, at any time during the period under review, had a material interest in any contracts with the Company or any of its subsidiary undertakings, other than the Executive Directors who had such an interest through their service agreements with the Company, details of which are summarised on page 30. None of the Directors or their families at any time during the period under review, or subsequently, were interested in any shares of the Company's subsidiary undertakings.

Each Director has been given an unlimited indemnity from the Company in respect of certain losses which they may incur to third parties in the course of acting as Directors of the Company and any subsidiary undertaking in which they hold a directorship.

### Principal shareholders

As at 27 June 2008 the Company had been advised of the following holdings representing 3% or more in its issued Ordinary Shares:

	Number of Ordinary Shares	Percentage of issued share capital
UBS Global Asset Management	64,665,986	16.03
JPMorgan Chase & Co	45,468,020	11.27
Aberdeen Asset Management PLC	39,849,946	9.88
FIL Ltd	37,834,653	9.38
Tameside Metropolitan Borough Council	29,655,644	7.35
Standard Life Investments Ltd	28,140,216	6.98
Schroders plc	21,350,061	5.29
Brandes Investment Partners LP	19,819,782	4.91
Deutsche Bank AG	16,629,763	4.12
Legal & General Group plc	16,171,450	4.01
UBS Investment Bank	16,045,909	3.98
Barclays PLC	15,961,454	3.96
Prudential plc	15,804,032	3.92
Allianz SE	13,237,128	3.28

### Policy on payment of creditors

The Group does not impose standard payment terms on its suppliers but agrees specific terms with each and ensures that each supplier is made aware of such terms. It is the Group's policy to pay its suppliers in accordance with the terms that they have agreed. The Company is a holding company and therefore has no trade creditors.

### Financial instruments

The Group's Treasury Department is principally responsible for managing financial risks to which the Group is exposed, such as funding risk, liquidity risk, interest rate risk, credit risk and foreign exchange risk. Treasury manages these risks using policies approved by the Board.

Details of the Group's financial risk management policies can be found in Note 27 to the Accounts, a breakdown of the Group's net debt position is found in Note 26 and interest charges can be found in Note 10 to the Accounts.

### **Employee policies**

The Group aims to employ and develop the best people, putting them in the right positions with a significant level of delegated authority and supporting them with the infrastructure and technology required to perform at the highest levels and at the lowest costs with the quickest response time.

Responsibility for employment rests primarily with each business operation under the general guidance of central policy and procedural guidelines. Group companies are committed to the maintenance of a work environment free of discrimination on the grounds of age, gender, nationality, ethnic or racial origin, non-job related disability, sexual orientation or marital status.

The Group gives full consideration to applications from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

In order to promote employee involvement in the Group, regular meetings are held between local management and employees to allow a free flow of information and ideas.

The Company encourages staff involvement in the Group's performance via a combination of employee bonus and share schemes. The Group has established a Share Incentive Plan, details of which are set out on page 24, in which the UK employees are entitled to participate provided they meet certain service conditions.

### **Share capital**

At the Annual General Meeting held in September 2007, shareholders authorised the Company to purchase up to a maximum of 40.2m of its own Ordinary Shares, representing 10% of the issued share capital of the Company. During the period under review the Company did not purchase any of its own shares.

Details of the Company's share capital can be found in Note 29 on page 74 which is incorporated by reference and deemed to be part of this report. Since the end of the period under review the Company has not increased its issued share capital.

The Company has one class of Ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The percentage issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association of the Company and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Details of the employee share schemes are set out in Note 30 and in the Directors' remuneration report on pages 23 to 25 both of which are incorporated by reference in (and shall be deemed to form part of) this report.

### **Charitable donations**

The Group made charitable donations of £12,000 in the period under review (2007: £38,000). It is Group policy not to make donations to political parties and therefore no political donations were made during the period. The Group is also involved in charitable fundraising, details of which can be found in the Corporate Responsibility Statement on page 35.

### **Significant agreements**

The Company's Senior Bank Facility agreement, details of which can be found in Note 27 on page 71 to the financial statements, contains provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company.

The rules of the Company's share plans set out consequences of a change of control of the Company on the employee's rights under the plans. All outstanding awards on the change of control will vest immediately to employees to the extent that any performance conditions are satisfied and, unless the Remuneration Committee otherwise decides, will be pro-rated to the extent that the vesting period for each outstanding award has been completed at that time.

Details of payments to the Executive Directors under their service contracts as a result of a change of control can be found in the Directors' remuneration report on page 30 and are deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

**Auditors**

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 16 and 17. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

A statement of the Directors' responsibility for the consolidated financial statements can be found on page 40, which is deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

Ernst & Young LLP have indicated their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

**Going concern**

The Directors believe, after making inquiries that they consider to be appropriate, 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 the financial statements.

**Annual General Meeting**

The Annual General Meeting of the Company will be held at 3.00pm on 5 September 2008 at Andaz Hotel, Liverpool Street, London, EC2M 7QN. The special business to be proposed at that meeting will be the renewal of the Directors' authority to allot new Ordinary Shares and to disapply pre-emption rights in certain circumstances; the renewal of the Directors' authority to buy back the Company's shares in the market; the amendment of the Articles of Association of the Company; and, to avoid an inadvertent breach of Companies Act 2006, the renewal of the Group's authority to make political donations. The Notice of Meeting and details of the special business to be proposed can be found in the accompanying letter to shareholders.

By order of the Board

**Elaine Marriner**

Company Secretary

30 June 2008

Shelley House, 2-4 York Road, Maidenhead, Berkshire SL6 1SR

## Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities on page 41, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law, the Disclosure and Transparency Rules and those International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present a true and fair view of the financial position of the Company and of the Group and the financial performance and the cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (iii) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- (iv) state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Acts 1985 and 2006 as well as Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm that, to the best of our knowledge:

- (i) the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and
- (ii) the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**Simon Fox**  
Chief Executive Officer

**Neil Bright**  
Group Finance Director

30 June 2008

# Independent Auditors' Report to the Members of HMV Group plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of HMV Group plc for the 52 weeks ended 26 April 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expenses and the related Notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial information, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures. We read other information contained in the Annual Report

and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' remuneration report, the Chairman's Statement, the Business and financial review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 26 April 2008 and of its profit for the 52 weeks then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 26 April 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

## Ernst & Young LLP

Registered auditor, Birmingham.

30 June 2008

# Consolidated income statements

For the 52 weeks ended 26 April 2008

	Notes	Before exceptional items 2008 £m	Exceptional items 2008 £m	Total 2008 £m
<b>Continuing operations</b>				
Revenue	3,4	1,874.9	–	1,874.9
Cost of sales		(1,718.1)	(4.6)	(1,722.7)
Gross profit		156.8	(4.6)	152.2
Administrative expenses		(90.6)	–	(90.6)
Operating profit	3,5	66.2	(4.6)	61.6
Finance income	10	1.6	–	1.6
Finance costs	10	(11.2)	–	(11.2)
Profit before taxation		56.6	(4.6)	52.0
Taxation	11	(15.8)	1.1	(14.7)
Profit from continuing operations		40.8	(3.5)	37.3
<b>Discontinued operation</b>				
(Loss) profit after tax from discontinued operation	12	(0.1)	51.8	51.7
Profit for the period attributable to shareholders of the parent company		40.7	48.3	89.0
<b>Earnings per share for profit attributable to shareholders</b>				
	13			
– Basic		10.1p	12.0p	22.1p
– Diluted		10.0p	12.0p	22.0p
<b>Earnings per share for profit from continuing operations attributable to shareholders</b>				
	13			
– Basic		10.1p	(0.9)p	9.2p
– Diluted		10.1p	(0.9)p	9.2p

See Accounting Policies on pages 47 to 51 for the description of the 2008 and 2007 reporting periods.  
For details of the exceptional items included above, see Note 7.

	Notes	Before exceptional items 2007 (restated) £m	Exceptional items 2007 (restated) £m	Total 2007 (restated) £m
<b>Continuing operations</b>				
Revenue	3,4	1,684.8	–	1,684.8
Cost of sales		(1,554.0)	(9.9)	(1,563.9)
Gross profit		130.8	(9.9)	120.9
Administrative expenses		(76.8)	(14.8)	(91.6)
Operating profit	3,5	54.0	(24.7)	29.3
Finance income	10	2.9	–	2.9
Finance costs	10	(11.7)	(1.8)	(13.5)
Profit before taxation		45.2	(26.5)	18.7
Taxation	11	(12.0)	7.5	(4.5)
Profit from continuing operations		33.2	(19.0)	14.2
<b>Discontinued operation</b>				
Profit after tax from discontinued operation	12	1.9	–	1.9
Profit for the period attributable to shareholders of the parent company		35.1	(19.0)	16.1
<b>Earnings per share for profit attributable to shareholders</b>				
– Basic	13	8.7p	(4.7)p	4.0p
– Diluted		8.7p	(4.7)p	4.0p
<b>Earnings per share for profit from continuing operations attributable to shareholders</b>				
– Basic	13	8.2p	(4.7)p	3.5p
– Diluted		8.2p	(4.7)p	3.5p

See Accounting Policies on pages 47 to 51 for the description of the 2008 and 2007 reporting periods.  
For details of the exceptional items included above, see Note 7.

## Statement of recognised income and expense

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

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Profit (loss) for the period attributable to shareholders of the parent company		<b>89.0</b>	16.1	<b>33.1</b>	(6.4)
Foreign exchange translation differences		<b>5.5</b>	–	<b>0.2</b>	(0.8)
Foreign exchange recycled to the income statement on discontinued operation		<b>(0.1)</b>	–	–	–
Loss on forward foreign exchange contracts		<b>(0.4)</b>	–	–	–
Actuarial gains on defined benefit pension schemes	34	<b>7.3</b>	–	<b>7.5</b>	–
Available-for-sale equity securities:					
Transfers to the balance sheet	20	–	2.9	–	2.9
Tax on items recognised directly in equity	11	<b>(2.2)</b>	0.1	<b>(2.3)</b>	–
Net income recognised directly in equity		<b>10.1</b>	3.0	<b>5.4</b>	2.1
Total recognised income and expense for the period		<b>99.1</b>	19.1	<b>38.5</b>	(4.3)

## Balance sheets

	Notes	Group as at 26 April 2008 £m	Group as at 28 April 2007 £m	Company as at 26 April 2008 £m	Company as at 28 April 2007 (restated) £m
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	15	149.4	169.2	0.3	0.4
Intangible assets	16	73.1	73.0	–	–
Investments in subsidiaries	17	–	–	657.7	664.2
Deferred income tax asset	11	20.6	30.1	6.2	8.1
Trade and other receivables	18	0.9	7.4	–	–
		<b>244.0</b>	279.7	<b>664.2</b>	672.7
<b>Current assets</b>					
Inventories	19	205.4	210.4	–	–
Trade and other receivables	18	58.9	69.2	28.4	52.7
Current income tax recoverable		1.7	0.6	–	–
Cash and short-term deposits	22	35.5	77.9	4.1	–
		<b>301.5</b>	358.1	<b>32.5</b>	52.7
<b>Total assets</b>		<b>545.5</b>	637.8	<b>696.7</b>	725.4
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred income tax liabilities	11	(0.1)	(0.1)	–	–
Retirement benefit liabilities	34	(16.3)	(22.2)	(15.9)	(22.0)
Interest-bearing loans and borrowings	24	(0.5)	(0.8)	–	–
Provisions	25	(0.2)	(0.5)	–	–
		<b>(17.1)</b>	(23.6)	<b>(15.9)</b>	(22.0)
<b>Current liabilities</b>					
Trade and other payables	23	(409.5)	(397.1)	(121.0)	(91.0)
Current income tax payable		(21.2)	(15.2)	–	(3.8)
Interest-bearing loans and borrowings	24	(35.0)	(207.3)	(123.7)	(183.9)
Derivative financial instruments	26	(0.4)	–	–	–
Provisions	25	(3.5)	(7.8)	–	–
		<b>(469.6)</b>	(627.4)	<b>(244.7)</b>	(278.7)
<b>Total liabilities</b>		<b>(486.7)</b>	(651.0)	<b>(260.6)</b>	(300.7)
<b>Net assets (liabilities)</b>		<b>58.8</b>	(13.2)	<b>436.1</b>	424.7
<b>Equity</b>					
Equity share capital	29,31	323.1	323.0	323.1	323.0
Other reserve – own shares	31	(2.0)	(2.5)	(2.0)	(2.5)
Hedging reserve	31	(0.4)	–	–	–
Foreign currency translation reserve	31	7.6	2.2	–	–
Capital reserve	31	0.3	0.3	0.3	0.3
Retained earnings	31	(269.8)	(336.2)	114.7	103.9
<b>Total equity</b>	31	<b>58.8</b>	(13.2)	<b>436.1</b>	424.7

The financial statements were approved by the Board of Directors on 30 June 2008 and were signed on its behalf by:

**Simon Fox**  
Chief Executive Officer

**Neil Bright**  
Group Finance Director

# Cash flow statements

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

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
<b>Cash flows from operating activities</b>					
Profit (loss) before tax from continuing operations		52.0	18.7	(29.2)	(38.4)
Profit (loss) before tax from discontinued operation		52.6	2.9	–	–
Profit before tax		104.6	21.6	(29.2)	(38.4)
(Gain) loss on disposal of discontinued operation		(52.7)	–	–	–
Net finance costs		9.8	11.0	15.1	13.6
Depreciation	15	41.9	46.3	0.1	0.2
Impairment charges	15	–	7.0	6.9	–
Profit on disposal of property, plant and equipment		(0.1)	–	–	–
Equity-settled share-based payment charge (credit)	9	2.6	(0.3)	0.8	–
Pension contributions less income statement charge		1.3	(2.5)	1.3	(2.6)
		107.4	83.1	(5.0)	(27.2)
Movement in inventories		(13.3)	(17.0)	–	–
Movement in trade and other receivables		2.2	(5.9)	21.2	(6.3)
Movement in trade and other payables		47.7	9.8	30.4	(66.1)
Movement in provisions		(1.5)	2.7	–	–
Cash generated from operations		142.5	72.7	46.6	(99.6)
Income tax (paid) received		(9.3)	(15.1)	5.9	15.6
<b>Net cash flows from operating activities</b>		<b>133.2</b>	<b>57.6</b>	<b>52.5</b>	<b>(84.0)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	15	(36.8)	(46.6)	–	(0.1)
Purchase of intangible asset	16	(0.1)	–	–	–
Proceeds from sale of property, plant and equipment		0.4	2.6	–	–
Interest received		1.6	2.7	3.6	1.6
Disposal costs	12	(4.7)	–	(0.1)	–
Proceeds from sale of business, net of cash disposed	12	70.6	–	1.5	–
Acquisition of subsidiary including fees		–	(58.4)	–	–
Dividends received from subsidiaries		–	–	55.0	26.1
<b>Net cash flows from investing activities</b>		<b>31.0</b>	<b>(99.7)</b>	<b>60.0</b>	<b>27.6</b>
<b>Cash flows from financing activities</b>					
Movements in short-term facilities		(88.0)	31.3	(62.0)	8.0
(Repayment) drawdown of term debt		(80.0)	80.0	(80.0)	80.0
Net debt in subsidiary repaid on acquisition		–	(31.8)	–	–
Proceeds of issue of equity shares	31	0.1	0.1	0.1	0.1
Interest paid		(10.9)	(11.8)	(18.3)	(15.0)
Equity dividends paid to shareholders	14	(29.8)	(29.7)	(29.8)	(29.7)
Finance lease funding received		–	1.5	–	–
Repayment of capital element of finance leases		(0.3)	(0.4)	–	–
<b>Net cash flows from financing activities</b>		<b>(208.9)</b>	<b>39.2</b>	<b>(190.0)</b>	<b>43.4</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(44.7)</b>	<b>(2.9)</b>	<b>(77.5)</b>	<b>(13.0)</b>
Opening cash and cash equivalents	28	73.9	80.1	(7.3)	5.7
Effect of exchange rate changes	28	6.3	(3.3)	–	–
<b>Closing cash and cash equivalents</b>	28	<b>35.5</b>	<b>73.9</b>	<b>(84.8)</b>	<b>(7.3)</b>

# Notes to the financial statements

## 1. Authorisation of financial statements and statement of compliance with IFRS

The Group and Company financial statements of HMV Group plc for the period ended 26 April 2008 were authorised for issue by the Board of Directors on 30 June 2008, and the balance sheets were signed on the Board's behalf by Simon Fox and Neil Bright. HMV Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group and the Company are set out below.

The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

## 2. Accounting policies

### Basis of preparation

The consolidated financial statements of the Company and its subsidiaries are made up to the Saturday on or immediately preceding 30 April each year. Consequently, the financial statements for the current period cover the 52 weeks ended 26 April 2008, whilst the comparative period covered the 52 weeks ended 28 April 2007. The financial statements are prepared in accordance with applicable accounting standards and specifically in accordance with the accounting policies set out below.

The financial statements are presented in Pounds Sterling and are rounded to the nearest tenth of a million except where otherwise indicated. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments and pensions that have been measured at fair value.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

### Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and the measurement of defined benefit pension obligations. The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. This involves estimation of future cash flows and choosing a suitable discount rate. Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate.

### Basis of consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The results of subsidiaries acquired or disposed of during a period are included from the date that effective control passed or up to the effective date of disposal, as appropriate.

The income statement for the comparative period has been restated to reflect the disposal of the HMV Japan business, which has been classified as a discontinued operation.

### Investments in subsidiaries

In its separate financial statements, the Company recognises its investments in subsidiaries at cost less impairments booked. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of the investment.

### Revenue

Revenue represents the value of goods supplied, less discounts given, and is recognised when goods are delivered and title has passed. It also includes commission earned on ticket sales and similar activities. Revenue excludes value added tax ("VAT") and similar sales-related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate. Dividend income is recognised when the right to receive payment is established. Rental income from sub-let properties is recognised on a straight-line basis over the period of the sublease.

## 2. Accounting policies continued

### Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at period end rates. The resulting foreign exchange differences are dealt with in the determination of profit (loss) for the period.

On consolidation, average exchange rates are used to translate the results of overseas companies and businesses, and the assets and liabilities of overseas companies and businesses are translated into Sterling at period-end rates. Differences on translation are recognised as a separate equity reserve, which was set to zero on transition to IFRS. On disposal of an overseas company or business, the cumulative exchange differences for that entity are recognised in the income statement as part of the profit or loss on disposal.

### Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Exceptional items recognised in arriving at operating profit include (but are not limited to) those costs associated with integrating a newly acquired business, impairment losses and costs associated with restructuring the business.

### Goodwill

The Group has utilised the exemption available in IFRS 1 whereby IFRS 3 Business Combinations has not been applied retrospectively to past business combinations. Goodwill arising on acquisitions prior to 25 April 1998 was set off directly against reserves. This goodwill has not been reinstated on the balance sheet on the transition to IFRS. Furthermore, it will not be transferred to the income statement if the subsidiary is disposed of or if the investment in the subsidiary becomes impaired.

Positive goodwill arising since 25 April 1998 is capitalised and classified as an asset on the balance sheet. On transition to IFRS, this goodwill was frozen at its carrying value on the date of transition, 25 April 2004, subject to impairment testing at that date. Positive goodwill arising on acquisitions since the Group's transition to IFRS is also capitalised, classified as an asset on the balance sheet and is not amortised. Goodwill is calculated as the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. All capitalised goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

### Property, plant and equipment

The capitalised cost of property, plant and equipment includes only those costs that are directly attributable to bringing an asset to its working condition for its intended use.

Depreciation of property, plant and equipment is calculated on cost, at rates estimated to write off the cost, less the estimated residual value, of the relevant assets by equal annual amounts over their estimated useful lives.

The annual rates used are:

Leasehold improvements	Period of the lease
Plant, equipment and vehicles	10 to 33 $\frac{1}{3}$ %

The carrying values of property, plant and equipment are reviewed for material impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

### Leased assets

In respect of property operating leases, benefits received and receivable as an incentive to sign a lease, such as rent-free periods, premiums payable and capital contributions, are spread on a straight-line basis over the lease term. All other operating lease payments are charged directly to the income statement on a straight-line basis over the lease term. The Group has a number of lease agreements in which the rent payable is contingent on revenue, which is expensed in the period in which it is incurred.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased assets, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

### Intangible assets

Intangible assets are valued at cost and amortised over their useful life unless the asset can be demonstrated to have an indefinite life. Intangible assets with finite lives are reviewed for impairment if there is any indication that the carrying value may not be recoverable. Intangible assets with an indefinite useful life are tested for impairment annually.

## 2. Accounting policies continued

### Impairment of assets

The Group assesses at each reporting date whether there are indicators that an asset may be impaired. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets (cash-generating units). If any indicator of impairment exists, or when annual impairment testing is required, the Group makes an estimate of the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash inflows expected to be derived from the asset. Where the asset does not generate cash inflows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised in the income statement.

If there is an indication at the reporting date that previously recognised impairment losses no longer exist or may have decreased, the recoverable amount is again estimated. To the extent that the recoverable amount has increased, the previously recognised impairment loss is reversed. An impairment loss in respect of goodwill is not reversed.

### Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal.

### Taxation

**Current tax** Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

**Deferred tax** Deferred income tax is recognised on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognised for all temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for temporary differences associated with investments in subsidiaries and branches, as the Group has determined that undistributed profits will not be distributed in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and is not discounted.

Taxation is charged or credited directly to equity if it relates to items that are themselves charged or credited directly to equity, otherwise it is recognised in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2. Accounting policies continued

### Cash and cash equivalents

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits less bank overdrafts that are payable on demand.

### Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

### Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

### Pension costs

The Group operates both defined benefit and defined contribution pension schemes, the funds of which are held in separate, trustee administered funds.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net retirement benefit obligation recognised in the balance sheet represents the present value of the liabilities of the defined benefit scheme as reduced by the market value of the defined benefit scheme assets.

Actuarial gains and losses are recognised directly in equity in full in the period in which they occur and are presented in the statement of recognised income and expense. Other income and expenses associated with the defined benefit scheme are recognised in the income statement.

The defined benefit scheme provides benefits to a number of Group companies. There is no agreement or policy for allocating a share of the defined benefit obligation to each participating entity. Consequently, the Company, as sponsoring employer of the defined benefit scheme, recognises the net pension obligation for the scheme. The other participating members of the scheme account for their relevant pension costs on a defined contribution basis.

Contributions to the defined contribution scheme are charged in the income statement as they become payable in accordance with the rules of the scheme.

### Share-based payments

The cost of equity-settled transactions with employees granted on or after 7 November 2002, which had not vested by 1 January 2005, is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate pricing model.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market performance conditions, and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. No expense is recognised for awards that do not ultimately vest.

### Treasury Shares

HMV Group plc shares held by the Group's Employee Benefit Trust are classified in shareholders' equity as 'other reserve – own shares' and are recognised at cost. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

### Derivative financial instruments

The Group may from time to time use derivative financial instruments for hedging purposes, including cross-currency swaps, forward foreign exchange contracts, foreign currency options and interest rate swaps. The Group does not enter into derivative financial instruments for speculative purposes.

Derivative financial instruments are stated at their fair value. The fair value of forward foreign exchange contracts and currency options is their quoted market value at the balance sheet date, being the present value of the quoted forward price. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates.

## 2. Accounting policies continued

### Hedge accounting

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. For these cash flow hedges, when the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gains or losses on the hedging instrument previously recognised in equity are included in the carrying amount of the hedged asset or liability. Gains or losses realised on cash flow hedges are therefore recognised in the income statement in the same period as the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

### Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity, whilst any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

### Customer loyalty schemes

The fair value of loyalty points awarded is deferred until the awards are redeemed, after adjustment for the number of points expected never to be redeemed. Fair value is determined by reference to the value for which the points can be redeemed.

### New accounting standards

The Group and the Company have adopted the following new accounting standards, amendments to accounting standards and interpretations, which are either mandatory for the first time for the financial year ending 26 April 2008 or have been adopted early as appropriate.

- IFRS 7 Financial Instruments: Disclosures, effective for periods beginning on or after 1 January 2007. This new accounting standard had no effect on reported income or net assets and liabilities. The additional required disclosures are given in Notes 26 and 27 to the accounts.
- IAS 1 Amendment – Presentation of Financial Statements: Capital Disclosures, effective for periods beginning on or after 1 January 2007. The required disclosures are given in Note 31 to the accounts.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (1 March 2007) clarifies the guidance for applying share-based payment arrangements to the separate financial statements of each group company. It has had no impact on the results or net assets of the Group but has led to a prior year adjustment in the Company's financial statements (see Note 31).

The following have been adopted but have no material impact on the Group or Company:

- IFRIC 8 Scope of IFRS 2 (1 May 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (1 June 2006)
- IFRIC 10 Interim Financial Reporting and Impairment (1 November 2006)
- IFRIC 13 Customer Loyalty Programmes (1 July 2008)

The Group has not adopted early the requirements of the following accounting standards and interpretations, which have an effective date (shown in brackets) after the date of these financial statements:

- Amendment to IFRS 2 Share-based payment vesting conditions and cancellations (1 January 2009)
- IFRS 3 Business Combinations (revised 2008) (1 July 2009)
- IFRS 8 Operating Segments (1 January 2009)
- IAS 1 Presentation of Financial Statements (revised 2007) (1 January 2009)
- IAS 23 Borrowing Costs (1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (revised 2008) (1 July 2009)
- IFRIC 12 Service Concession Arrangements (1 January 2008)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (1 January 2008)

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements.

### 3. Segmental information

As a result of the disposal of HMV Japan during the period, the Group has been reorganised into three operating businesses – HMV UK & Ireland, HMV International, comprising HMV Canada, HMV Hong Kong and HMV Singapore, and Waterstone's. HMV is the music, DVD and electronic games retailing division that primarily trades under the HMV brand. Waterstone's is the book retailing division of HMV Group, primarily trading under the Waterstone's brand. Segment information about these businesses is presented below.

The Group's geographical segments are based on the location of the Group's operations in the United Kingdom, Rest of Europe, Asia and Canada.

The following tables present revenue, profit, employee numbers and certain asset and liability information regarding the Group's primary reporting format, business segments, for the periods ended 26 April 2008 and 28 April 2007.

	52 weeks ended 26 April 2008						
	Continuing operations					Discontinued operation	
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Waterstone's £m	Total £m	HMV Japan £m	Total operations £m
Segment revenue	1,079.0	231.6	1,310.6	564.3	1,874.9	61.2	1,936.1
Operating profit before exceptional items	41.4	8.5	49.9	16.3	66.2	0.1	66.3
Operating exceptional items:							
Store closure costs	–	–	–	(4.6)	(4.6)	–	(4.6)
Segment operating profit	41.4	8.5	49.9	11.7	61.6	0.1	61.7
Net finance costs					(9.6)	(0.2)	(9.8)
Profit before taxation					52.0	(0.1)	51.9
Taxation					(14.7)	–	(14.7)
Profit after tax on disposal of discontinued operation					–	51.8	51.8
Profit for the period					37.3	51.7	89.0
Average employees (number)	4,956	2,354	7,310	5,211	12,521	477*	12,998
Assets	205.5	48.2	253.7	266.0	519.7	–	519.7
Unallocated assets							25.8
Total assets							545.5
Liabilities	(235.5)	(43.6)	(279.1)	(134.9)	(414.0)	–	(414.0)
Unallocated liabilities							(72.7)
Total liabilities							(486.7)
Capital expenditure	20.4	3.6	24.0	12.0	36.0	0.8	36.8
Depreciation	20.3	3.6	23.9	16.4	40.3	1.6	41.9

Unallocated assets and liabilities include balances relating to cash, borrowings and taxation.

\* HMV Japan was owned by the Group for four months of the year under review and average employee numbers have been pro-rated accordingly. The average for those four months was 1,431 employees.

### 3. Segmental information continued

	52 weeks ended 28 April 2007						
	HMV UK & Ireland £m	HMV International £m	Total HMV £m	Continuing operations		Discontinued operation	
				Waterstone's £m	Total £m	HMV Japan £m	Total operations £m
Segment revenue	932.2	215.1	1,147.3	537.5	1,684.8	209.7	1,894.5
Operating profit before exceptional items	24.3	13.4	37.7	16.3	54.0	3.3	57.3
Operating exceptional items:							
Costs of integration	–	–	–	(10.2)	(10.2)	–	(10.2)
Impairment of property, plant and equipment	(3.7)	–	(3.7)	(3.3)	(7.0)	–	(7.0)
Store closure costs	–	–	–	(2.9)	(2.9)	–	(2.9)
Restructuring costs	(2.9)	–	(2.9)	–	(2.9)	–	(2.9)
	(6.6)	–	(6.6)	(16.4)	(23.0)	–	(23.0)
Segment result	17.7	13.4	31.1	(0.1)	31.0	3.3	34.3
Corporate integration and restructuring costs					(1.7)	–	(1.7)
Operating profit					29.3	3.3	32.6
Net finance costs before exceptional items					(8.8)	(0.4)	(9.2)
Exceptional finance costs					(1.8)	–	(1.8)
Profit before taxation					18.7	2.9	21.6
Taxation					(4.5)	(1.0)	(5.5)
Profit for the period					14.2	1.9	16.1
Average employees (number)	4,789	2,485	7,274	5,332	12,606	1,565	14,171
Assets	206.3	46.2	252.5	290.9	543.4	61.8	605.2
Unallocated assets							32.6
Total assets							637.8
Liabilities	(201.1)	(43.5)	(244.6)	(121.7)	(366.3)	(62.3)	(428.6)
Unallocated liabilities							(222.4)
Total liabilities							(651.0)
Capital expenditure	15.3	5.0	20.3	20.9	41.2	5.4	46.6
Depreciation	20.9	3.1	24.0	17.2	41.2	5.1	46.3

Unallocated assets and liabilities include balances relating to cash, borrowings and taxation.

### 3. Segmental information continued

The following tables present revenue and certain asset information regarding the Group's geographic segments for the periods ended 26 April 2008 and 28 April 2007.

	52 weeks ended 26 April 2008				
	United Kingdom £m	Rest of Europe £m	Asia £m	Canada £m	Total £m
Segment revenue	<b>1,564.2</b>	<b>79.1</b>	<b>91.0</b>	<b>201.8</b>	<b>1,936.1</b>
Assets	<b>452.5</b>	<b>19.0</b>	<b>8.3</b>	<b>39.9</b>	<b>519.7</b>
Unallocated assets					<b>25.8</b>
Total assets					<b>545.5</b>
Capital expenditure	<b>31.7</b>	<b>0.7</b>	<b>1.4</b>	<b>3.0</b>	<b>36.8</b>

	52 weeks ended 28 April 2007				
	United Kingdom £m	Rest of Europe £m	Asia £m	Canada £m	Total £m
Segment revenue	1,400.0	69.7	237.6	187.2	1,894.5
Assets	454.5	42.7	73.1	34.9	605.2
Unallocated assets					32.6
Total assets					637.8
Capital expenditure	35.9	0.3	6.5	3.9	46.6

### 4. Revenue

Revenue disclosed in the consolidated income statement is analysed as follows:

	2008 £m	2007 (Restated) £m
Sale of goods – continuing operations	<b>1,874.9</b>	1,684.8
Sale of goods – discontinued operation	<b>61.2</b>	209.7
Sale of goods	<b>1,936.1</b>	1,894.5
Sublease rental income (Note 5)	<b>3.1</b>	3.7
Financial income (Note 10)	<b>1.6</b>	2.9
Total revenue	<b>1,940.8</b>	1,901.1

## 5. Operating profit

	2008 £m	2007 £m
Total operating profit is stated after charging (crediting):		
Depreciation of property, plant and equipment	41.9	46.3
Cost of inventories recognised as expense	1,267.8	1,239.3
Write down of inventories	4.7	4.0
Operating lease rentals		
– Minimum rentals	148.3	150.7
– Contingent rentals	5.9	7.0
– Sublease rentals	(3.1)	(3.7)
Net operating lease rentals	151.1	154.0

The Group leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either or both minimum rentals and percentage rentals based on sales performance.

## 6. Fees to auditors

	2008 £m	2007 £m
Audit of the financial statements	0.2	0.2
Other fees to auditors:		
Local statutory audits for subsidiaries	0.2	0.3
Tax services	0.2	0.1
Services relating to corporate finance transactions	0.1	0.1
	0.7	0.7

## 7. Exceptional items

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

### 7. Exceptional items continued

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

During the period the Group disposed of its HMV Japan business, giving rise to a profit on disposal after costs of £52.7m and a tax charge of £0.9m. See Note 12 for further details.

During the previous financial year the Group incurred exceptional operating costs of £26.5m. Costs of integrating the Ottakar's acquisition of £10.2m were included within administrative expenses, with related store closure costs of £2.9m included within cost of sales. Impairment charges of £7.0m relating to property, plant and equipment in HMV UK and Waterstone's were included within cost of sales (see Note 15) and £4.6m of costs to restructure the Group were included within administrative expenses. Exceptional financing costs of £1.8m related to amendments to the Group's existing Senior Bank Facility (see Note 10). A tax credit of £7.5m arose in respect of exceptional costs.

### 8. Directors' emoluments

	2008 £m	2007 £m
Directors' emoluments	2.7	1.7
Compensation for loss of office	–	0.3
Aggregate gains made by Directors on the exercise of share options	–	–
Amounts receivable under long-term incentive plans	–	0.2
Number of Directors accruing benefits under defined benefit pension schemes	3	4

Full details of Directors' remuneration and interests are set out in the Remuneration Report on pages 22 to 31.

### 9. Employee costs

	2008 £m	2007 £m
Employee costs, including Executive Directors' emoluments:		
Wages and salaries	211.0	207.2
Social security costs	16.3	16.6
Other pension costs (see Note 34)	5.3	5.9
	<b>232.6</b>	<b>229.7</b>

Included in wages and salaries is a total charge for equity-settled share-based payments of £2.6m (2007: credit of £0.3m). A credit arose in the prior period as performance conditions for awards vesting had not been met and management had revised their estimate of the achievability of performance conditions relating to awards vesting in future periods. In addition, wages and salaries includes a charge of £0.4m (2007: £0.6m) for the Share Incentive Plan (see Note 30).

The average monthly number of employees during the period is disclosed in Note 3.

## 10. Net finance costs

	2008	2007 (Restated)
	£m	£m
Finance income		
Bank interest receivable	1.6	2.7
Other finance income – pensions (see Note 34)	–	0.2
Total finance income	1.6	2.9
Finance costs		
Bank loans and overdrafts	10.9	11.4
Amortisation of deferred financing fees	0.2	0.3
Other finance expense – pensions (see Note 34)	0.1	–
	11.2	11.7
Exceptional financing costs	–	1.8
Total finance costs	11.2	13.5
Net finance costs	9.6	10.6

Included within the total net finance costs are net non-cash charges totalling £0.3m (2007: £0.1m). These include the amortisation of deferred financing fees and other finance costs relating to pensions.

In addition to the above, a net finance charge of £0.2m (2007: £0.4m) was included in the result of the discontinued operation (see Note 12).

Exceptional financing costs of £1.8m in the prior period related to amendments to the Group's existing Senior Bank Facility.

## 11. Taxation

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

### 11. Taxation continued

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

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

The effective tax rate on continuing operations before exceptional items is 28% (2007: 27%). The tax expense in the current year includes a credit of £1.1m (2007: £7.5m) in relation to the exceptional items from continuing operations of £4.6m (2007: £26.5m) and a charge of £0.9m in relation to the profit on disposal of HMV Japan, details of which can be found in Note 7.

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2008 £m	2007 £m
Profit from continuing operations before tax	52.0	18.7
(Loss) profit from discontinued operation before tax	(0.1)	2.9
Gain on disposal of discontinued operation	52.7	–
Profit before taxation	104.6	21.6
Corporation tax at UK average statutory rate of 29.83% (2007: 30%)	31.2	6.5
Effects of:		
Income not taxable/permanent disallowables	1.5	0.4
Overseas income taxed at different rates	(1.1)	(0.2)
Permanent disallowables on exceptional items – continuing operations	0.3	0.6
Permanent disallowables on exceptional items – discontinued operation	(14.9)	–
Temporary differences relating to businesses that have ceased trading	–	(0.1)
Net prior period over provision	(2.9)	(1.0)
Temporary differences relating to prior periods	0.4	(0.7)
Deferred tax rate change	1.1	–
Total tax charge	15.6	5.5

Key factors affecting the tax charge are:

- (i) The tax charge is decreased by non-taxable income on the disposal of overseas operations in Japan.
- (ii) The tax charge is reduced by the release of prior year provisions relating to UK tax returns.
- (iii) The tax charge is increased by non-deductible expenses including non-qualifying depreciation.

### Deferred tax

Tax relating to items charged or credited directly to equity in the Group is as follows:

	2008 £m	2007 £m
Deferred tax relating to defined benefit pension schemes	2.6	0.8
Current taxation relating to defined benefit pension schemes	–	(0.8)
Deferred taxation relating to share-based payments	(0.3)	(0.1)
Current taxation on forward foreign exchange contracts	(0.1)	–
Tax charge (credit) in the statement of recognised income and expense	2.2	(0.1)

## 11. Taxation continued

The deferred tax included in the Group balance sheet is as follows:

	2008 £m	2007 £m
<b>Deferred tax liability</b>		
Other temporary differences	(0.1)	(0.1)
	<b>(0.1)</b>	<b>(0.1)</b>
<b>Deferred tax asset</b>		
Accelerated depreciation for tax purposes	13.6	15.6
Tax losses carried forward	–	3.8
Other temporary differences	1.0	3.5
Defined benefit pension scheme obligations	4.5	6.6
Share-based payments	1.5	0.6
	<b>20.6</b>	<b>30.1</b>

The deferred tax asset on the balance sheet is largely in respect of UK and Canadian temporary differences. The deferred tax asset as at 28 April 2007 included £6.2m in respect of HMV Japan.

**Unrecognised tax losses** There are no capital losses available for offset against the Group's future capital gains. The brought forward capital losses (2007: £1.7m tax value) were all utilised on the disposal of the Japanese operations. A deferred tax asset was not recognised in respect of these losses in the previous year.

**Deferred tax in the income statement** The deferred tax included in the Group income statement is as follows:

	2008 £m	2007 £m
Accelerated depreciation for tax purposes	(0.5)	(3.0)
Tax losses	1.9	(1.5)
Other	1.0	1.8
Share-based payments	(0.7)	0.1
Defined benefit pension scheme obligations	(0.4)	–
	<b>1.3</b>	<b>(2.6)</b>

## Company

Tax relating to items charged or credited directly to equity in the Company is as follows:

	2008 £m	2007 £m
Deferred tax relating to defined benefit pension schemes	2.6	0.8
Current taxation relating to defined benefit pension schemes	–	(0.8)
Deferred taxation relating to share-based payments	(0.3)	–
Tax charge in the statement of recognised income and expense	<b>2.3</b>	<b>–</b>

**11. Taxation continued**

The deferred tax included in the balance sheet of the Company is as follows:

	2008 £m	2007 £m
<b>Deferred tax asset</b>		
Other temporary differences	0.9	1.1
Defined benefit pension scheme obligations	4.5	6.6
Share-based payments	0.8	0.4
	<b>6.2</b>	<b>8.1</b>

**12. Discontinued operation**

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

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

	2008 £m	2007 £m
Revenue	61.2	209.7
Cost of sales	(58.4)	(193.8)
Gross profit	2.8	15.9
Administrative expenses	(2.7)	(12.6)
Operating profit	0.1	3.3
Finance costs	(0.2)	(0.4)
(Loss) profit before tax from a discontinued operation	(0.1)	2.9
Exceptional gain on disposal of a discontinued operation	52.7	-
Tax expense	(0.9)	(1.0)
Profit after tax for the period from discontinued operation	51.7	1.9

The tax expense is analysed as follows:

On profit on ordinary activities	-	(1.0)
On the gain on disposal	(0.9)	-
	<b>(0.9)</b>	<b>(1.0)</b>

The exceptional gain on disposal is calculated as follows:

	2008 £m
Net cash consideration received	52.4
Net liabilities disposed of	0.2
Foreign exchange recycled from the translation reserve	0.1
	<b>52.7</b>

## 12. Discontinued operation continued

Cash flows for discontinued operation are as follows:

	2008 £m	2007 £m
Operating cash flows	0.6	8.9
Investing cash flows	(0.8)	(5.4)
Financing cash flows	(0.2)	(4.2)
Net cash flows excluding disposal proceeds	(0.4)	(0.7)
Cash inflow on sale:		
		2008 £m
Gross consideration received		70.6
Cash disposed of with the business		8.2
Debt disposed of with the business		(21.7)
		57.1
Transaction costs incurred		(4.7)
Net cash consideration received		52.4
Net liabilities sold comprise the following assets and liabilities:		
		Total £m
Property, plant and equipment		13.5
Stock		21.5
Trade and other receivables		15.4
Taxation		6.3
Cash		8.2
		64.9
Trade and other payables		(43.4)
Debt		(21.7)
		(65.1)
Total net liabilities sold		(0.2)

## 13. Earnings per share

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

	2008 £m	2007 £m
Profit attributable to shareholders	89.0	16.1
Discontinued operation trading after tax	0.1	(1.9)
Profit on disposal of discontinued operation after tax	(51.8)	–
Profit from continuing operations	37.3	14.2
Exceptional items, less tax thereon (see Note 7)	3.5	19.0
Adjusted profit from continuing operations	40.8	33.2

**13. Earnings per share continued**

	<b>2008</b>	2007
	<b>Number</b>	Number
	<b>Million</b>	Million
Weighted average number of Ordinary Shares – Basic	<b>402.0</b>	401.4
Dilutive share options	<b>1.7</b>	2.4
Weighted average number of Ordinary Shares – Diluted	<b>403.7</b>	403.8
Earnings per Ordinary Share is calculated as follows:		
	<b>2008</b>	2007
	<b>Pence</b>	Pence
<b>Total operations</b>		
Basic	<b>22.1</b>	4.0
Adjusted	<b>10.1</b>	8.7
Basic diluted	<b>22.0</b>	4.0
Adjusted diluted	<b>10.0</b>	8.7
<b>Continuing operations</b>		
Basic	<b>9.2</b>	3.5
Adjusted	<b>10.1</b>	8.2
Basic diluted	<b>9.2</b>	3.5
Adjusted diluted	<b>10.1</b>	8.2
<b>Discontinued operation</b>		
Basic	<b>12.9</b>	0.5
Basic diluted	<b>12.8</b>	0.5

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

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

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

**14. Dividends paid and proposed**

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

The Directors have proposed a final dividend of 5.6p per share (2007: 5.6p), which, in line with the requirements of IAS 10 Events after the Balance Sheet Date, has not been recognised within these results. This results in a full year dividend for 2008 of 7.4p (2007: 7.4p).

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

## 15. Property, plant and equipment

<b>Group</b>	Leasehold improvements £m	Plant, equipment and vehicles £m	Total £m
Cost at 29 April 2006	11.9	389.2	401.1
Currency retranslation	(0.7)	(11.1)	(11.8)
Disposals	–	(14.9)	(14.9)
Acquisition of subsidiary	–	21.5	21.5
Additions	0.6	46.0	46.6
Cost at 28 April 2007	11.8	430.7	442.5
Currency retranslation	–	8.2	8.2
Disposals	–	(10.7)	(10.7)
Additions	0.4	36.4	36.8
Disposal of business	–	(46.6)	(46.6)
<b>Cost at 26 April 2008</b>	<b>12.2</b>	<b>418.0</b>	<b>430.2</b>
Depreciation at 29 April 2006	5.7	233.5	239.2
Currency retranslation	(0.7)	(7.9)	(8.6)
Charge for period	0.9	45.4	46.3
Impairment loss	–	7.0	7.0
Disposals	–	(10.6)	(10.6)
Depreciation at 28 April 2007	5.9	267.4	273.3
Currency retranslation	–	6.0	6.0
Charge for period	0.6	41.3	41.9
Disposals	–	(7.3)	(7.3)
Disposal of business	–	(33.1)	(33.1)
<b>Depreciation at 26 April 2008</b>	<b>6.5</b>	<b>274.3</b>	<b>280.8</b>
<b>Net book value at 26 April 2008</b>	<b>5.7</b>	<b>143.7</b>	<b>149.4</b>
Net book value at 28 April 2007	5.9	163.3	169.2
Net book value at 29 April 2006	6.2	155.7	161.9

At 28 April 2007, the Group's property, plant and equipment had been written down by £7.0m following an impairment review of the carrying value of certain retail assets based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated five-year cash flow estimates discounted at an appropriate pre-tax discount rate of 10%. The cash flows reflected management's best estimates of revenue, margin and operating costs over the forecast period. There were no impairment charges during the current period under review.

The carrying value of plant and equipment held under finance leases at 26 April 2008 was £0.7m (2007: £1.1m), which is included within additions during the year ended 28 April 2007. Leased assets are pledged as security for the related finance lease.

## 15. Property, plant and equipment continued

Company	Leasehold improvements £m	Plant, equipment and vehicles £m	Total £m
Cost at 29 April 2006	–	2.8	2.8
Disposals	–	(0.1)	(0.1)
Additions	–	0.1	0.1
Cost at 28 April 2007	–	2.8	2.8
Disposals	–	(0.8)	(0.8)
<b>Cost at 26 April 2008</b>	<b>–</b>	<b>2.0</b>	<b>2.0</b>
Depreciation at 29 April 2006	–	2.3	2.3
Charge for period	–	0.2	0.2
Disposals	–	(0.1)	(0.1)
Depreciation at 28 April 2007	–	2.4	2.4
Charge for period	–	0.1	0.1
Disposals	–	(0.8)	(0.8)
<b>Depreciation at 26 April 2008</b>	<b>–</b>	<b>1.7</b>	<b>1.7</b>
<b>Net book value at 26 April 2008</b>	<b>–</b>	<b>0.3</b>	<b>0.3</b>
Net book value at 28 April 2007	–	0.4	0.4
Net book value at 29 April 2006	–	0.5	0.5

## 16. Intangible assets

Group	Trademarks £m	Goodwill £m	Total £m
Cost at 29 April 2006	2.0	–	2.0
Additions – acquisition of subsidiary	–	71.0	71.0
Cost at 28 April 2007	2.0	71.0	73.0
Additions	0.1	–	0.1
<b>Cost at 26 April 2008</b>	<b>2.1</b>	<b>71.0</b>	<b>73.1</b>
<b>Amortisation at 26 April 2008, 28 April 2007 and 29 April 2006</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net book value at 26 April 2008</b>	<b>2.1</b>	<b>71.0</b>	<b>73.1</b>
Net book value at 28 April 2007	2.0	71.0	73.0
Net book value at 29 April 2006	2.0	–	2.0

Intangible assets include the various trademark registrations and applications for the acronym 'HVM' and the dog and trumpet trademark. They are considered to have an indefinite life as they can be renewed at minimal costs and therefore no amortisation has been charged. Non-amortisation is supported by an annual impairment review.

During the year various trademarks and domain names pertaining to the Fopp brand were purchased for £0.1m. These are considered to have a useful life of 10 years and amortisation is being charged over this period.

Goodwill of £71.0m arising on the purchase of Ottakar's plc on 3 July 2006 has been capitalised. The carrying value of the goodwill is subject to an annual impairment review so as to ensure that the carrying amount is not greater than the recoverable amount. The recoverable amount is determined from a value in use calculation with regard to the portfolio of stores acquired. The value in use incorporates cash flow projections based on budgets approved by senior management over a five year period. The calculation of value in use is sensitive to assumptions made with respect to sales forecasts, gross margin and discount rates. Cash flows beyond the five years have been extrapolated using a 1% growth rate (2007: 1%). This rate does not exceed the average long-term growth rate for the relevant market. The pre-tax discount rate applied to cash flow projections is 10% (2007: 10%). On the basis of the impairment review undertaken, no impairment of the capitalised goodwill was required.

The Company had no intangible assets.

## 17. Investments: subsidiaries

Company	Cost £m	Provision £m	Net book value £m
At 29 April 2006 as previously reported	793.4	(130.0)	663.4
Prior year adjustment (see Note 31)	1.1	–	1.1
At 29 April 2006 restated	794.5	(130.0)	664.5
Capital contribution relating to share-based payments (see Note 31)	(0.3)	–	(0.3)
At 28 April 2007	794.2	(130.0)	664.2
Impairment charge	–	(6.9)	(6.9)
Capital contribution relating to share-based payments (see Note 31)	1.8	–	1.8
Disposal	(1.4)	–	(1.4)
<b>At 26 April 2008</b>	<b>794.6</b>	<b>(136.9)</b>	<b>657.7</b>

On 25 August 2007 the Group disposed of its HMV Japan business. This comprised the Company's investment in HMV Japan KK, various trademarks and a Group subsidiary company, HMV Retail Ltd, which included the HMV Japan branch. Details of the disposal are disclosed in Note 12.

An impairment charge was made during the year against various Group subsidiaries.

### Subsidiary undertakings

The following information relates to those subsidiaries whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group. All subsidiaries are 100% owned.

Name of undertaking	Country of incorporation
HMV Music Limited	England and Wales
HMV (IP) Limited	England and Wales
HMV USA LP <sup>1</sup>	USA
HMV Canada Inc	Canada
HMV Hong Kong Limited	Hong Kong
HMV Singapore Pte Limited	Singapore
HMV Ireland Limited <sup>1</sup>	Ireland
Ottakar's Limited <sup>1</sup>	England and Wales
Rustico Holdings Limited	Ireland
Waterstone's Booksellers Limited	England and Wales
Waterstone's Booksellers Amsterdam BV	Netherlands
Waterstone's Booksellers Belgium SA	Belgium
Waterstone's Booksellers Ireland Limited <sup>1</sup>	Ireland
Waterstone's Academic Bookstores Limited <sup>1</sup>	England and Wales
HMV Guernsey Limited	Guernsey

1. Not directly held by the Company.

All subsidiaries listed above are included in the consolidation. The principal activity of all subsidiaries in the HMV Group is the retailing of music, DVD and electronic games or books.

On 26 April 2008 the trade and assets of Ottakar's Limited and the trade and assets of the former Dillons stores, which were included within HMV Music Limited, were transferred to Waterstone's Booksellers Limited as part of an internal reorganisation.

**18. Trade and other receivables**

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Non-current				
Other receivables	<b>0.9</b>	7.4	–	–
	<b>0.9</b>	7.4	–	–
Current				
Trade receivables	<b>8.2</b>	12.2	–	–
Amounts owed by subsidiary undertakings	–	–	<b>28.3</b>	52.6
Other receivables	<b>9.5</b>	12.7	–	–
Prepayments and accrued income	<b>41.2</b>	44.3	<b>0.1</b>	0.1
	<b>58.9</b>	69.2	<b>28.4</b>	52.7

The carrying value of trade and other receivables approximates to fair value.

Group trade receivables are stated net of a provision for impairment of £1.2m (2007: £1.0m). Credit risk is limited as the Group has minimal levels of trade receivables due to the nature of its retailing business. See Note 27 for further discussion of credit risk.

The Company has no trade receivables and no provisions for impairment of any financial assets.

**19. Inventories**

Inventories primarily comprise finished goods and goods for resale. The replacement cost of inventories is considered to be not materially different from the balance sheet value.

**20. Other financial assets**

Neither the Group nor the Company held any available-for-sale financial assets at 26 April 2008 (2007: £nil).

During the period ended 28 April 2007, the reversal of a temporary loss in value of £2.9m on 2,190,619 Ordinary Shares of Ottakar's plc was recognised within equity, on completion of the acquisition of the company.

## 21. Acquisition of subsidiary

During the period under review, the Group acquired the leases of seven stores from the administrator of Fopp, together with various trademarks and domain names. Consideration of £0.4m was paid for the assets acquired and the book value is considered to be equal to the fair value.

On 3 July 2006 the Group acquired for cash the share capital of Ottakar's plc. Ottakar's was a chain of book stores which operated from 141 stores in the UK at the date of acquisition.

The book value and fair value of the net assets acquired were as follows:

	Book value £m	Fair value £m
Property, plant and equipment	30.4	21.5
Inventories	27.6	24.0
Trade and other receivables	8.0	7.8
Trade and other payables	(21.8)	(24.9)
Taxation	(0.6)	2.6
Net debt	(31.8)	(31.8)
	11.8	(0.8)
Goodwill arising on acquisition		71.0
Consideration (satisfied by cash)		70.2

Of the £70.2m consideration, £11.8m was paid in the 52 weeks ended 29 April 2006 when the Group acquired for cash approximately 10% of the share capital for 440p per share. The remaining 90% of share capital was purchased at 285p per share. As a result of the acquisition goodwill of £71.0m was capitalised (see Note 16).

From the date of acquisition to 28 April 2007, Ottakar's contributed £138.8m of revenue and made a profit before tax and exceptional items of £6.0m. In addition, exceptional costs of £10.2m relating to the integration and £2.9m relating to store closures were charged in the prior year (see Note 7). If the acquisition had taken place at the beginning of the prior year, revenue for the Group would have been £1,916.0m and profit before exceptional items would have been £44.7m.

The fair value of tax assets acquired includes deferred tax arising in the period ended 28 April 2007 from the last balance sheet date before acquisition (28 January 2006) to 3 July 2006 of £1.9m and deferred tax arising on other fair value adjustments of £1.3m.

Included in the £71.0m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies and an assembled workforce.

## 22. Cash and short-term deposits

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Cash at bank and in hand	<b>35.0</b>	77.5	<b>4.1</b>	–
Short-term deposits	<b>0.5</b>	0.4	–	–
	<b>35.5</b>	77.9	<b>4.1</b>	–

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Cash balances are deposited with counter parties that have a strong credit rating, with an agreed limit for each counter party, so as to limit the risk of loss arising from a failure. Counter parties include AAA-rated liquidity funds, as well as banks.

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

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Cash at bank and in hand	<b>35.0</b>	77.5	<b>4.1</b>	–
Short-term deposits	<b>0.5</b>	0.4	–	–
Bank overdrafts	–	(4.0)	<b>(88.9)</b>	(7.3)
	<b>35.5</b>	73.9	<b>(84.8)</b>	(7.3)

## 23. Trade and other payables

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Current				
Trade payables	<b>237.2</b>	239.4	–	–
Amounts owed to subsidiary undertakings	–	–	<b>111.4</b>	81.9
Other payables	<b>89.4</b>	88.8	<b>7.1</b>	7.6
Accruals and deferred income	<b>82.9</b>	68.9	<b>2.5</b>	1.5
	<b>409.5</b>	397.1	<b>121.0</b>	91.0

The carrying value of trade and other payables approximates to fair value.

## 24. Interest-bearing loans and borrowings

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Finance leases – non-current	<b>0.5</b>	0.8	–	–
Finance leases – current	<b>0.2</b>	0.3	–	–
Current borrowings	<b>34.8</b>	203.0	<b>34.8</b>	176.6
Bank overdrafts	–	4.0	<b>88.9</b>	7.3
Loans and borrowings	<b>35.5</b>	208.1	<b>123.7</b>	183.9

Current borrowings fall due within one year of the balance sheet date. They reflect amounts drawn down from the Group's multi-currency revolving credit facility (see Note 27) and the short-term element of finance leases. Bank overdrafts are repayable on demand. Non-current finance leases fall due in two to five years from the balance sheet date.

## 24. Interest-bearing loans and borrowings continued

Interest-bearing loans and borrowings analysed by currency are as follows:

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Sterling – revolving credit facility	<b>35.0</b>	97.0	<b>35.0</b>	97.0
– term loan	–	80.0	–	80.0
– overdraft	–	4.0	<b>88.9</b>	7.3
– finance leases	<b>0.7</b>	1.1	–	–
– short-term borrowings	–	–	–	–
Japanese Yen – short-term borrowings	–	21.9	–	–
Canadian Dollars – short-term borrowings	–	4.5	–	–
Deferred financing fees	<b>(0.2)</b>	(0.4)	<b>(0.2)</b>	(0.4)
Loans and borrowings	<b>35.5</b>	208.1	<b>123.7</b>	183.9

All loans and borrowings of the Group and Company as at 26 April 2008 bear interest at variable rates. The rates are set in advance for periods ranging from overnight to six months by reference to a relevant benchmark rate.

## 25. Provisions

<b>Group</b>	Total £m
At 28 April 2007:	
Current	7.8
Non-current	0.5
	8.3
Provisions utilised	(9.2)
Charged during the year	4.6
<b>At 26 April 2008</b>	<b>3.7</b>
Analysed as:	
Current	<b>3.5</b>
Non-current	<b>0.2</b>
	<b>3.7</b>

Provisions almost entirely consist of amounts in respect of store closures and restructuring. The utilisation of provisions in the current year largely reflects store closures and the rental costs, net of sublet income, of previously closed stores. The £4.6m provision created in the year was in respect of store closures in the enlarged Waterstone's estate. The remaining provisions are expected to be utilised in the next two years.

The Company did not have any provisions at either 26 April 2008 or 28 April 2007.

## 26. Derivatives and financial instruments

### Currency derivatives

The Group uses derivative instruments in order to manage foreign currency exchange risk arising on expected future purchases of internationally sourced products in the Group's subsidiaries. In all cases the implementation of these derivative instruments has been negotiated to match expected purchases and they therefore qualify for hedge accounting. The fair value of cash flow hedges in place at 26 April 2008 is £(0.4)m (2007: £nil), which has been recognised in the hedging reserve.

### Interest rate hedging

Based on its current debt levels, the Group moves to a net cash position during its third quarter and therefore interest rate exposure is limited. Consequently, no interest rate hedging instruments have been utilised. Interest rate exposures continue to be monitored in accordance with the Group's treasury policies.

### Hedge of net investments in foreign entities

The Group has Canadian dollar denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in Canada. At 26 April 2008 the carrying amount of the borrowings was £nil (2007: £4.5m).

### Fair values

The fair values of each category of the Group's financial instruments and their carrying values in the Group's balance sheet, excluding trade and other receivables and trade and other payables, are as follows:

	26 April 2008		28 April 2007	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Financial assets</b>				
Cash and short-term deposits	35.5	35.5	77.9	77.9
<b>Financial liabilities</b>				
Short-term borrowings	(34.8)	(34.8)	(203.0)	(203.0)
Foreign exchange forward contracts	(0.4)	(0.4)	–	–
Bank overdrafts	–	–	(4.0)	(4.0)
Finance leases	(0.7)	(0.7)	(1.1)	(1.1)

The fair values of each category of the Company's financial instruments and their carrying values in the Company's balance sheet, excluding trade and other receivables and trade and other payables, are as follows:

	26 April 2008		28 April 2007	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Financial assets</b>				
Other financial assets – current	–	–	–	–
<b>Financial liabilities</b>				
Short-term borrowings	(34.8)	(34.8)	(176.6)	(176.6)
Bank overdrafts	(88.9)	(88.9)	(7.3)	(7.3)

The fair value of cash and short-term deposits and borrowings is based on the carrying amount as a result of their short maturity.

For both the Group and the Company the carrying value of trade receivables, other receivables, trade payables and other payables equates to the fair value.

## 26. Derivatives and financial instruments continued

The total notional amount of outstanding foreign currency contracts to which the Group and Company were committed at the balance sheet date is as follows:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Commercial activities:				
Euro	8.2	0.6	7.2	0.6
Japanese Yen	–	0.1	–	–
US Dollar	0.9	0.3	0.9	–
	9.1	1.0	8.1	0.6

## 27. Financial risk factors

The Group's business exposes it to certain limited financial risks, such as liquidity risk, interest rate risk, credit risk and foreign exchange risk. The Group's Treasury department is principally responsible for managing these risks using policies approved by the Board.

### Liquidity risk

The Group has sufficient funds and facilities available to satisfy its current requirements.

The Company has a Senior Bank Facility, consisting of a multi-currency £260.0m revolving credit facility. During the period £80.0m of term debt was repaid earlier than scheduled and the term debt facility was cancelled. The Group also has some locally arranged bank facilities.

	Total available at	
	26 April 2008 £m	28 April 2007 £m
Multi-currency revolving credit facility	260.0	260.0
Term loan facility	–	80.0
Local facilities	2.5	6.3
Total	262.5	346.3

Fees totalling £0.7m relating to the arrangement of the £260.0m revolving credit facility were deferred and are being amortised over the five year term of the facility to 31 March 2010.

From 30 March 2007 until 27 June 2007 interest on the facility was payable at a rate equal to LIBOR plus a margin of 0.875% plus a 0.05% utilisation fee. From 28 June 2007 the margin was 1.75%, with the utilisation fee no longer applicable.

Of the £260.0m revolving credit facility, £35.0m (2007: £97.0m) had been drawdown at 26 April 2008. Analysis of the availability of undrawn committed facilities available to the Group is shown below.

	2008 £m	2007 £m
Expiring within one year	32.5	4.5
Expiring in more than one year but not more than two years	195.0	–
Expiring between two and five years	–	158.5
Total	227.5	163.0

The £260.0m revolving credit facility fully expires on 31 March 2010. Prior to this, £30m of the facility expires on 31 December 2008, £15.0m on 30 June 2009 and £30.0m on 31 December 2009.

In addition to direct drawings under the revolving credit facility in the UK, the Group has utilised the facility by drawing letters of credit to support facilities provided by local banks overseas. Although these locally provided facilities nominally expire in less than one year, they could be renewed provided that the letter of credit drawn under the revolving credit facility is renewed. The table above reflects the undrawn portion of these locally provided facilities as expiring in less than one year. As at 26 April 2008, letters of credit issued totalled £nil (2007: £4.5m) of which £nil was undrawn (2007: £4.5m). The Company also gave a parent guarantee to support uncommitted local facilities totalling £nil (2007: £6.3m), of which £nil was undrawn at 26 April 2008 (2007: £6.3m).

## 27. Financial risk factors continued

### Security

The borrowings under the Facility Agreement are secured by the Guarantors that comprise HMV Group plc and any wholly-owned subsidiaries of the Company who accede to the Facility Agreement as guarantors. As a condition of the Agreement, the aggregate gross assets, revenue and earnings before interest and tax of the Guarantors must comprise not less than 70% of the total gross assets, revenue and earnings before tax and interest of the Company and its subsidiaries. The Guarantors currently comprise HMV Group plc, HMV Music Limited, Waterstone's Booksellers Limited, HMV (IP) Limited, HMV UK Limited, HMV Ireland Limited, Waterstone's Booksellers Ireland Limited and HMV Guernsey Limited. The Company has granted security comprising first-ranking, fixed and floating charges over all the assets and undertakings of the Guarantors.

Under their banking arrangements, overdraft and cash balances of the Company and of certain subsidiaries are pooled or offset and cross-guaranteed. Such pooling and offset arrangements are reflected in the Group balance sheet as appropriate.

### Interest rate risk

The Group is exposed to interest rate risk from its borrowings and cash deposits. However, without core longer-term borrowings (as is currently the position) the strong seasonality to its trading patterns provides that, with the onset of peak trading in December, the Group moves into a net cash position for around three months before reverting to a net debt position until the following December. As both debt and cash deposits attract a floating rate of interest, this seasonality provides a natural hedge against interest rate risk. The net exposure is monitored on a regular basis, with consideration given to the supplemental use of interest rate hedging instruments.

### Credit risk

The Group's credit risk arises from its cash and cash equivalents, deposits, and outstanding receivables.

The Group deposits cash balances with counter parties that have a strong credit rating, with an agreed limit for each counter party, so as to limit the risk of loss arising from a failure. Counter parties include AAA-rated liquidity funds, as well as banks.

Trade and other receivables are regularly monitored and are limited in size due to the nature of the Group's business as a retailer dealing predominantly in cash and cash equivalents. Allowances are made for doubtful debts based on the age of the debt and the customer's financial circumstances.

### Foreign exchange risk

The Group is exposed to foreign exchange risk from its investing, financing and operating activities.

Forward foreign exchange contracts are used to hedge the foreign exchange risk of imports where volumes are significant. However, the Group's operating businesses generally source the majority of their products from suppliers within their country of operation and so the foreign exchange exposure is limited. No speculative positions are entered into by the Group. Details of foreign currency contracts outstanding at the balance sheet date are given in Note 26.

The Group is also exposed to foreign currency translation risk through its investment in overseas subsidiaries, which is partially hedged by local debt. Generally, the Group does not hedge any net translation exposure of overseas earnings, although it may in certain circumstances implement hedges to secure short-term financial objectives.

### Sensitivity analysis

The following sensitivity analysis illustrates the sensitivity to changes in market variables of the Group's and Company's financial instruments and show the impact on profit and shareholders' equity.

### Interest rate sensitivity

Based on the Group's net debt position at the year end, a 100 basis points movement in interest rates would affect the Group's profit before tax and shareholders' funds by approximately £0.2m (2007: £1.5m). The impact on the Company would have been £1.2m (2007: £1.8m).

## 27. Financial risk factors continued

### Foreign exchange rate sensitivity

The Group maintains stores in Canada, Europe and Asia. Based on the performance of the overseas businesses in the year to April 2008, a 10% change in the value of local currencies against Sterling would affect the Group's profit before tax by £1.6m (2007: £2.0m) and the Group's equity by £4.1m (2007: £3.0m).

There would not have been any impact on the Company.

## 28. Additional cash flow information

Movements in the Group's net debt position are as follows:

	At 28 April 2007 £m	Cash flow £m	Other non-cash changes <sup>1</sup> £m	Exchange movements £m	At 26 April 2008 £m
Cash and short-term deposits	77.9	(48.7)	–	6.3	<b>35.5</b>
Bank overdrafts	(4.0)	4.0	–	–	–
Cash and cash equivalents	73.9	(44.7)	–	6.3	<b>35.5</b>
Loans and borrowings – non-current	(0.8)	0.3	–	–	<b>(0.5)</b>
Loans and borrowings – current	(203.3)	168.0	(0.2)	0.5	<b>(35.0)</b>
Total loans and borrowings	(204.1)	168.3	(0.2)	0.5	<b>(35.5)</b>
Net debt	(130.2)	123.6	(0.2)	6.8	–

	At 29 April 2006 £m	Cash flow £m	Net debt acquired £m	Other non-cash changes <sup>1</sup> £m	Exchange movements £m	At 28 April 2007 £m
Cash and short-term deposits	81.5	(0.3)	–	–	(3.3)	77.9
Bank overdrafts	(1.4)	(2.6)	–	–	–	(4.0)
Cash and cash equivalents	80.1	(2.9)	–	–	(3.3)	73.9
Loans and borrowings – non-current	–	(0.8)	–	–	–	(0.8)
Loans and borrowings – current	(95.2)	(79.8)	(31.8)	(0.1)	3.6	(203.3)
Total loans and borrowings	(95.2)	(80.6)	(31.8)	(0.1)	3.6	(204.1)
Net debt	(15.1)	(83.5)	(31.8)	(0.1)	0.3	(130.2)

1. Represents issue costs incurred in connection with the raising of debt. The issue costs have been offset against the relevant debt instrument.

**28. Additional cash flow information continued**

Movements in the Company's net debt position are as follows:

	At 28 April 2007 £m	Cash flow £m	Other non-cash changes <sup>1</sup> £m	Exchange movements £m	At 26 April 2008 £m
Cash and short-term deposits	–	4.1	–	–	<b>4.1</b>
Bank overdrafts	(7.3)	(81.6)	–	–	<b>(88.9)</b>
Cash and cash equivalents	(7.3)	(77.5)	–	–	<b>(84.8)</b>
Loans and borrowings – non-current	–	–	–	–	<b>–</b>
Loans and borrowings – current	(176.6)	142.0	(0.2)	–	<b>(34.8)</b>
Total loans and borrowings	(176.6)	142.0	(0.2)	–	<b>(34.8)</b>
Net debt	(183.9)	64.5	(0.2)	–	<b>(119.6)</b>

	At 29 April 2006 £m	Cash flow £m	Other non-cash changes <sup>1</sup> £m	Exchange movements £m	At 28 April 2007 £m
Cash and short-term deposits	5.7	(5.7)	–	–	–
Bank overdrafts	–	(7.3)	–	–	(7.3)
Cash and cash equivalents	5.7	(13.0)	–	–	(7.3)
Loans and borrowings – non-current	–	–	–	–	–
Loans and borrowings – current	(88.5)	(88.0)	(0.1)	–	(176.6)
Total loans and borrowings	(88.5)	(88.0)	(0.1)	–	(176.6)
Net debt	(82.8)	(101.0)	(0.1)	–	(183.9)

1. Represents issue costs incurred in connection with the raising of debt. The issue costs have been offset against the relevant debt instrument.

**29. Share capital**

Group and Company	2008 Number	2007 Number	2008 £m	2007 £m
<b>Authorised</b>				
Ordinary Shares of 1p each	<b>518,590,111</b>	518,590,111	<b>5.2</b>	5.2

Group and Company	Number	£m
<b>Allotted, called up and fully paid Ordinary Shares of 1p each</b>		
At 29 April 2006	402,668,425	4.0
Issued on exercise of share options	68,608	–
At 28 April 2007	402,737,033	4.0
Issued on exercise of share options	633,461	–
<b>At 26 April 2008</b>	<b>403,370,494</b>	<b>4.0</b>

During the period 633,461 (2007: 68,608) Ordinary Shares were issued in the Company to satisfy options exercised under the Company's share option schemes, for which consideration of £0.1m (2007: £0.1m) was received.

In the event of a winding-up of the Company or other return of capital, the assets available for distribution to shareholders would be applied in the following order after payment of all debts and liabilities:

- (i) Repaying pari passu the amounts subscribed (1p per share) for the Ordinary Shares.
- (ii) Distributing pari passu any balance among the holders of the Ordinary Shares.

### 30. Share-based payments

#### Equity-settled share option plan

The Company has a number of share option schemes under which options to subscribe for the Company's Ordinary Shares have been granted to certain Directors and management, details of which are given in the Directors' Remuneration Report on page 24. Options were granted at the five-day average of the market value of the Company's shares on the date of grant. The options can normally only be exercised after three years and are subject to the achievement of earnings per share targets imposed at the date of grant. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the option vests or before vested options are exercised.

The charge for share options in respect of employee services during the period ended 26 April 2008 was £nil (2007: credit of £1.0m). A credit arose in the prior period as performance conditions for awards vesting had not been met and management revised their estimate of the achievability of performance conditions relating to awards vesting in future periods.

The movements in the number of share options during the year are detailed in the table below. The options outstanding at 26 April 2008 had a weighted average exercise price of 203p (2007: 198p) and a weighted average remaining contractual life of 5.7 years (2007: 6.7 years). The weighted average share price at the date of exercise for share options exercised during the period was 122p (2007: 153p).

Group	2008 Options Number	2008 Weighted average exercise price Pence	2007 Options Number	2007 Weighted average exercise price Pence
Outstanding at beginning of period	12,974,872	198	21,208,529	186
Granted during the period	–	–	925,324	154
Exercised during the period	(633,461)	19	(68,608)	31
Lapsed during the period	(7,119,577)	210	(9,090,373)	167
Outstanding at end of the period <sup>1</sup>	5,221,834	203	12,974,872	198
Exercisable at end of the period	2,501,384	161	4,899,561	145

1. Included within this balance are options over 2,501,384 (2007: 4,899,561) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

Group	2008 Options outstanding Number	2008 Weighted average remaining contractual life Years	2007 Options outstanding Number	2007 Weighted average remaining contractual life Years
<b>1998 Senior Executive Share Option Scheme</b>				
Exercise price 18.73p	96,078	3.4	729,539	2.7
<b>2002 Executive Share Option Scheme</b>				
Exercise price 167p	2,405,306	4.1	4,170,022	5.1
Exercise price 237p	–	–	3,239,019	7.2
Exercise price 242p	2,720,450	7.2	3,910,968	8.2
Exercise price 154p	–	–	925,324	9.4
	5,221,834	5.7	12,974,872	6.7

**30. Share-based payments continued**

<b>Company</b>	<b>2008 Options Number</b>	<b>2008 Weighted average exercise price Pence</b>	<b>2007 Options Number</b>	<b>2007 Weighted average exercise price Pence</b>
Outstanding at beginning of period	<b>4,008,709</b>	<b>159</b>	5,262,055	164
Granted during the period	–	–	925,324	154
Exercised during the period	<b>(633,461)</b>	<b>19</b>	(30,198)	19
Lapsed during the period	<b>(2,268,250)</b>	<b>178</b>	(2,148,472)	169
Transfer from other Group companies	<b>178,756</b>	<b>235</b>	–	–
Outstanding at end of the period <sup>1</sup>	<b>1,285,754</b>	<b>207</b>	4,008,709	159
Exercisable at end of the period	<b>601,555</b>	<b>167</b>	2,038,474	121

1. Included within this balance are options over 601,555 (2007: 2,038,474) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

<b>Company</b>	<b>2008 Options outstanding Number</b>	<b>2008 Weighted average remaining contractual life Years</b>	<b>2007 Options outstanding Number</b>	<b>2007 Weighted average remaining contractual life Years</b>
<b>1998 Senior Executive Share Option Scheme</b>				
Exercise price 18.73p	–	–	633,461	2.7
<b>2002 Executive Share Option Scheme</b>				
Exercise price 167p	<b>601,555</b>	<b>4.1</b>	1,405,013	5.1
Exercise price 237p	–	–	511,432	7.2
Exercise price 242p	<b>684,199</b>	<b>7.2</b>	533,479	8.2
Exercise price 154p	–	–	925,324	9.4
	<b>1,285,754</b>	<b>5.7</b>	4,008,709	6.7

The 2002 Executive Share options with an exercise price of 242p would be exercisable from 8 July 2008 subject to vesting conditions based on the Group's financial performance for the three years to 26 April 2008. However, as the minimum performance conditions have not been met, these options will lapse in the 2008/09 financial year.

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes model. There were no grants of share options during the period under review. The inputs into the Black Scholes model in the year ended 28 April 2007 were as follows:

<b>Group and Company</b>	<b>2007</b>
Dividend yield (%)	5.0
Expected volatility (%)	25.0
Expected life (years)	5.4
Risk-free interest rate (%)	4.5
Weighted average share price (p)	154
Weighted average exercise price (p)	154
Weighted average fair value (p)	26

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

### 30. Share-based payments continued

#### Equity-settled deferred annual bonus

As part of the HMV Group plc Incentive Plan for Senior Executives (HIPS), as discussed more fully in the Directors' remuneration report on page 23, the Company makes deferred awards to certain Directors and senior management. These awards are made in shares and the number of shares awarded is determined by reference to the market value of shares at the time the award is made, not when it is paid. No adjustment to value is made for expected dividend income during the vesting period. The deferred award normally vests following the third anniversary of the end of the financial year in which the award is made, subject to the achievement of certain profit related targets and the performance of the individual over the vesting period.

The charge in respect of deferred awards during the period ended 26 April 2008 was £0.2m (2007: £0.1m).

The number and weighted average grant prices of, and movements in, deferred share awards during the year are as follows:

<b>Group</b>	<b>2008 Share awards Number</b>	<b>2008 Weighted average grant price Pence</b>	2007 Share awards Number	2007 Weighted average grant price Pence
Outstanding at beginning of period	<b>1,052,872</b>	<b>207</b>	1,740,435	195
Granted during the period	<b>21,986</b>	<b>115</b>	465,050	165
Vested during the period	<b>(157,531)</b>	<b>226</b>	(260,502)	163
Forfeited during the period	<b>(196,974)</b>	<b>165</b>	(305,611)	237
Lapsed during the period	<b>(187,661)</b>	<b>237</b>	(586,500)	143
Outstanding at end of the period	<b>532,692</b>	<b>203</b>	1,052,872	207

<b>Company</b>	<b>2008 Share awards Number</b>	<b>2008 Weighted average grant price Pence</b>	2007 Share awards Number	2007 Weighted average grant price Pence
Outstanding at beginning of period	<b>368,777</b>	<b>232</b>	868,988	195
Vested during the period	<b>(42,580)</b>	<b>237</b>	(134,479)	168
Transfer from other Group companies	<b>-</b>	<b>-</b>	82,439	206
Lapsed during the period	<b>(148,997)</b>	<b>237</b>	(448,171)	176
Outstanding at end of the period	<b>177,200</b>	<b>226</b>	368,777	232

Of the outstanding balance, the assessment of performance conditions at 26 April 2008 will result in 143,904 (2007: 198,899) share awards lapsing after the period end (Company: 92,945, 2007: 143,683), whilst a further 133,593 (2007: 121,749) share awards will vest (Company: 46,796, 2007: 47,894). The vesting awards will be settled by shares held in an Employee Benefit Trust (see Note 32) and will be transferred to employees in July 2008.

**30. Share-based payments continued****Equity-settled Performance Share Plan (PSP)**

Under the PSP the Executive Directors and certain employees are granted an award of shares, which vest after three years provided that preset performance criteria, set by the Remuneration Committee, are met. The number of shares awarded is determined by reference to the market value of shares. The charge in respect of the PSP during the year ended 26 April 2008, which is adjusted for expected dividend income during the vesting period, was £2.4m (2007: £0.6m).

The number and weighted average grant prices of, and movements in, PSP awards during the year are as follows:

<b>Group</b>	<b>2008 Share awards Number</b>	<b>2008 Weighted average grant price Pence</b>	<b>2007 Share awards Number</b>	<b>2007 Weighted average grant price Pence</b>
Outstanding at beginning of period	<b>4,661,594</b>	<b>162</b>	–	–
Granted during the period	<b>7,821,277</b>	<b>115</b>	5,170,087	162
Exercised during the period	<b>(65,770)</b>	<b>162</b>	(1,104)	162
Lapsed during the period	<b>(1,055,093)</b>	<b>148</b>	(507,389)	162
Outstanding at end of the period	<b>11,362,008</b>	<b>131</b>	4,661,594	162

<b>Company</b>	<b>2008 Share awards Number</b>	<b>2008 Weighted average grant price Pence</b>	<b>2007 Share awards Number</b>	<b>2007 Weighted average grant price Pence</b>
Outstanding at beginning of period	<b>1,237,249</b>	<b>162</b>	–	–
Granted during the period	<b>3,546,189</b>	<b>115</b>	1,241,137	162
Transfer from other Group companies	<b>62,751</b>	<b>162</b>	–	–
Lapsed during the period	<b>(9,406)</b>	<b>162</b>	(3,888)	162
Outstanding at end of the period	<b>4,836,783</b>	<b>127</b>	1,237,249	162

**Share Incentive Plan**

The HMV Group plc Share Incentive Plan (the 'SIP'), as discussed more fully in the Director's Remuneration Report on page 24, provides share-based incentives to eligible employees. Under the SIP, employees may acquire Ordinary Shares in three ways. Firstly, the Company can use the SIP as part of its broad incentive arrangements by awarding free shares to employees; in this regard an award of 120 free shares was made to every eligible employee on the Initial Public Offering in May 2002. There have not been any further awards of free shares and there are no plans to award further free shares to any employees. Secondly, the Company may invite UK employees to purchase Ordinary Shares, known as partnership shares, and thirdly, the Company may, if it wishes, agree to match the shares purchased with additional shares, known as Matching Shares. The Company has matched on a one for one basis since the inception of the SIP.

The charge in respect of the SIP during the year ended 26 April 2008 was £0.4m (2007: £0.6m).

### 31. Reconciliation of movements in equity

<b>Group</b>	Equity share capital £m	Own shares £m	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	Retained earnings £m	<b>Total £m</b>
At 29 April 2006	322.9	(2.9)	–	2.2	0.3	(324.9)	(2.4)
Total recognised income and expense for the period	–	–	–	–	–	19.1	19.1
Ordinary dividend	–	–	–	–	–	(29.7)	(29.7)
Issue of equity shares	0.1	–	–	–	–	–	0.1
Share-based payment awards	–	0.4	–	–	–	(0.4)	–
Credit for share-based payments	–	–	–	–	–	(0.3)	(0.3)
At 28 April 2007	323.0	(2.5)	–	2.2	0.3	(336.2)	(13.2)
Total recognised income and expense for the period	–	–	(0.4)	5.4	–	94.1	99.1
Ordinary dividend	–	–	–	–	–	(29.8)	(29.8)
Issue of equity shares	0.1	–	–	–	–	–	0.1
Share-based payment awards	–	0.5	–	–	–	(0.5)	–
Charge for share-based payments	–	–	–	–	–	2.6	2.6
<b>At 26 April 2008</b>	<b>323.1</b>	<b>(2.0)</b>	<b>(0.4)</b>	<b>7.6</b>	<b>0.3</b>	<b>(269.8)</b>	<b>58.8</b>

The cumulative amount of goodwill eliminated against retained earnings at 26 April 2008 is £645.5m (2007: £645.5m).

<b>Company</b>	Equity share capital £m	Own shares £m	Capital reserve £m	Retained earnings £m	<b>Total £m</b>
At 29 April 2006 as previously reported	322.9	(2.9)	0.3	137.5	457.8
Prior year adjustment	–	–	–	1.1	1.1
At 29 April 2006 restated	322.9	(2.9)	0.3	138.6	458.9
Total recognised income and expense for the period	–	–	–	(4.3)	(4.3)
Ordinary dividend	–	–	–	(29.7)	(29.7)
Issue of equity shares	0.1	–	–	–	0.1
Share-based payment award	–	0.4	–	(0.4)	–
Capital contribution for share-based payment award	–	–	–	(0.3)	(0.3)
At 28 April 2007	323.0	(2.5)	0.3	103.9	424.7
Total recognised income and expense for the period	–	–	–	38.5	38.5
Ordinary dividend	–	–	–	(29.8)	(29.8)
Issue of equity shares	0.1	–	–	–	0.1
Share-based payment award	–	0.5	–	(0.5)	–
Charge for share-based payments	–	–	–	0.8	0.8
Capital contribution for share-based payment award	–	–	–	1.8	1.8
<b>At 26 April 2008</b>	<b>323.1</b>	<b>(2.0)</b>	<b>0.3</b>	<b>114.7</b>	<b>436.1</b>

### **31. Reconciliation of movements in equity continued**

The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The profit for the period after taxation, dealt with in the accounts of the Company is £33.1m (2007: loss of £6.4m).

#### **Prior year adjustment**

Following the implementation of IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, the opening balance sheet at 29 April 2006 has been restated to recognise £1.1m of capital contribution to the subsidiaries in respect of equity-settled share-based payment transactions.

#### **Equity share capital**

The balance classified as equity share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 1p Ordinary Shares. At 26 April 2008, equity share capital included share premium of £319.1m (2007: £319.0m).

#### **Other reserve – own shares**

The own shares reserve represents the Company's shares that are held by an Employee Benefit Trust. Further details on this reserve can be found in Note 32.

#### **Hedging reserve**

The hedging reserve is used to record changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows.

#### **Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

#### **Capital reserve**

The capital reserve is utilised on cancellation of shares. No shares have been cancelled by the Company in the current or previous period.

#### **Capital management**

The capital of HMV Group plc is the total equity on the Group's balance sheet. The objective of the Group's capital management is to grow its retailing business and deliver improving returns for its shareholders. The management of the Group's capital is performed by the Board of Directors. There are no externally imposed capital requirements.

### 32. Other reserve – own shares

Group and Company	Number of shares	Cost £m
Ordinary Shares:		
Balance at 29 April 2006	1,511,479	2.9
Shares vested	(261,606)	(0.4)
Balance at 28 April 2007	1,249,873	2.5
Shares vested	(223,301)	(0.5)
<b>Balance at 26 April 2008</b>	<b>1,026,572</b>	<b>2.0</b>

The own shares deducted from shareholders' equity represent the Company's shares held by an Employee Benefit Trust ('The Trust'). At 26 April 2008, the Trust held 1,026,572 (2007: 1,249,873) shares with a nominal value of £10,266 (2007: £12,499) and a market value of £1.3m (2007: £1.4m). This shareholding represented 0.3% (2007: 0.3%) of the total shares of the Company. The Trust has waived any entitlement to the receipt of dividends in respect of all of its holding of the Company's Ordinary Shares. The Trust's waiver of dividends may be revoked or varied at any time. All shares held by the Trust have been financed by loans from the Company, which at 26 April 2008 amounted to £1.8m (2007: £2.3m).

The Trust holds shares to satisfy vested awards of the deferred annual bonus element of the HMV Group Incentive Plan for Senior Executives ('HIPS') and the Performance Share Plan (see Note 30). During the period, 223,301 shares were released to employees to satisfy the vesting of awards. It is expected that a further 133,593 shares will vest and be transferred to employees in July 2008.

The Group also has UK and Overseas Trusts which hold the Company's shares in connection with the HMV Group plc Share Incentive Plan, details of which are provided in the Remuneration Report on page 24. At 26 April 2008, the UK and Overseas Trusts held 3,331,471 shares (2007: 3,169,774) with a nominal value of £33,315 (2007: £31,698). The shares within these Trusts are not held as own shares by the Group or the Company.

### 33. Contingent liabilities

The management of HMV Group is not aware of any legal or arbitration proceedings pending or threatened against any member of HMV Group which may result in any liabilities significantly in excess of provisions in the financial statements. HMV Group plc has given a parent guarantee to support local borrowing facilities, details of which are given in Note 27.

### 34. Pension arrangements

HMV Group employees are members of a number of pension schemes. The main scheme that covers employees in the United Kingdom is the HMV Group Pension Scheme (the 'Scheme' – established with effect from July 1998). The Scheme has two sections – the Pension Benefit Section and the Pension Saver Section. There is also a small defined benefit pension arrangement in Ireland, which is included in the Group amounts disclosed below, but is not included in the Company amounts.

#### Pension Benefit Section

The Pension Benefit Section is of the defined benefit type and is an Inland Revenue exempt approved scheme for the purpose of the Income and Corporation Taxes Act 1988. It is contracted out of SERPS. The benefits it provides are based on final pensionable pay and are guaranteed to increase in payment by 5% per annum or by the increase in the cost of living, if less. Members currently contribute at the rate of 5% of pensionable pay.

A valuation is undertaken on at least a triennial basis by a qualified actuary. The most recently completed actuarial valuation was as at 30 June 2004 and was based on an assumed investment return of 6.5% a year, salary increases of 4.25% a year, and annual pension increases of 2.75%, and used the projected unit method. The result of the valuation was a level of asset cover of 79%, representing a funding deficit of £11.5m, which was funded by three £4.4m special contributions, the last of which was paid on 31 May 2006. The market value of the assets of the Pension Benefit Scheme at 30 June 2004 was about £43.9m. In addition, the funding rate was set at 19.9% of pensionable pay (including an allowance for administrative expenses). Therefore from 1 July 2005, the Group has been contributing at a rate of 14.9% of pensionable pay, with the members contributing at 5% of pensionable pay. The actuarial valuation as at 30 June 2007 is now close to completion. Following this, the next actuarial review will take place no later than 30 June 2010.

### 34. Pension arrangements continued

The Pension Benefit Section was generally closed to new members with effect from 1 January 2002, with the exception of 543 members who transferred into the Scheme on 31 May 2003 from the EMI Group Pension Fund as a result of the Group's flotation on the London Stock Exchange. Actual employer contributions to the Pension Benefit Section for the year ended 26 April 2008 were £2.6m (2007: £7.2m inclusive of a £4.4m special contribution). The total employer contributions to the defined benefit plans for the financial year commencing on 27 April 2008 are expected to be £3.1m.

#### Pension Saver Section

The Pension Saver Section is of the defined contribution type and is open to all permanent and temporary staff of the Group aged between 18 and 64 years. Members can choose to pay from 2% to 5% of pensionable pay. The Group matches the amount paid by the member up to a maximum of 5% of pensionable pay. Members have a choice of ways to invest their and the Group's contributions in an individual fund to buy pension benefits of their choice. Actual employer contributions to the Pension Saver Section for the year ended 26 April 2008 were £0.9m (2007: £0.8m). In addition, employer contributions to similar pension arrangements in HMV's international businesses totalled £0.5m (2007: £0.4m)

#### Defined benefit pensions

Amounts reflected in the financial statements in respect of the defined benefit pension scheme are determined with the advice of independent qualified actuaries, Watson Wyatt LLP, on the basis of annual valuations using the projected unit funding method. Scheme assets are stated at their market value at the respective balance sheet dates. The major assumptions used in the calculations are as follows:

	<b>As at 26 April 2008 % per annum</b>	As at 28 April 2007 % per annum
Rate of price inflation	<b>3.5</b>	3.1
Rate of salary increase	<b>5.0</b>	4.6
Rate of increase for pensions in payment	<b>3.3</b>	3.1
Rate used to discount scheme liabilities	<b>6.2</b>	5.4
Expected rate of return on equities	<b>8.1</b>	7.8
Expected rate of return on bonds	<b>6.2</b>	5.4
Expected rate of return on index-linked bonds	<b>4.6</b>	4.4

The expected rate of return on Scheme assets is based on consistent assumptions with the previous year, adjusted to reflect changes in market conditions since that date.

The post-retirement mortality assumptions used as at 26 April 2008 are in line with the proposed basis of the draft actuarial funding valuation as at 30 June 2007. They reflect the pensioner mortality 00 series tables rated up one year and based on year of use with allowance for medium cohort improvements applying from 2000 subject to a minimum of 1% per annum. The post-retirement mortality assumptions used as at 28 April 2007 were the standard PM/FA92 series tables with allowance for future improvements in mortality. These bases imply the following life expectancies:

<b>Life expectancy (years)</b>	<b>2008 At age 65 for someone currently aged 65</b>	<b>2008 At age 65 for someone currently aged 50</b>	2007 At age 60 for someone currently aged 60	2007 At age 60 for someone currently aged 40
Male	<b>21.3</b>	<b>23.1</b>	23.9	25.9
Female	<b>23.6</b>	<b>25.5</b>	27.2	29.0

Other non-financial assumptions are consistent with those used in the last complete actuarial valuation of the Scheme as at 30 June 2004.

### 34. Pension arrangements continued

#### Group

On the basis of the above assumptions, the amounts charged or credited to the consolidated income statement and consolidated statement of recognised income and expense for the period ended 26 April 2008 are set out below:

	2008 £m	2007 £m
<b>Recognised in the income statement</b>		
Current service cost	(3.9)	(4.7)
Past service cost	-	-
Total recognised in arriving at operating profit	(3.9)	(4.7)
<b>Finance charge</b>		
Interest on pension scheme liabilities	(5.9)	(5.2)
Expected rate of return on assets in the pension scheme	5.8	5.4
Net (charge) credit to other finance (expense) income	(0.1)	0.2
Total income statement charge before deduction for taxation	(4.0)	(4.5)
<b>Taken to the consolidated statement of recognised income and expense</b>		
Actual return on scheme assets	-	4.1
Less: expected return on scheme assets	(5.8)	(5.4)
	(5.8)	(1.3)
Other actuarial gains and losses	13.1	1.3
Actuarial gain recognised in the consolidated statement of recognised income and expense	7.3	-
The assets and liabilities of the Scheme at the end of the period were:		
	As at 26 April 2008 £m	As at 28 April 2007 £m
Equities	44.6	46.6
Bonds	20.7	19.4
Index-linked bonds	20.3	19.1
Other	0.7	1.8
Total market value of assets	86.3	86.9
Actuarial value of scheme liabilities	(102.6)	(109.1)
Deficit in the Scheme	(16.3)	(22.2)
Deferred tax	4.5	6.6
Net pension liability	(11.8)	(15.6)

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

**34. Pension arrangements continued**

Changes in the fair value of the assets are analysed as follows:

	2008 £m	2007 £m
Total market value of assets at the beginning of the period	86.9	75.5
Employer contributions	2.6	7.3
Employee contributions	0.9	1.0
Benefits paid	(4.6)	(1.0)
Expected return on plan assets	5.8	5.4
Actuarial (loss) gain	(5.8)	(1.3)
Foreign exchange gain	0.5	–
Total market value of assets at the end of the period	86.3	86.9

Changes in the present value of the Scheme liabilities are analysed as follows:

	2008 £m	2007 £m
Defined benefit pension obligations at the beginning of the period	(109.1)	(100.5)
Current service cost	(3.9)	(4.7)
Interest on pension scheme liabilities	(5.9)	(5.2)
Employee contributions	(0.9)	(1.0)
Benefits paid	4.6	1.0
Actuarial gain (loss)	13.1	1.3
Foreign exchange loss	(0.5)	–
Defined benefit pension obligations at the end of the period	(102.6)	(109.1)

<b>History of experience gains and losses</b>	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	86.3	86.9	75.5	55.6
Present value of defined benefit obligation	(102.6)	(109.1)	(100.5)	(85.6)
Deficit in the Scheme	(16.3)	(22.2)	(25.0)	(30.0)
Experience adjustments arising on scheme liabilities	6.6	–	–	(2.2)
Loss on assumptions	6.5	1.3	(6.5)	(12.5)
Experience adjustments arising on scheme assets	(5.8)	(1.3)	8.7	(0.4)

The cumulative amount of actuarial gains and losses recognised since 25 April 2004 in the Group statement of recognised income and expense is £(5.6)m (2007: £(12.9)m). The Directors are unable to determine how much of the Scheme deficit of £17.4m, recognised on transition to IFRS and taken directly to equity in the Group, is attributable to actuarial gains and losses since inception of the Scheme. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 25 April 2004.

### 34. Pension arrangements continued

#### Company

The Company, as sponsoring employer of the UK defined benefit scheme, recognises the net pension obligation for the Scheme. The other participating members of the Scheme account for their relevant pension costs on a defined contribution basis. The movement during the period in the defined benefit pension Scheme deficit recognised on the Company balance sheet is as follows:

	2008 £m	2007 £m
Deficit in scheme at the beginning of the period	<b>(22.0)</b>	(24.8)
Contributions paid	<b>2.5</b>	7.2
Current service cost	<b>(3.8)</b>	(4.6)
Net credit (charge) to other finance income (expense)	<b>(0.1)</b>	0.2
Actuarial gain	<b>7.5</b>	–
Deficit in scheme at the end of the period	<b>(15.9)</b>	(22.0)
Deferred tax	<b>4.5</b>	6.6
Net pension liability	<b>(11.4)</b>	(15.4)

<b>History of experience gains and losses</b>	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	<b>83.2</b>	84.1	73.0	53.9
Present value of defined benefit obligation	<b>(99.1)</b>	(106.1)	(97.8)	(83.0)
Deficit in the Scheme	<b>(15.9)</b>	(22.0)	(24.8)	(29.1)
Experience adjustments arising on scheme liabilities	<b>6.9</b>	–	–	(2.3)
Loss on assumptions	<b>5.8</b>	1.3	(6.7)	(12.0)
Experience adjustments arising on scheme assets	<b>(5.2)</b>	(1.3)	8.3	(0.4)

The cumulative amount of actuarial gains and losses recognised since 25 April 2004 in the Company statement of recognised income and expense is £(5.6)m (2007: £(13.1)m). The Directors are unable to determine how much of the Scheme deficit of £16.9m, recognised on transition to IFRS and taken directly to equity in the Company, is attributable to actuarial gains and losses since inception of the Scheme. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Company statement of recognised income and expenses before 25 April 2004.

### 35. Capital commitments

<b>Group</b>	2008 £m	2007 £m
Capital expenditure: contracted but not provided	<b>2.7</b>	3.3

The Company had no capital commitments contracted but not provided at either 26 April 2008 or 28 April 2007.

### 36. Obligations under leases

#### Obligations under operating leases

The Group operates entirely from properties in respect of which commercial operating leases have been entered into. These leases have an average remaining duration of 10 years. At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows:

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Not later than one year	<b>150.1</b>	155.7	<b>0.2</b>	0.2
Between two and five years inclusive	<b>494.1</b>	500.5	<b>0.8</b>	0.8
After five years	<b>561.2</b>	579.8	<b>0.1</b>	0.3
	<b>1,205.4</b>	1,236.0	<b>1.1</b>	1.3

Group companies other than the parent have sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 26 April 2008 is £24.4m (2007: £22.8m).

#### Obligations under finance leases

The Group has acquired certain plant and equipment using finance lease facilities. These leases have no terms of renewal, purchase options or escalation clauses. At the end of the period, future minimum payments under finance leases were as follows:

<b>Group</b>	<b>2008 £m</b>	2007 £m
Not later than one year	<b>0.3</b>	0.4
Between two and five years inclusive	<b>0.5</b>	0.8
	<b>0.8</b>	1.2
Less finance charges allocated to future periods	<b>(0.1)</b>	(0.1)
Present value of minimum lease payments	<b>0.7</b>	1.1

The present value of minimum lease payments is analysed as follows:

	<b>2008 £m</b>	2007 £m
Not later than one year	<b>0.2</b>	0.3
Between two and five years inclusive	<b>0.5</b>	0.8
	<b>0.7</b>	1.1

The Company had no obligations under finance leases.

### 37. Related party transactions

During the period the Company entered into transactions in the ordinary course of business with related parties. Transactions entered into and balances outstanding at the end of the period are as follows:

	Dividends received from related parties £m	Services rendered to related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
With subsidiaries				
<b>2008</b>	<b>55.0</b>	<b>3.2</b>	<b>28.3</b>	<b>111.4</b>
2007	26.1	1.7	52.6	81.9

Included within the amounts owed by and to related parties, £4.8m (2007: £7.5m) related to intercompany trading balances and is settled monthly with no interest charge. The remaining net balance of £88.1m (2007: £36.8m) related to intercompany loans, on which interest is charged at the Bank of England base rate prevailing at the date of inception and which are repayable on demand.

During the year, the Company entered into a guarantee to secure the obligations of a subsidiary company, HMV Canada Inc, to a supplier, subject to a maximum amount of C\$5million until 31 July 2009.

### Remuneration of key management personnel

The remuneration of the Directors and key management personnel of the Group is set out below:

	<b>Group 2008 £m</b>	Group 2007 £m	<b>Company 2008 £m</b>	Company 2007 £m
Short-term employee benefits	<b>3.5</b>	2.8	<b>2.1</b>	1.2
Post-employment benefits	<b>0.2</b>	0.2	<b>0.2</b>	0.2
Share-based payments	<b>0.1</b>	0.2	–	0.1
Termination benefits	<b>1.5</b>	0.3	–	–
	<b>5.3</b>	3.5	<b>2.3</b>	1.5

# Group financial record

<b>Summarised Profit and Loss Account</b>	<b>52 weeks ended 26 April 2008 £m</b>	52 weeks ended 28 April 2007 £m	52 weeks ended 29 April 2006 £m	52 weeks ended 30 April 2005 £m	53 weeks ended 30 April 2005 £m	52 weeks ended 24 April 2004 £m
<b>Turnover</b>						
HMV UK & Ireland	<b>1,079.0</b>	932.2	937.2	986.0	999.4	930.1
HMV International <sup>2</sup>	<b>231.6</b>	215.1	241.8	234.1	237.7	231.7
Total HMV	<b>1,310.6</b>	1,147.3	1,179.0	1,220.1	1,237.1	1,161.8
Waterstone's <sup>4</sup>	<b>564.3</b>	537.5	418.7	440.0	446.1	428.9
Total continuing operations	<b>1,874.9</b>	1,684.8	1,597.7	1,660.1	1,683.2	1,590.7
Discontinued operation <sup>5</sup>	<b>61.2</b>	209.7	228.2	202.4	202.4	202.8
Total Group	<b>1,936.1</b>	1,894.5	1,825.9	1,862.5	1,885.6	1,793.5

<b>Operating profit before exceptional items</b>						
HMV UK & Ireland	<b>41.4</b>	24.3	60.6	93.0	96.9	95.5
HMV International <sup>2</sup>	<b>8.5</b>	13.4	14.8	9.5	10.2	4.8
Total HMV	<b>49.9</b>	37.7	75.4	102.5	107.1	100.3
Waterstone's <sup>4</sup>	<b>16.3</b>	16.3	20.9	25.2	27.5	26.0
Total continuing operations	<b>66.2</b>	54.0	96.3	127.7	134.6	126.3
Discontinued operation <sup>5</sup>	<b>0.1</b>	3.3	6.3	4.5	4.5	5.2
Total Group	<b>66.3</b>	57.3	102.6	132.2	139.1	131.5
Operating exceptional items	<b>(4.6)</b>	(24.7)	(18.0)	–	–	–
Net finance charges before exceptional items	<b>(9.8)</b>	(9.2)	(4.4)	(8.4)	(8.4)	(13.9)
Exceptional finance charges	<b>–</b>	(1.8)	–	(2.7)	(2.7)	–
<b>Profit before tax</b>	<b>51.9</b>	21.6	80.2	121.1	128.0	117.6
Tax	<b>(14.7)</b>	(5.5)	(24.0)	(34.3)	(36.3)	(35.4)
Profit after tax on disposal of discontinued operation	<b>51.8</b>	–	–	–	–	–
<b>Profit for the financial period</b>	<b>89.0</b>	16.1	56.2	86.8	91.7	82.2
<b>Basic earnings per share</b>	<b>22.1p</b>	4.0p	14.0p		22.7p	20.4p
<b>Adjusted earnings per share</b>	<b>10.1p</b>	8.7p	17.4p		22.8p	20.4p
<b>Diluted basic earnings per share</b>	<b>21.8p</b>	4.0p	13.8p		22.3p	20.2p
<b>Dividend per share</b>	<b>7.4p</b>	7.4p	7.4p		6.8p	5.8p
<b>Total equity</b>	<b>58.8</b>	(13.2)	(2.4)		(14.4)	(73.4)

1. The results for the period ended April 2004 are stated under previous UK GAAP. The results for the periods ended April 2005, 2006, 2007 and 2008 are stated under Adopted IFRS.

2. HMV International comprises the results of HMV Canada, Hong Kong and Singapore.

3. The financial year ended 30 April 2005 covered 53 weeks. The result is also presented on an adjusted 52-week basis.

4. Waterstone's includes the results of Ottakar's since its acquisition on 3 July 2006.

5. Discontinued operation is HMV Japan which was sold on 25 August 2007.

# Store directory

## HMV UK & Ireland

### UK

Aberdeen  
Ashford  
Ashton under Lyne  
Aylesbury  
Ayr  
Ballymena  
Banbury  
Bangor, NI  
Bangor, Wales  
Barnsley  
Basildon  
Basingstoke  
Bath  
Belfast Boucher Rd.  
Belfast Donegall  
Belfast Forestside  
Bexleyheath  
Birkenhead  
Birmingham Bullring  
Birmingham High St.  
Birmingham Pallasades  
Birmingham The Fort  
Blackburn  
Blackpool  
Bluewater  
Bolton  
Bolton Middlebrook  
Boston  
Bournemouth  
Bracknell  
Bradford  
Brighton Weston Road  
Brighton Churchill Sq.  
Bristol Broadmead  
Bristol Cribbs Causeway  
Burton Upon Trent  
Cambridge  
Canterbury  
Cardiff  
Carlisle  
Chelmsford  
Cheltenham  
Cheshire Oaks  
Chester  
Chesterfield  
Chichester  
Clydebank  
Colchester  
Coleraine  
Coventry  
Craigavon  
Crawley  
Croydon  
Cwmbran  
Darlington  
Derby  
Derry  
Doncaster  
Dumfries  
Dundee  
Durham

Eastbourne  
East Kilbride  
Edinburgh Fort Kinnaird  
Edinburgh Ocean Terminal  
Edinburgh Princes St.  
Edinburgh St. James  
Enfield  
Epsom  
Exeter  
Falkirk  
Folkestone\*  
Folkestone M20\*  
Gateshead  
Gatwick North Terminal  
Gatwick South Terminal  
Glasgow Argyle St.  
Glasgow Braehead  
Glasgow Sauchiehall St.  
Gloucester  
Greenwich  
Grimsby  
Guernsey  
Guildford  
Hanley  
Harlow  
Harrigate  
Hatfield Galleria  
Heathrow Terminal 1  
Heathrow Terminal 2\*  
Heathrow Terminal 3\*  
Heathrow Terminal 4  
Heathrow Terminal 5  
(departures)\*  
Heathrow Terminal 5 (satellite)\*  
Hemel Hempstead  
High Wycombe\*  
Horsham  
Huddersfield  
Hull  
Ilford  
Inverness  
Ipswich  
Isle of Man  
Isle of Wight  
Jersey  
Kettering  
King's Lynn  
Kingston  
Kirkcaldy  
Lancaster  
Leamington Spa  
Leeds Birstall  
Leeds Headrow  
Leeds White Rose  
Leicester  
Lincoln  
Lisburn  
Liverpool  
Livingstone  
Llandudno  
Llanelli

London:  
Bayswater Whiteleys  
Beckton  
Brent Cross  
Bromley  
Canary Wharf  
Covent Garden  
Ealing  
Hammersmith  
Hampstead  
Harrods  
Harrow  
Hounslow  
Islington  
Leadenhall Market  
Moorgate  
Oxford Circus  
Oxford St. (360)  
Putney  
Richmond  
Selfridges  
Stratford  
Trocadero  
Victoria Station  
Walthamstow  
Wandsworth  
Wimbledon  
Wood Green  
  
Luton  
Maidstone  
Manchester 21 Market St.  
Manchester 90 Market St.  
Manchester Trafford Centre  
Manchester West One  
Mansfield  
Merry Hill  
Middlesbrough  
Milton Keynes  
Monks Cross  
Newbury  
Newcastle  
Newport  
Newry  
Northampton  
Norwich  
Norwich Chapelfield  
Nottingham Listergate  
Nottingham Victoria  
Nuneaton  
Oldham  
Orpington  
Oxford  
Perth  
Peterborough  
Plymouth  
Poole  
Portsmouth  
Portsmouth Gunwharf Quay  
Preston

Reading Friar St.  
Reading Oracle  
Redditch  
Rochdale  
Romford  
Rotherham  
Scarborough  
Scunthorpe  
Sheffield High St.  
Sheffield Meadowhall  
Shrewsbury  
Slough  
Solihull  
Southampton  
Southend  
Southport  
Southshields  
Speke Park  
St. Albans  
St. Helens  
Stafford  
Staines  
Stansted  
Stevenage  
Stirling  
Stockport  
Stockton-on-Tees  
Stratford  
Sunderland  
Sutton  
Swansea  
Swindon  
Tamworth  
Telford  
Thanet  
Thurrock  
Truro  
Tunbridge Wells  
Uxbridge  
Wakefield  
Walsall  
Warrington  
Watford  
Wellingborough  
Wigan  
Winchester  
Windsor  
Woking  
Wolverhampton  
Worcester  
Workington  
Wrexham  
Yeovil  
York

### Ireland

Blanchardstown  
Cork  
Drogheda  
Dublin Grafton Street  
Dublin Henry Street  
Dublin Swords  
Galway  
Limerick  
Tallaght

### Fopp

Bristol\*  
Cambridge\*  
Covent Garden\*  
Edinburgh\*  
Glasgow Byres\*  
Glasgow Union\*  
Manchester\*  
Nottingham\*

**HMV International**

**Canada**

Abbotsford Seven Oaks  
 Barrie Georgian Mall  
 Belleville Quinte Mall\*  
 Bramalea  
 Brampton Trinity Common  
 Brantford Lyden Park  
 Brossard  
 Burlington Mapleview  
 Burnaby Lougheed  
 Burnaby Metrotown  
 Burnaby Metrotown II  
 Calgary Chinook  
 Calgary Market Mall  
 Calgary North Hill  
 Calgary Signal Hill  
 Calgary Southcentre  
 Calgary Sunridge  
 Calgary TD Square  
 Cambridge  
 Chicoutimi Place du Royaume  
 Coquitlam Centre  
 Dartmouth Mic Mac Mall Dieppe  
 Champlain Place Edmonton  
 Bonnie Doon  
 Edmonton City Centre  
 Edmonton Kingsway  
 Edmonton Londonderry\*  
 Edmonton Mill Woods  
 Edmonton South  
 Edmonton Southgate  
 Etobicoke Sherway Gardens  
 Fredericton Regent Mall  
 Gatineau Galeries de Hull  
 Gatineau L'Outaouais  
 Guelph Stone Road  
 Halifax Spring Garden Rd  
 Hamilton Limeridge  
 Kelowna Orchard Park  
 Kingston Cataract  
 Kitchener Fairview  
 Langley Willowbrook  
 Lasalle Carrefour Anrignon  
 Laval  
 Lethbridge Park Place  
 Levis Galeries Chagnon  
 Lloydminster Lloyd Mall\*  
 London Masonville  
 London White Oaks  
 Markham Markville  
 Medicine Hat  
 Mississauga Erin Mills  
 Mississauga Square One  
 Montreal Megastore  
 Montreal Place Versailles  
 Nanaimo Woodgrove  
 Nepean Bayshore  
 Nepean Merivale  
 Newmarket Upper Canada  
 Oakville

Oakville Place  
 Orleans Place D'Orleans  
 Oshawa  
 Ottawa Sparks St.  
 Ottawa Rideau Centre  
 Ottawa St. Laurent  
 Owen Sound Heritage Place\*\*  
 Peterborough Lansdowne\*  
 Pickering  
 Pointe Claire  
 Prince George Pine Centre  
 Quebec Fleur de Lys  
 Quebec Galeries de la Capitale  
 Red Deer Bower Place  
 Regina Cornwall Centre  
 Regina Southland  
 Repentigny Rive Nord  
 Richmond Centre  
 Richmond Hill Hillcrest Mall  
 Rosemere  
 Saint John McAllister Place  
 Saskatoon Lawson Heights  
 Saskatoon Midtown Mall  
 Scarborough  
 Sherbrooke  
 St. Bruno  
 St. Catharines Pen Centre  
 Ste Foy Laurier  
 St Jerome Carrefour du Nord\*\*  
 St Jean-sur-Richelieu Carrefour  
 de Richelieu\*\*  
 St. John's Avalon Mall  
 Stony Creek Eastgate\*  
 Sudbury\*  
 Surrey Guildford  
 Thornhill Promenade  
 Thunder Bay Intercity  
 Toronto Bloor Street  
 Toronto Eaton Centre  
 Toronto Dufferin Mall  
 Toronto Fairview  
 Toronto First Canadian Place  
 Toronto Eglinton & Laird\*  
 Toronto Queen St.  
 Toronto Superstore  
 Toronto Woodbridge  
 Toronto Yonge & Eglinton  
 Toronto Yorkdale  
 Trois Rivières  
 Vancouver Oakridge Centre  
 Vancouver Superstore  
 Vaughan Mills  
 Victoria Hillside  
 Victoria Mayfair  
 Victoriaville  
 Ville d'Anjou  
 Ville Mount-Royal Rockland  
 Ville St. Laurent Place Vertu  
 Waterloo  
 West Edmonton Mall  
 West Vancouver Park Royal  
 Windsor Devonshire Mall  
 Winnipeg Kildonan  
 Winnipeg Polo Park  
 Winnipeg Portage Place  
 Winnipeg St. Vital

**Hong Kong**

Causeway Bay  
 Central Building  
 Elements, Union Square\*  
 Queensway  
 Telford Plaza  
 Tsimshatsui

**Singapore**

CityLink  
 Heeren Centre

**Waterstone's**

Aberdeen Langstane  
 Aberdeen Union Bridge  
 Abergavenny  
 Aberystwyth  
 Alton  
 Altrincham  
 Amersham  
 Amsterdam  
 Andover  
 Ashford  
 Aviemore  
 Aylesbury  
 Ayr  
 Ballymena  
 Banbury  
 Barnet  
 Barnstaple  
 Barrow  
 Basildon  
 Basinstoke  
 Bath  
 Bath University  
 Bedford  
 Belfast  
 Berkhamsted  
 Birkenhead  
 Birmingham High St.  
 Birmingham New Street  
 Birmingham University  
 Bishops Stortford  
 Blackpool  
 Bluewater  
 Bolton  
 Boston  
 Bournemouth Arcade  
 Bournemouth Castle Point  
 Bournemouth University  
 Bracknell  
 Bradford University  
 Bradford Wool Exchange  
 Brentwood  
 Bridport  
 Brighton Clock Tower  
 Bristol Cribbs Causeway  
 Bristol Galleries  
 Bristol University  
 Bromsgrove  
 Brussels  
 Burton on Trent  
 Bury  
 Bury St Edmunds

Camberley  
 Cambridge Sidney St.  
 Canterbury St Margarets  
 Canterbury Rose Lane  
 Cardiff The Hayes  
 Carlisle  
 Carmarthen  
 Chatham  
 Chelmsford The Meadows  
 Chelmsford High St.  
 Cheltenham 33-41  
 The Promenade  
 Chesham  
 Chester Eastgate  
 Chesterfield  
 Chichester  
 Chippenham  
 Chiswick  
 Cirencester  
 Colchester Culver Sq.  
 Colchester High St.  
 Coleraine  
 Cork  
 Coventry Cathedral Lanes  
 Coventry Smithford Way  
 Coventry Academic  
 Crawley County Mall  
 Crawley The Martlets  
 Crewe  
 Croydon  
 Darlington Cornmill Centre  
 Derby  
 Derby University  
 Doncaster  
 Dorchester  
 Dorking  
 Douglas, Isle of Man  
 Drogheda  
 Dublin Dawson St.  
 Dublin Hodges Figgis  
 Dublin Jervis St.  
 Dumfries  
 Dundee Commercial St.  
 Durham  
 Durham University  
 East Anglia University  
 Eastbourne  
 East Grinstead  
 East Kilbride  
 Eastleigh  
 Edinburgh Cameron Toll  
 Edinburgh East End  
 Edinburgh George St.  
 Edinburgh Ocean Terminal  
 Edinburgh West End  
 Elgin  
 Enfield  
 Epsom High St.  
 Epsom Ashley Centre  
 Essex University  
 Exeter High St.  
 Exeter Roman Gate

Falkirk  
 Fareham  
 Farnham  
 Folkestone Old Town Hall  
 Folkestone Sandgate Road  
 Gateshead  
 Glasgow Argyle St.  
 Glasgow Braehead  
 Glasgow Sauchiehall  
 Gloucester  
 Godalming  
 Grimsby  
 Guildford North St.  
 Guildford High St.  
 Hanley  
 Harrogate  
 Harrow  
 Hastings  
 Hatfield  
 Haywards Heath  
 Hemel Hempstead Riverside  
 Hemel Hempstead Marlowes  
 Hereford  
 Hexham  
 High Wycombe  
 Hitchin  
 Horsham  
 Huddersfield Kingsgate  
 Huddersfield New St.  
 Hull  
 Hull University  
 Ilford  
 Inverness Eastgate  
 Ipswich  
 Isle of Wight  
 Jersey De Gruchy  
 Jersey St Hellier  
 Keele University  
 Kendal  
 Kettering  
 King's Lynn High St.  
 King's Lynn Norfolk St.  
 Kingston University  
 Kingston Bentalls  
 Kirkcaldy  
 Knutsford\*  
 Lancaster King St.  
 Lancaster Corn Market  
 Lancaster University  
 Leamington Spa  
 Leeds  
 Leicester Market St.  
 Leicester The Shires  
 Lincoln Exchange Arcade  
 Lincoln High St.  
 Lisburn  
 Liverpool  
 Llandudno

London:  
 Bromley  
 Camden  
 City University  
 Clapham  
 Clare Market University  
 Covent Garden  
 Ealing Broadway  
 Finchley  
 Gower Street  
 Greenwich  
 Hampstead  
 Harrods  
 Islington  
 Kensington  
 Kings Road  
 Leadenhall Market  
 Ludgate Circus  
 Notting Hill Gate  
 Oxford Street (19-23)  
 Oxford Street (421)  
 Piccadilly  
 Piccadilly Hatchards  
 Putney  
 Richmond  
 Science Museum  
 Trafalgar Square  
 Wimbledon Bridge  
  
 Loughborough  
 Lowestoft  
 Luton  
 Lymington  
 Macclesfield  
 Maidenhead  
 Maidstone Earl St.  
 Maidstone Fremlin Walk  
 Manchester Airport T1  
 Manchester Airport T2  
 Manchester Arndale  
 Manchester Deansgate  
 Manchester Trafford Centre  
 Market Harborough  
 Merry Hill  
 Middlesbrough  
 Milton Keynes Silbury Arcade  
 Milton Keynes Midsummer  
 Place

Newbury  
 Newcastle Emerson Chambers  
 Newport  
 Newton Abbott  
 Newton Mearns  
 Newry  
 Northallerton  
 Northampton  
 Norwich Royal Arcade  
 Norwich Castle St.  
 Nottingham  
 Nuneaton  
 Oban  
 Oldham  
 Ormskirk  
 Orpington  
 Oxford  
 Perth  
 Peterborough Bridge St.  
 Peterborough Queensgate  
 Petersfield  
 Plymouth New George St.  
 Plymouth Drake Circus  
 Poole  
 Portsmouth  
 Preston  
 Reading Broad St.  
 Reading Oracle  
 Redhill  
 Redditch  
 Romford  
 Salisbury High St.  
 Salisbury New Canal  
 Scarborough  
 Sheffield Meadowhall Arcade  
 Sheffield Meadowhall  
 Park Lane  
 Sheffield Orchard Sq.  
 Shrewsbury  
 Slough  
 Solihull  
 Southampton Above Bar  
 Southampton University  
 Southampton West Quay  
 Southend High St.  
 Southend The Royals  
 Southport  
 St. Albans  
 St. Andrews  
 St. Neots  
 Stafford Guildhall  
 Stafford Greengate  
 Staines  
 Stevenage  
 Stirling Thistle  
 Stockport Merseyway  
 Stratford  
 Sunderland  
 Sutton  
 Sutton Coldfield  
 Swansea  
 Swansea University  
 Swindon

Taunton  
 Teddington  
 Teesside University  
 Telford  
 Tenterden  
 Thanet  
 Tiverton  
 Trowbridge  
 Thurrock  
 Torquay  
 Truro  
 Tunbridge Wells  
 Twickenham  
 Wakefield  
 Walsall  
 Walthamstow  
 Walton on Thames  
 Warrington  
 Watford  
 Wells  
 Weston-super-Mare  
 Wigan  
 Wilmslow  
 Winchester High St.  
 Winchester The Brooks  
 Windsor  
 Witney  
 Woking Peacock Centre  
 Woking Wolsley Walk  
 Wolverhampton  
 Worcester High St.  
 Worcester The Shambles  
 Worthing  
 Wrexham  
 Yeovil  
 York 28 Ousegate

\* New stores opened in  
 52 weeks ended  
 26 April 2008  
 \*\* Opened since  
 26 April 2008  
 \*\*\* Closed since 26 April 2008

# Shareholder information

## Financial calendar

Ex-dividend date	27 August 2008
Record date	29 August 2008
Annual General Meeting	5 September 2008
Final dividend payable	10 October 2008
Interim results	December 2008
Interim dividend payable	February 2009
Announcement of results for year ending 25 April 2009	June 2009

## Ordinary Shares

The total number of Ordinary Shares in issue as at 26 April 2008 was 403,370,494 shares which were held by a total of 3,345 shareholders.

## Share price information

The latest information on the HMV Group plc Ordinary Share price is available on [www.hmvgroup.com](http://www.hmvgroup.com)

## Registrars

All enquiries relating to Ordinary Shares, dividends and changes of address should be addressed to the Company's registrar, Capita Registrars.

## Payment of dividends

Shareholders whose dividends are not currently paid to mandated accounts may wish to consider this method of payment, which has a number of advantages: dividends are paid direct into the shareholder's nominated account, cleared funds are provided on the payment date, and the relevant tax voucher is sent to the shareholder's registered address.

# Company information

## Registered office

Shelley House  
2-4 York Road  
Maidenhead  
Berkshire SL6 1SR

## Registered number

3412290

## Corporate website

[www.hmvgroup.com](http://www.hmvgroup.com)

## Other websites

[www.hmv.com](http://www.hmv.com)  
[www.hmv.ca](http://www.hmv.ca)  
[www.hmv.com.hk](http://www.hmv.com.hk)  
[www.waterstones.com](http://www.waterstones.com)

## Auditors

Ernst & Young LLP  
1 Colmore Square  
Birmingham B4 6HQ

## Financial advisors

Citigroup  
Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB

Lehman Brothers  
25 Bank Street  
Canary Wharf  
London E14 5LE

## Principal bankers

The Royal Bank of  
Scotland  
135 Bishopsgate  
London EC2M 3UR

Lloyds TSB Bank plc  
25 Gresham Street  
London  
EC2V 7HN

## Lawyers

Simmons & Simmons  
CityPoint  
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London EC2Y 9SS

## Registrars

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The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Design and production:  
Radley Yeldar [www.ry.com](http://www.ry.com)

Board photography:  
Marcus Ginns

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