HMV Group plc
Annual report and accounts 2010

IMAGE REMOVED

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The basics

Inspirational brands

HMV and Waterstone's are renowned for their specialist appeal, offering the widest ranges of entertainment and books in their markets Our stores and the people who work in them strive to be always passionate and inspirational about the products we sell, and provide great service and value for money to ensure that our customers get closer to the entertainment they love, or feel every word between the covers of a good book We attract the most enthusiastic customers in our markets, with over 4 million loyalty card holders across both brands

IMAGE REMOVED

IMAGE REMOVED

HMV

In-store

Online & digital

Live

HMV is evolving rapidly as an entertainment brand Our market-leading retail businesses operate through 417 stores in the UK, Canada, Hong Kong and Singapore and transactional local territory websites, which include digital downloads We also operate a small specialist chain of entertainment shops in the UK trading as Fopp In Live entertainment, we operate 12 venues, summer festivals and ticketing in-store and online The HMV 'experience' also extends to high-quality cinema and pay-to-play games

Waterstone's

In-store

Online & digital

Waterstone's is the UK's leading bookseller, operating through 314 stores and a transactional website for the sale of both physical and e-books for download An average-size branch of Waterstone's carries a range of 30,000 titles, rising to 250,000 titles in our largest store Our e-books offer is growing rapidly, and our stores and website offer a range of technology onto which these books can be downloaded and enjoyed

Introduction

We've made good progress over the last three years.

Our transformation plan successfully achieved nearly everything that we set out to do to protect the areas of our retail business where the structural changes have been the most profound, save money by operating more efficiently as a Group and grow in new channels.

As a result, our business today is on a much stronger footing. Our markets will continue to change, however; meaning we must at least maintain the pace at which we are adapting.

We have a plan.

The next phase of our journey will see us continue to make our retail businesses relevant to the customers of today and tomorrow.

Stretching beyond traditional retail, we've embarked upon some exciting new growth opportunities for the Group.

We will also maintain our discipline for tightly controlling what we spend and where.

We have every reason to be proud of our recent highlights, and are realistic about our changing markets. With a clear focus on delivering our new objectives, we remain resolute about achieving our goal of sustainable, long-term growth.

Strategic progress and future focus

Looking back. This is how we did.

We successfully delivered most of the strategic objectives in our three-year plan commencing March 2007. (We even embarked on some new ones along the way.)

These are our highlights:

Protecting

£166m

of new product sales in HMV

IMAGE REMOVED

Increased our entertainment market share

IMAGE REMOVED

Attracted 4 million loyalty cardholders across both UK brands

Saving

£30m

of cost savings through maximising Group synergies

IMAGE REMOVED

We implemented a new supply chain for Waterstone's, with projected savings to come

Growing

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Entered high-growth live entertainment market through acquisition of MAMA Group

IMAGE REMOVED

Diversified into entertainment 'experiences', such as cinema and pay-to-play gaming

IMAGE REMOVED

Built a leading position in rapidly evolving e-books market

LOGO REMOVED

Positioned for growth in digital, through acquisition of 50% stake in 7digital

Now, here's what's next.

We've defined a clearly focused strategic agenda, which will enable us to deliver earnings growth over the medium term and provides the platform for long term, sustainable growth.

Continue to evolve the HMV product mix into related areas of entertainment

IMAGE REMOVED

Read more on pages 12–13

Growing in Live and ticketing, where the value in the music market increasingly lies

IMAGE REMOVED

Read more on pages 14–15

Turnaround at Waterstone's, focusing on our core strengths as a range bookseller

IMAGE REMOVED

Read more on pages 16–17

Market overview

Shaping our decisions.

The need for continuing transformation in our business is driven by the structural changes taking place in our markets The products we traditionally sell are increasingly available to download through online channels Additionally, some competing retailers frequently offer the most publicised new releases in books and entertainment at loss-leading prices to demonstrate to customers their value credentials across a wider basket of goods

During the Group's last financial year, the entertainment markets in the UK performed broadly in line with our expectations, with volume declines in music, including digital downloads, of c. 5% and in visual of c 2% The total games market declined by c. 24% in value, reflecting the cyclicality of the market.

On 26 March 2010, the Group presented its new strategic plan to 2013, in which we laid out our expectations for our markets in the UK.

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Packaged music, visual and games

Music, which represents 22% of Group sales, is where changes will continue to be the most profound of all the markets in which we operate We expect the total music market, including digital, to decline in value by around 1% per annum Within this, the CD market will decline at a faster rate, by around 12% We anticipate that by 2013 total music market revenues from digital music will become equivalent to those from packaged music, driven by a growth in streaming, free and paid-for digital music.

Visual is the Group's largest category, representing 33% of our sales mix for the last financial year We expect the total market to decline by around 3 5% per annum, and within this packaged software to decline at a faster rate as digital increases its share of the category from c. 1% today, to around 10% by 2013

We expect the nascent Blu-ray market to surpass standard definition DVD as the largest of the visual formats by 2013, when forecasts assume a hardware base of 20 million stand-alone and PS3 players We have not included forecasts for the growth of 3D packaged software, which could become significant with mass market adoption of compatible hardware

Games are 12% of the Group's sales Visibility to the beginning of a new console cycle is currently low, but assuming the first new hardware products are brought to market by the end of 2011, then growth in this market of around 2% per annum is expected, and within this hardware and packaged software will increase by around 1% per annum We expect console online games to grow to around 8% of the market from its current low base, but by 2013 still the most practical means of accessing console games files will be through packaged software

HMV's changing mix

Given the changes taking place within our traditional markets, we expect HMV's mix of sales to continue to evolve towards new and related entertainment products At the end of the last financial year, 9% of HMV UK & Ireland's high street sales were from new and related products, which we expect to increase to 21% in 2013

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CHART REMOVED

Live music and entertainment

The value chain in music is shifting to live away from recorded music, whether physical CDs or digital In 2008, industry body PRS for Music reported that revenues from live music overtook that of recorded in the UK for the first time For 2009, consumer spending on live music in the UK was £1 45bn, up from £1 39bn in the prior year Within this, primary ticket sales were up 3 4% and secondary ticket sales increased by 15%

Books

Books at Waterstone's represent 25% of the Group's sales We expect the total book market 2009–12 to be broadly stable, with a decline of around 3% per annum in physical book sales being offset by growth in e-books, which will increase to around 8% of the market in 2012 from its current low base The prognosis for the general retailer market, which is a broad proxy for the UK high street segment, excluding e-books, is for a decline of c 4%, reflecting the continuing shift to online In terms of the competitive set since 2006, it is evident that the decline in the high street's share of the total book market has been driven by the growth of online, with the share of supermarkets and independent retailers remaining broadly stable

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Chairman's statement

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

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

We have also shown that as well as extending the retail product range the HMV brand can successfully stretch beyond traditional retailing Following 12 months in a highly promising joint venture with MAMA Group Plc to own and operate live music venues, in January 2010 we successfully acquired the entire issued share capital of MAMA for £46 0m in cash We expect our new Live division, including the related ticketing business, to be a significant driver of growth for the Group

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

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

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

I am pleased to report that the results for the Group for the year ended 24 April 2010 saw a 17 7% increase in profit before tax and exceptional items to £74 2m, on revenue which grew by 3 1% to a record level of £2,016 6m Our adjusted earnings per share rose by 13 8% to 12 7p, and the Board has recommended a final dividend of 5 6p per Ordinary Share Together with the interim dividend of 1 8p per share, the total dividend for the year is 7 4p, the same as last year

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

Our capital structure remains appropriate for the requirements of our plan The acquisition of MAMA Group from existing cash resources increased our year-end net debt to £67 6m which, based on the strategic plan announced in March, we aim to largely eliminate by the end of 2013

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

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

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

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

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Robert Swannell
Chairman
29 June 2010

£2,016.6m
Total sales of £2,016 6m up 3 1% on 2009

£80.4m
Operating profit of £80 4m up 14 2% (2009 £70 3m)

17.7%
Profit before tax and exceptional items up 17 7% to £74 2m (2009 £63 0m)

12.7p
Adjusted earnings per share of 12 7p, up 13 8% on 11 1p in 2009
Basic earnings per share of 11 6p (2009 10 8p)

5.6p
Final dividend of 5 6p, making a total dividend of 7 4p (2009 7 4p)

£67.6m
Net debt of £67 6m

Business and financial review
Business review

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

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

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

Following the transformation programme, the Group is on a much stronger financial footing than was the case three years ago

IMAGE REMOVED

Progressing today. Poised for tomorrow.

We are no longer a one-dimensional retailer facing rapidly changing product markets, as HMV stores have continued to evolve to respond quickly to the changing entertainment markets in which we operate At the same time, we have accelerated the evolution of HMV as an entertainment brand by investing in high growth parts of the industry, namely live music and digital

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

Continuing to evolve HMV's product mix

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

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

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

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

By focusing on these initiatives, as well as the continued tight management of costs and margins, we are targeting a net margin for HMV UK of c.5 0%–5 5% over the medium term

Growing in Live and digital

The most significant development in HMV's evolution as an entertainment brand over the last 12 months has been our entry into the fast-growing live music market, which in the UK is forecast to become one-third greater than the value of recorded music by 2012 Following a successful year as a joint venture partner with MAMA Group to own and operate live music venues, on 29 January 2010 we completed the acquisition of MAMA for £46 0m in cash

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

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

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

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

Turnaround at Waterstone's

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

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

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

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

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

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

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

Outlook

Despite the significant changes we are pushing through our retail businesses, we are confident that by executing the strategies that have been laid out and having identified further operating cost opportunities, we can rebuild profits at Waterstone's and deliver consistent underlying profits in HMV Overlaid onto this will be our rapid growth in the new HMV Live division By maintaining a clear focus on these objectives, we believe the Group is in a stronger position to deliver long-term, sustainable growth

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Simon Fox
Chief Executive Officer
29 June 2010

So, exciting times ahead. Let's take a look...

Evolving as an entertainment brand.

HMV has a unique relationship with its customers based around their passion for entertainment. We are maximising this by delivering content to them whether this is consumed at home, live or on the move

IMAGE REMOVED

IMAGE REMOVED

Moving with technology

HMV is now established as a place to buy entertainment-related technology. Our ranges include Apple iPods and related accessories, headphones, speaker docks and much more. We are continuing to add both space in our stores and new products, as we are targeting 12% of HMV's sales from technology by 2013

Play it again, and again

Re/Play is HMV's pre-played games offer. Our total games offer consistently outperformed the market during the year, and Re/Play has been a key factor in this. By offering our customers great trade-in offers against the very latest and most coveted new releases, our value credentials are reinforced

The future with Orange

Mobile handsets are becoming increasingly important as entertainment devices, and our store offer now reflects this. Orange concessions are being rolled-out to around 60 stores, offering a range of handsets suitable for music, film and games

IMAGE REMOVED

IMAGE REMOVED

Been there, got the tee-shirt, the mug, the poster

The most popular entertainment properties are increasingly presented as franchises HMV is uniquely positioned to offer these product ranges to a customer base that is passionate about entertainment.

IMAGE REMOVED

Fashion sense

Music and fashion have always been inextricably linked Entertainment-inspired fashion is, therefore, a great fit with the both the HMV brand and customer base We have made a good start in fashion, driven by our ranges of band-related tee-shirts Whilst these remain part of our offer, we are broadening our ranges of fashion and accessories An exciting new shop-in-shop in which to merchandise these products, The Studio, is being rolled-out to all of our stores early in our new financial year

IMAGE REMOVED

Growing in Live and Digital.

IMAGE
REMOVED

7 is our magic number

7digital provides HMV and Waterstone's with a first-class technology platform to power our digital offers in music and books. Beyond our own websites, it also enables us to participate in the growth of digital media more widely, as 7digital provides on-pack and loyalty promotions to global brands such as Kit-Kat, Calvin Klein, Hugo Boss, amongst others, and delivers digital content for leading consumer electronics, mobile and online brands, including BlackBerry, Spotify, Last FM, Philips MP3, Pure and Samsung Music downloads purchased from these and other B2B clients are delivered by 7digtial and, therefore, HMV Group

Now on theatrical release

We opened our first cinema this year in partnership with Curzon, above the HMV store in Wimbledon Comprising three screens and a licensed bar, HMVcurzon is an ambient and high quality cinema experience which enjoys great support among local cinema-goers

IMAGE
REMOVED

IMAGE
REMOVED

Our Number One formula

As well as places for some of the best-known artists to perform at, our live venues are also being utilised for events that can drive product sales Customers who pre-order a new CD or DVD from hmv com have the opportunity to attend the artist's launch event for free, and this combination very frequently propels new product to the top of the charts Last year, this formula was used to successfully launch new product for Take That, Paul Weller, Pixie Lott, Groove Armada and Lost Prophets, among others

The hot ticket for venues and festivals

In addition to live music venues, this year's acquisition of MAMA provides us with ownership of leading festival brands, which in 2009 attracted over 500,000 visitors across the UK and rest of Europe, Asia and the Americas Our festivals include Godskitchen, Global Gathering, Lovebox, the Great Escape, Escape into the Park and High Voltage

IMAGE
REMOVED

Everything else by the book

High-quality gift stationery and the devices on which to access e-books are a natural fit with our book offer and customer base Paperchase stationery concessions are being introduced into many of our largest stores, and in around 100 branches we are increasing the space for e-readers and related accessories

IMAGE REMOVED

Waterstone's – Feel Every Word

The Waterstone's brand is one of our greatest assets, and through our new 'Feel Every Word' brand communication we are connecting with our customers on the emotion and passion they feel for books

IMAGE REMOVED

Turnaround at Waterstone's.

"Our proposition is first and foremost about books. They are the heart and soul of what we do By focusing on our core strength as a range bookseller, localising our branch offer and revitalising our fantastic brand, we will transform the performance of Waterstone's."

Dominic Myers
Managing Director Waterstones's

IMAGE REMOVED

We're at home with the range

The average Waterstone's store carries a range of 30,000 individual titles, and highlighting those books that have the greatest appeal amongst local customers is key to successful bookselling We've given back control of a significant proportion of our promotional space to local branches, utilising the expertise of our booksellers to drive our customers' spend and our share of the high street market.

IMAGE REMOVED

We also sell books in bits and bytes

Waterstone's has made an excellent start in the fast-growing e-books market, having sold close to 1 million downloads via waterstones.com Through our joint venture with 7digital, we are poised to take our offer to new and exciting levels and to make this available to our customers across multiple platforms and devices

IMAGE REMOVED

Business and financial review

Financial review

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

Key Performance Indicators	2010 £m	2009 £m	Growth %
Sales	**2,016.6**	1,956 7	3 1
Like for like sales	**(4.2)%**	(0 4)%	
Operating profit (before exceptional items)	**80.4**	70 3	14 2
Exceptional items	**(5.3)**	(1 7)	
Profit before tax (before exceptional items)	**74.2**	63 0	17 7
Profit before tax	**68.9**	61 3	
Adjusted earnings per share	**12.7p**	11 1p	13 8
Basic earnings per share	**11.6p**	10 8p	7 5
Total dividend per share	**7.4p**	7 4p	
Underlying net debt	**67.6**	6 5	
Free cash flow	**22.4**	12 3	
Store numbers	**731**	722	
Average trading square footage	**3.97m**	3 77m	5 2

Total Group sales increased by £59 9m or 3 1% to £2,016 6m, including a 4 2% decline in like for like sales At constant exchange rates, total sales grew by 1 8% Beneficial exchange rate movements, primarily in the Euro and Canadian dollar, increased sales by £24 5m and operating profit by £0 4m

Operating profit before exceptional charges increased by £10 1m, or 14 2%, to £80 4m The improvement on last year reflects the total sales growth of HMV UK & Ireland, partially offset by the impact of a decline in like for like sales in HMV International and Waterstone's The result also reflected good management of gross margin and tight control of operating costs, including the benefit of cost-saving initiatives, particularly supply chain efficiencies in HMV UK and Group buying synergies

The operating profit also includes the results of acquisitions completed in the year MAMA Group Plc contributed a seasonal operating loss of £0 2m before exceptional items following its acquisition on 29 January 2010 In addition, the post tax share of profits from the Mean Fiddler Group joint venture prior to full acquisition of MAMA was £0 9m This joint venture income was partially offset by a £0 6m share of losses in 7digital during the period since its acquisition

Net finance charges fell from £7 3m to £6 2m, reflecting lower interest rates, partially offset by higher average net debt as a result of the acquisitions during the year

The profit before tax and exceptional items was £74 2m, up 17 7% on the prior period

An exceptional charge before taxation of £5 3m (2009 £1 7m) was incurred in the year This included restructuring costs in respect of Waterstone's and MAMA, combined with fixed asset impairments in Waterstone's and HMV Canada

Underlying net borrowings at £67 6m (2009 £6 5m) were £61 1m higher than last year, primarily reflecting the acquisitions of MAMA Group and 7digital

The Board is proposing a final dividend of 5 6p, making a total dividend for the year of 7 4p (2009 7 4p)

Sales	**2010 £m**	2009 £m	Year on year growth[1] %	Constant exchange growth (decline)[2] %	Like for like sales growth (decline)[3] %
HMV UK & Ireland	**1,241.9**	1,154 6	7 6	7 3	(2 4)
HMV International	**253.0**	253 8	(0 3)	(8 5)	(8 8)
HMV Live	**8.1**	–	–	–	–
Waterstone's	**513.6**	548 3	(6 3)	(6 5)	(6 2)
Total HMV Group	**2,016.6**	1,956 7	3 1	1 8	(4 2)

Operating profit (before exceptional items)	**2010 £m**	2009 £m	**2010 % of sales**	2009 % of sales	Year on year growth (decline)[1] %	Constant exchange growth (decline)[2] %
HMV UK & Ireland	**73.8**	53 7	**5.9**	4 7	37 5	37 3
HMV International	**3.7**	6 4	**1.5**	2 5	(42 9)	(46 8)
HMV Live	**(0.2)**	–	–	–	–	–
Waterstone's	**2 8**	10 0	**0 5**	1 8	(71 8)	(72 3)
Share of post-tax profit of joint ventures	**0.3**	0 2	–	–	–	–
Total HMV Group	**80.4**	70 3	**4.0**	3 6	14 2	13 6

1 Year on year growth for the 52 week period compared with the corresponding period last year is based on results translated at the actual exchange rates being the weighted average exchange rates for the year ended 24 April 2010 and year ended 25 April 2009 respectively

2 Constant exchange growth for the 52 week period compared with the corresponding period last year is based on the weighted average exchange rates for the year ended 25 April 2009

3 HMV Group's like for like sales performance is calculated at constant exchange rates and measures stores that were open at the beginning of the previous financial year (i e open at the beginning of May 2008) and that have not been resized, closed or re-sited during that time It includes sales from internet sites and is only ever the net amount received

HMV UK & Ireland

HMV UK & Ireland's total sales increased by 7 6% at statutory exchange rates, including a like for like sales decline of 2 4%
The business now trades from 285 stores, following the integration of 32 ex-Zavvi stores (seven during the period), and has a strong online presence The first half of the financial year saw strong sales growth as the ex-Zavvi stores were successfully integrated and market share continued to increase, following the changes to the entertainment market landscape in the final quarter of the prior year These factors contributed to strong trading at Christmas, a period that included the benefit of 10 short-lease seasonal stores However, a combination of severe weather conditions, strong comparatives and reduced levels of campaign activity led to a decline in sales performance in the final quarter

HMV UK & Ireland outperformed its markets in all product categories during the year In visual, which remains HMV's largest product category (45% of sales), volume share increased by 2 9% in a market that declined by 1 9% Visual performance benefited from the emerging Blu-ray format, in which market volumes grew by 85%, with HMV's volume share over 30% As the last remaining specialist retail chain on the UK high street, music remains important to HMV, representing 28% of sales

The music market outperformed our own expectations, declining overall by 4 9% in volume, with HMV's market share up by 4 8% As has been widely reported, the games market had a very challenging year, declining by 25% due to the maturity of the console cycle and the strength of software and hardware releases in the prior period However, HMV gained market share, with an increasing contribution from Re/Play, our pre-played games offer Technology and other products are also now a material contributor to sales, up to 9% of mix (from 7%), with further growth anticipated as new product lines are introduced

Operating profit grew £20 1m or 37 5% on the prior year, reflecting the total sales growth combined with good margin and cost control Gross margin ended 50 basis points up on last year, with improvements in all product categories Operating costs benefited from a £4 5m one-off benefit primarily from non-vesting share scheme credits and property disposals Underlying like for like costs were well managed, reducing by 2 3% year on year

IMAGE REMOVED

HMV Tickets offers tickets to our own and third party entertainment events, and these are available via hmv com or at ticket counters in c 30 HMV stores

IMAGE REMOVED

HMV offers the widest range of Blu-ray titles on the high street, and on key titles the format regularly accounts for 30% of visual sales

HMV International

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

Total sales of £253 0m decreased by 8 5% on last year at constant exchange rates, including a like for like sales decline of 8 8% Trading in HMV Canada remained difficult, with significant declines in core product markets, particularly music and visual markets The strategic focus continues to be on offsetting the structural changes taking place in these markets by accelerating growth in games, technology and related products, as these are under-represented in Canada

Overall the operating profit of HMV International fell to £3 7m, reflecting the like for like sales decline offset by tight control of operating costs In addition, exceptional non-cash impairment costs of £1 0m have been charged following a review of certain assets given expected trading conditions

HMV Live

The acquisition of MAMA Group Plc in January 2010 provided the basis for the new Live division of the Group

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

For the period since acquisition, the Live division made a seasonal operating loss of £0 2m before exceptional items The Group's result also includes £0 9m of profit after tax from the Mean Fiddler 50% joint venture for the period to 29 January 2010, following which it became a full subsidiary with the acquisition of MAMA

Waterstone's

Waterstone's total sales decreased by 6 5% at constant exchange rates, including a like for like sales decline of 6 2% The sales performance was particularly disappointing through the autumn and the key Christmas season, as the delayed implementation of supply chain changes through the book hub reduced stock availability and weakened our store proposition Performance was further impacted by an overly promotional offer, which de-emphasised Waterstone's core strength as a range bookseller, as well as the disruption to the market caused by the failure of specialist competitor Borders UK prior to Christmas These factors contributed to a 1% decline in share, in a market that was itself down by 2 6% year on year

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

Operating profit of £2 8m is down £7 2m on last year, primarily reflecting the disappointing sales performance This was partially offset by a 50 basis points improvement in gross margin, and very tight control of operating costs, with like for like costs down 3 1% year on year

Exceptional costs totalling £2 7m have been incurred, which includes £1 7m of management restructuring costs and £1 0m of non-cash asset impairment charges

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

IMAGE REMOVED

HMV Canada is rapidly evolving its mix of products to include technology and entertainment-inspired fashion, as demonstrated by the HMV store at the Eaton Centre, Toronto The Purehmv loyalty scheme is also being rolled out in Canada from the beginning of our new financial year

The Waterstone's brand is being revitalised to inspire our customers and to invite them to "feel every word"

IMAGE REMOVED

	2010 £m	2009 £m
EBITDA	**123.9**	112 9
Capital expenditure*	**(39.9)**	(57 6)
Working capital outflow	**(32.2)**	(15 6)
Exceptional charges and provision utilisation	**(5.1)**	(2 8)
Other	**(4.0)**	1 3
Net interest paid	**(4.7)**	(6 6)
Taxation	**(15.6)**	(19 3)
Free cashflow	**22 4**	12 3
Purchase of MAMA Group Plc including related fees and net debt acquired	**(48.0)**	–
Investments in joint ventures	**(8.1)**	(20 0)
Repayment of loan from joint venture	**4.5**	–
Dividends paid	**(31.2)**	(29 7)
Net proceeds from equity share placing	**–**	24 0
Other	**(0.7)**	7 1
Net cash outflow	**(61.1)**	(6 3)
Underlying opening net debt	**(6 5)**	(0 2)
Underlying closing net debt	**(67 6)**	(6 5)

EBITDA – Earnings before interest, taxation, depreciation, amortisation and exceptional items.
Free cashflow – Cashflow from operating activities after capital expenditure and net interest.
Underlying net debt – Underlying net debt is stated before unamortised deferred financing fees
* Capital expenditure in 2009 includes £6.1m of assets purchased using finance lease funding.

Net finance charges

Net finance costs decreased from £7 3m to £6 2m This reflected lower interest base rates over the year partially offset by higher average net debt as a result of acquisitions

Taxation

The effective tax rate on continuing operations before exceptional items is 28% (2009 28%) The total tax expense in the current year includes a credit of £1 0m (2009 £0 5m) in relation to the exceptional items of £5 3m (2009 £1 7m)

Earnings per share

Adjusted earnings per share excluding the effect of exceptional items was 12 7p, an increase of 13 8% on last year Basic earnings per share was 11 6p, an increase of 7 5% on last year

Dividend

The Board is recommending a final dividend of 5 6p per share in addition to the 1 8p per share interim dividend already paid, bringing the total dividend for the year to 7 4p (2009 7 4p) Dividend cover has increased to 1 7x from 1 5x

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

Cash flow and net debt

Closing net debt of £67 6m was £61 1m higher than last year This reflected the acquisitions in MAMA Group Plc and 7digital and a working capital outflow £16 6m higher than last year, partially offset by increased EBITDA, lower tax payments and lower capital expenditure Free cash inflow was £22 4m (2009 £12 3m)

The Group secured additional funding following the MAMA acquisition, with a £40m extension to the core revolving credit facility agreed in March 2010, without adjustment to margin or covenants This brought the total facility to £240m, which has a final maturity date of 9 October 2011 However, it is anticipated that a refinancing of this facility will be completed during 2010 The Group's funding also now includes a five-year term loan acquired through the Mean Fiddler Group, with an outstanding balance at 24 April 2010 of £8 8m and a final maturity of 13 November 2014

Working capital

Working capital outflow of £32 2m (2009 outflow of £15 6m) reflects increased stock levels across the Group, particularly at Waterstone's, where initiatives to increase the range were implemented, impacting negatively on stock per square foot Group stock turn fell to 4 8 times (2009 5 4 times) also reflecting HMV's sales performance in the final quarter

Capital expenditure

Capital expenditure in the period was £39 9m (2009 £57 6m, £6 1m of which was finance lease funded) including £7 2m on new stores and resites, £8 1m on store refurbishment, and £13 8m on IT projects and e-commerce development This level of total capital expenditure is representative of expected future annual spend, inclusive of c £5m per annum investment in growing the new HMV Live division

Acquisition of MAMA Group Plc

The acquisition of MAMA Group Plc for £47 0m in cash (including fees of £1 0m) became unconditional on 29 January 2010 A consequence of this acquisition was to achieve control over the Mean Fiddler Group, which had operated as a joint venture with MAMA since January 2009 The combined investment in MAMA and its operations was therefore £62 5m, inclusive of £15 5m net investment in the joint venture.

Net assets acquired at provisional fair value totalled £20 5m, inclusive of an outstanding term loan of £8 8m and cash balances of £7 8m After adjusting for minority interests and the share of Mean Fiddler JV profits previously recognised, total goodwill of £44 1m has been capitalised, primarily reflecting synergies arising to the enlarged group, particularly in ticketing, together with other intangible benefits that were not separately identifiable

Joint venture – 7digital Inc

The Group acquired 50% of 7digital Inc, a digital media services company, in September 2009 The cash consideration paid for the joint venture interest was £8 1m (including fees of £0 4m) The Group's share of 7digital's post tax losses in the period since acquisition amounted to £0 6m

Operating leases

All the Group's retail stores are held under operating leases In HMV UK and Waterstone's, the majority of leases are on typical institutional lease terms, which are subject to five-year, upwards only rent reviews

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

The Group's net operating lease rentals were £161 8m in the financial year (2009 £154 3m) The total future rental commitment at the balance sheet date amounted to £1 2bn, or £0 8bn at net present value, while the existing portfolio has an average remaining lease period of six years

Pensions

The Group has a number of pension schemes in operation These primarily include various defined contribution arrangements and a defined benefit scheme for approximately 600 employees, which was generally closed to new joiners from 1 January 2002

In respect of the defined benefit scheme, the latest actuarial valuation was at 30 June 2007 The result of this valuation was a level of asset cover of 94%, representing a funding deficit of £5 1m, which has been funded by three special contributions of £2 2m on 31 October 2008, 1 May 2009 and 1 May 2010 Inherent in the valuation were a number of scheme changes, including a cap on future increases to pensionable salaries and pensions and increases to employee contribution rates The Company has also taken direct responsibility for the administrative costs of the Scheme

Under IAS 19 'Employee Benefits', the HMV defined benefit scheme had a deficit, net of deferred tax, of £28 1m (2009 £15 2m) at 24 April 2010

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

HMV Group websites

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

Board of Directors

IMAGE REMOVED

Simon Fox

Chief Executive Officer and Managing Director HMV UK & Ireland — Aged 49

Simon Fox was appointed to the Board with effect from 4 September 2006 and became Chief Executive Officer on 28 September 2006 and additionally Managing Director of HMV UK and Ireland on 1 February 2007 He was previously Chief Operating Officer for Kesa Electricals plc. 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. Mr Fox was appointed a non-executive director of Guardian Media Group in May 2010

IMAGE REMOVED

Robert Swannell

Chairman — Aged 59

Robert Swannell was appointed to the Board as Chairman on 2 February 2009 He was formerly Chairman of Citi s European Investment Bank and Vice-Chairman, Citi Europe He is Senior Independent Director of The British Land Company PLC and of 3i Group PLC and a member of the Takeover Appeal Board

Chairman of the Nomination Committee

IMAGE REMOVED

Neil Bright

Group Finance Director — Aged 47

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 He is a non executive director and the Chairman of the Audit Committee of Holidaybreak plc

IMAGE REMOVED

Orna Ni-Chionna

Non-Executive Director — Aged 54

Appointed to the Board on 30 September 2009 Orna Ni-Chionna is a former Partner at McKinsey & Company where she specialised in serving retail and consumer clients She is currently the Senior Independent Director of Northern Foods plc, where she has been a non-executive director since 2002, was appointed a non-executive director of Royal Mail in May 2009 and is Chairman of Eden McCallum's Advisory Board She was until recently the Senior Independent Director of Bupa and was a non-executive director of the Bank of Ireland UK Holdings plc and Bristol & West plc She has also served as a member of the UK Retail and Consumer Advisory Board of Apax Partners She is Chair of Trustees of the Soil Association

Chairman of the Remuneration Committee

Member of the Audit and Nomination Committees

IMAGE REMOVED

Christopher Rogers

Non-Executive Director — Aged 50

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 a Chartered 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

IMAGE REMOVED

Andy Duncan

Non-Executive Director — Aged 47

Andy Duncan was appointed to the Board on 13 March 2009 He was Chief Executive of Channel 4 from July 2004 until November 2009 Prior to this he was a member of the BBC s Executive Board from 2001 to 2004 as Director of Marketing, Communications and Audiences He also led the project to launch Freeview and was Chairman of the joint venture with BBC, Sky and Crown Castle for its first two years. Prior to that, from 1984 to 2001, he worked at Unilever where he held a series of Senior Director positions He has also been Chairman of the Media Trust since 2006

Member of the Audit Nomination and Remuneration Committees

IMAGE REMOVED

Philip Rowley

Non-Executive Director — Aged 57

Philip Rowley was appointed to the Board on 1 October 2007 and was made Senior Independent Director in February 2010 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 and was until March 2010 Chairman of Skinkers Ltd He is currently a non-executive director of each of ARM Holdings Plc, Misys plc and Promethean World plc and Chairman of Livestation Limited, and is on the Board of trustees of Scidev net, the science and development network.

Senior Independent Director

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 2008 FRC Combined Code on Corporate Governance (the 'Combined Code') The following paragraphs, together with the Directors' remuneration report on pages 30 to 39, provide a description of how the Combined Code has been applied

The Board
There were a number of changes to the composition of the Board during the year under review Lesley Knox retired from the Board on 1 February 2010 and on that date also ceased to act as Senior Independent Director Gerry Johnson retired from the Board on 14 January 2010 Orna Ni-Chionna was appointed to the Board and became chairman of the Remuneration Committee on 30 September 2009 and Philip Rowley was appointed Senior Independent Director on 1 February 2010

As at the end of the year under review the Board comprised four independent Non-Executive Directors, the Chairman, and two Executive Directors being the Chief Executive Officer and the Group Finance Director The biographical details of the members of the Board are set out on pages 24 and 25 The Board considers that each of Andy Duncan, Orna Ni-Chionna, Christopher Rogers and Philip Rowley are independent. In addition, the Board determined that Robert Swannell was independent at the time of his appointment as Chairman on 2 February 2009 The Company used external search consultants in respect of the appointment of Orna Ni-Chionna

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 24 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. The chairman of the Remuneration Committee oversees senior executives' remuneration and remuneration policy 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 However, the Directors have decided to comply with the requirement being introduced by the new Corporate Governance Code that Directors should be subject to annual re-election by shareholders Consequently all Directors will stand for re-election at the forthcoming Annual General Meeting All have 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, which it reviews each year to ensure it is robust, comprehensive and appropriate to the Company 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 The evaluation confirmed that the Board was working well and a number of minor recommendations were agreed, which included the continued monitoring of succession planning, the regular review of the recent investments made by the Group in its strategic initiatives and processes to ensure that the Board continued to be fully appraised of the changes taking place in the business landscape served by the Company The Board will monitor the implementation of these recommendations

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 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 During the year under review each Board Committee reviewed and updated its terms of reference Each Committee will continue to keep under review its terms of reference and its effectiveness and make recommendations to the Board of any appropriate changes as and when required The chairman of each of the Board Committees will be available to answer shareholders' questions at the forthcoming Annual General Meeting

Audit Committee
During the year under review Orna Ni-Chionna was appointed a member of the Audit Committee with effect from 30 September 2009 and Lesley Knox ceased to be a Committee member on her retirement from the Board on 1 February 2010 As at the end of the financial year the Audit Committee comprised Christopher Rogers (chairman), Andy Duncan, Orna Ni-Chionna and Philip Rowley Mr Rogers was appointed to the Committee on 1 October 2006, and Mr Rowley, Mr Duncan and Mrs Ni-Chionna were appointed to the Committee on 1 October 2007, 13 March 2009 and 30 September 2009 respectively 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 details of members' attendance at the Committee can be found on page 28 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 following

- monitoring the integrity of and reviewing the financial statements,
- the appointment of and the review of the effectiveness and independence of the external auditors,
- approval of the scope of the Company's risk management programme and review of the risk management process,
- reviewing the operation and effectiveness of the internal audit function, and
- to oversee the establishment and maintenance of good business practices throughout the Group

During the period under review, the Committee met 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
During the year under review Orna Ni-Chionna was appointed a member of the Nomination Committee on her appointment as a Non-Executive on 30 September 2009 Lesley Knox ceased to be a member of the Committee on her retirement from the Board on 1 February 2010 As at the end of the year under review the Nomination Committee comprised Robert Swannell (chairman), Christopher Rogers, Philip Rowley, Andy Duncan and Orna Ni-Chionna, who were appointed to the Committee on 2 February 2009, 1 October 2006, 1 October 2007, 13 March 2009 and 30 September 2009, respectively

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 three occasions These meetings were to evaluate the Committee's own performance, the appointment of Mrs Ni-Chionna as a Non-Executive Director, following the retirement of Mrs Knox from the Board, the appointment of Mr Rowley as the Senior Independent Director and to deal with other succession planning issues

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

During the year under review Lesley Knox ceased to be the chairman of the Remuneration Committee on 30 September 2009 and Orna Ni-Chionna was appointed chairman of the Committee in her place on that date

As at the end of the year under review, the Committee comprised Orna Ni-Chionna (chairman), Christopher Rogers, Philip Rowley and Andy Duncan who were appointed to the Committee on 30 September 2009, 1 October 2006, 1 October 2007 and 13 March 2009 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 Remuneration Committee is required to meet at least twice a year and 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 Directors' Remuneration Report (set out on pages 30 to 39)

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

	Board	Audit	Remuneration	Nomination
Neil Bright	12 (12)	2*	1*	–
Andy Duncan	11 (12)	2 (2)	6 (6)	3 (3)
Simon Fox	12 (12)	2*	3*	2*
Gerry Johnson	7 (8)	2*	–	–
Lesley Knox	8 (8)	2 (2)	5 (5)	3 (3)
Orna Ni-Chionna	7 (8)	1 (1)	3 (4)	1 (2)
Christopher Rogers	11 (12)	2 (2)	5 (6)	2 (3)
Philip Rowley	11 (12)	2 (2)	5 (6)	2 (3)
Robert Swannell	12 (12)	2*	6*	3 (3)

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

The Audit Committee had a further meeting four days after the end of the year under review

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

The instances of non-attendance arose where the Director either had a conflict with another meeting or the meeting was held at short notice

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

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,
- 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

Management and specialists within the finance department are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed internally and externally in a timely manner A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected All financial information published by the Group is subject to the approval of the Audit Committee

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 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 pages 6 and 7 and the Business and Financial Review on pages 8 to 23

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 68

By order of the Board

Elaine Marriner
Company Secretary

29 June 2010

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, Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations') and the relevant parts of the Listing Rules of the UK Listing Authority

The Remuneration Committee
The Remuneration Committee ('Committee') is a committee of the Board and its role is to approve, implement and keep under review the remuneration policy and practice of the Group Specific remits include agreeing with the Board the framework for the remuneration of the Chairman, Executive Directors and certain other senior executives, agreeing all terms of the Executive Directors' and Company Secretary's service contracts and remuneration, determining the nature and scale of short- and long-term remuneration arrangements, and overseeing the implementation and operation of share incentive schemes The Committee's terms of reference are available on the Company's website, www hmvgroup com

Lesley Knox ceased to be the chairman of the Remuneration Committee on 30 September 2009 and Orna Ni-Chionna succeeded Mrs Knox as chairman of the Committee from that date The Remuneration Committee also comprises Christopher Rogers, Philip Rowley and Andy Duncan (all of whom served throughout the year and whom the Board considers to be independent)

At the invitation of the chairman of the Committee, the Chairman of the Board attends Committee meetings, and the Chief Executive and the Human Resources Director of HMV UK Limited also attend Committee meetings by invitation, to provide background and context on company-wide remuneration as well as recommendations on Executive remuneration No individual plays a part in any discussion about his or her remuneration

Advisers to the Committee
The Remuneration Committee has appointed Hewitt Associates as its advisers Hewitt Associates do not provide other services to the Company In addition, during the period under review, the Company used the following advisers in respect of remuneration matters

(a) Capita Share Plan Services and Simmons & Simmons, solicitors, on employee share schemes,

(b) Towers Watson LLP and Bluefin Insurance Services Limited on pension matters, and

(c) Reynolds Porter Chamberlain LLP, solicitors, on employment contracts and associated legal issues

General policy
The Company's remuneration aim is to support the recruitment, motivation and retention of high calibre employees, and to align incentives with shareholder interests

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

It is the 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 their remuneration is aligned with the Group's performance Generally, for on target performance, the performance-related element accounts for about half of the total package For superior performance this would rise to almost three-quarters of the total package These figures exclude pension values, which can vary significantly from person to person

The Committee intends that Executive Directors' basic salaries should be positioned at or around the median level in the marketplace with the incentive arrangements set in order to bring overall remuneration into the upper quartile for the marketplace provided performance targets are met. When assessing the marketplace, the Committee refers to survey data supplied by Hewitt Associates, focusing on companies with broadly similar revenues and from the same market sector

In considering Executive Directors' remuneration, the Committee considers pay and conditions in the workforce generally

In particular

- recent base salary increases for senior executives have been increased only modestly in the last two financial years, in line with those for the Group's other employees,
- the Company operates annual bonus arrangements for all its employees and all of the Group's UK employees are able to participate in equity incentive arrangements through the Company's SIP (and from next year the SAYE option plan),
- the Committee ensures that there are appropriate policies and procedures in place to monitor the cost of incentive awards to all employees and share usage under employee share plans, and
- the Remuneration Committee is apprised by management of developments in remuneration policy throughout the business

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour More generally, the Remuneration Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking

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 of the current Directors' service contracts or letters of appointment comply with this policy Further details are found on page 39

Components of the Executive Directors' remuneration
The Executive Directors' remuneration comprises basic salary, pension and other benefits, an annual bonus, and an award of shares under the HMV Performance Share Plan

Bonuses are subject to performance conditions set at the start of the financial year and the Committee carries out a quality review at the end of the year before deciding on the amount to be paid

Details on each component are as follows

Salary
The Committee determines the basic salary for each Executive Director Salaries are usually reviewed with effect from 1 July each year In 2008 and 2009 the Executive Directors' salaries were increased by 3% and 2% respectively, which was in line with the increases received by the majority of other Group employees These salaries will be reviewed again on 1 July 2010 and it is expected that no increase will be made

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

Annual bonus
Annual bonuses are dependent on the achievement of demanding financial targets for the year Directors can earn a bonus of 70% of base salary for on target performance, rising to a maximum of 150% of salary for exceptional financial performance

The annual bonus for the Group Finance Director comprises a payment in cash of 57% of the earned bonus, which is paid after the end of the financial year to which the performance relates, with the remaining 43% payable in shares, the vesting of which is deferred for three years provided that the Group Finance Director remains in the employ of the Group

Following consultation with major shareholders regarding the incentive arrangements for Simon Fox, the Committee decided to re-balance Mr Fox's annual bonus for the year under review so as to smooth payments resulting in an increased deferral element (from 43% to 50% of the annual award) but a reduction of the deferral period from three years to two years, with the deferred shares being released in equal instalments over the two-year deferral period

In addition the Remuneration Committee also amended the terms of the annual bonus award so that the deferred shares element of the annual bonus will be enhanced by the value of dividends payable over the deferral period

The performance targets are determined each year by the Committee For the 2009/10 financial year the performance target was profit after notional interest ('PANI') which is Group profit before interest and tax reduced by a 10% notional interest rate applied to the Group's average capital employed

The Remuneration Committee has carried out its assessment of whether the performance target has been met by reference to the audited accounts for the 52 weeks to 24 April 2010 The bonus target for PANI has been exceeded and the annual bonuses for Executive Directors were equivalent in value to 71 7% of salary

Performance share awards
Awards under The HMV Performance Share Plan (the 'Plan') are usually made in August each year Other than in exceptional circumstances, the Executive Directors are granted an award of shares under the Plan equivalent in value to 120% of salary (face value of shares as at the date of the award)

The Remuneration Committee reviews award levels in July each year and this year an award will be made to Mr Bright only, as Mr Fox received a one-off matching award in February 2010

The awards vest after three years provided that the performance measures are met over a three-year period The Remuneration Committee sets the performance measures each year

During the year, the Committee conducted a review of the Company's incentive arrangements for the Executive Directors and senior employees The review concluded that the structure of the Performance Share Plan remains appropriate but that changes should be made to the performance conditions attached to future awards Whereas previously there had been a single performance measure – Total Shareholder Return ('TSR'), the Committee is changing to two performance measures, with 50% of an award being linked to relative TSR and the remaining 50% being linked to growth in earnings per share ('EPS') In order to align awards under the Plan the TSR comparator group for new awards will be the same as that used for the CEO's special award described later in this report The Remuneration Committee chose these performance measures because they provide a balance between rewarding relative performance and longer term returns to shareholders through the use of TSR and encouraging growth in profitability through the use of EPS

The TSR target applying to 50% of awards is subject to an underpin requiring that the Group's absolute performance over the period will also be taken into account The peer group companies for the awards to be made in 2010, in alphabetical order, are

Carpetright	Halfords	Mothercare
Carphone Warehouse	Home Retail Group	N Brown Group
Debenhams	Kesa Electricals	Next
DSG International	Kingfisher	Topps Tiles
Findel	Marks and Spencer	WH Smith
Game Group		

The TSR and EPS performance conditions for the 2010 awards will be as follows

	TSR (50% of award)		EPS (50% of award)	
	Ranking in peer group	% of award vesting	EPS in 2012/13	% of award vesting
Below threshold	Below median	Nil	Less than 13 5p	Nil
Threshold	Median	25%	13 5p	25%
Target	n/a	n/a	15 0p	65%
Maximum	Upper quartile or above	100%	16 5p	100%

Vesting will occur on a straight-line basis for performance between each point No award will vest for TSR performance below the median or threshold The Committee will assess EPS performance by reference to the Company's audited financial results Performance against the TSR measure will be independently assessed at the time of vesting

Shareholding guidelines
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

Matching award to Mr Fox
During the year under review, exceptional circumstances arose which prompted the Committee to review the incentives for Mr Fox to ensure that he was appropriately incentivised over the next three years. After consulting extensively with major shareholders, the Committee approved a one-off award of shares to Mr Fox matching up to five times the 432,819 Ordinary Shares that Mr Fox currently holds in the Company Accordingly, an award of 2,164,095 Matching Shares was made on 18 February 2010 The Matching Shares will vest in three years, subject to the achievement of a range of performance objectives over a three-year period, Mr Fox remaining employed by the Group to the end of the three-year period and the retention of his current shareholding To the extent that the award vests, it will remain exercisable until the seventh anniversary of the grant date and, on exercise, the shares will be delivered for nil consideration The award was granted pursuant to the exemption from the need for prior shareholder approval contained in Listing Rule 9 4.2 R(2) The Remuneration Committee confirms that the matching award was felt to be necessary to facilitate the continuing motivation and incentivisation of Mr Fox. As a result of the grant of the matching award Mr Fox will not receive an award under the HMV Performance Share Plan in 2010 The award is non-pensionable and non-transferable (other than on death)

After careful consideration and consultation with major shareholders, the Committee determined that the following performance conditions should apply to this award

(i) one-third of the matching award will be subject to basic EPS, adjusted by the Remuneration Committee as appropriate to take account of selected non-recurring items and other factors, at the Committee's discretion, for the 2011/12 financial year being at least 14 0p,

(ii) one-third of the award will be subject to strategic performance objectives and will be split into two equal parts, (a) 50% of the award will vest on the attainment of strategic KPIs to April 2011, these being growth in new product sales, net margin improvement at Waterstone's, and the achievement of profit from Live and Digital, and (b) 50% will again be linked to the attainment of strategic KPIs which will be set over the 2011/12 financial year In either year the Committee may adjust the overall level of vesting in circumstances where there is significant over or under-performance against any individual metric, so as to ensure that there is an appropriate link between reward and broad strategic performance Achievement against the metrics (and the rationale for any adjustment) will be disclosed in the Directors' Remuneration Report at the end of each financial year, and

(iii) one-third will be based on total shareholder return assessed over the three-year period from the date of grant 25% of this part of the award will vest if the Company achieves median TSR, with full vesting if the Company achieves upper quartile performance or above This TSR performance condition is subject to a financial underpin requiring the Committee to be satisfied that there has been an improvement in underlying financial performance over the performance period The TSR group is that as noted on page 31

If Mr Fox ceases employment with the Group before the third anniversary of grant, the matching award will lapse, unless he leaves in certain 'good leaver' situations (due to death, ill-health, injury, disability or any other permitted reason) In this event, the award will vest on cessation to the extent the performance conditions are met at that time The award would be subject to time pro-rating to reflect the period of time between the date of grant and the date of cessation (rounded up to the next monthly anniversary of the grant date) relative to the period of 36 months In the event of a takeover, scheme of arrangement, or winding-up of the Company, the award will vest early to the extent that the performance conditions are met at that time and, unless the Committee decides otherwise, subject to time pro-rating to reflect the period between the grant date and the relevant event on the basis set out above The award may also vest on this basis in the event of a demerger, special dividend or other similar event which, in the Committee's opinion, materially affects the price of the Company's shares

The award will not, unless the Committee decides otherwise, vest on an internal reorganisation but will instead be exchanged for an equivalent award over shares in the new holding company

The award will not confer any shareholder rights on Mr Fox until it vests In the event of any variation of the Company's share capital, demerger, payment of a special dividend or any other event which materially affects the price of the Company's shares, the number of shares under the award may be adjusted as the Remuneration Committee sees fit. The terms of the award may be amended in such manner as Mr Fox and the Committee may agree, provided that amendments to his benefit in relation to the basis for determining Mr Fox's entitlement to, and the terms of, the shares to be acquired and the adjustment of the award in the event of a variation of share capital may only be made with the prior approval of shareholders in general meeting Shareholder approval will not be required for alterations to the performance conditions or any minor alteration made to benefit the administration of the arrangement, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Mr Fox or any Group member

All Employee Share Plan
At the forthcoming Annual General Meeting the Directors will seek shareholder approval for a new all-employee Save As You Earn share option scheme

Dilution
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 complies with the dilution limits recommended by the Association of British Insurers Assuming none of the extant options lapse and will be exercised and, having included all exercised options, the Company has utilised an amount equivalent to 1 71% of the current share capital since flotation

Executive Directors' Service Agreements and Compensation for early Termination
Copies of the Executive Directors' service agreements are available at the registered office of the Company and will be available at the Annual General Meeting

Simon Fox and Neil Bright, who are both standing for re-election at the forthcoming Annual General Meeting, each have a service agreement, which provide for a notice period of 12 months

The arrangements for early termination of an Executive Director's service agreement are decided by the 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 Committee may exercise discretion over 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 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 Mr Fox 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. After the end of the period under review Simon Fox was appointed as a non-executive Director at Guardian Media Group Mr Bright is non-executive Director and Chairman of the Audit Committee of Holidaybreak plc and receives Non-Executive Directors fees of £38,500 for this directorship, which he retains

Chairman and Non-Executive Directors' appointment, terms and fees
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 period of appointment is to 30 September 2012 for Christopher Rogers, to 30 September 2010 for Philip Rowley, to 1 February 2012 for Robert Swannell, to 12 March 2012 for Andy Duncan and to 30 September 2012 for Orna Ni-Chionna

Each of the Non-Executive Directors will stand for re-election at the forthcoming Annual General Meeting, each having a letter of appointment as Non-Executive Director

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, Robert Swannell, receives a basic fee of £200,000 per annum The Non-Executive Directors each receive a basic fee of £40,000 per annum Christopher Rogers receives an additional £5,000 per annum for chairing the Audit Committee, Orna Ni-Chionna receives an additional £5,000 per annum for chairing the Remuneration Committee and Philip Rowley receives an additional £5,000 per annum for acting as Senior Independent Director

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

Copies of 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

Performance graphs
The graphs below show the percentage change in the total shareholder return from 30 April 2005 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 has been a constituent member of both these indices over the period

Total Shareholder Return Graphs
For the period 30 April 2005 to 24 April 2010

Audited information
The information below, with the exception of the Directors' interests in the Company's Ordinary shares, has been audited

Pension arrangements
For each Executive Director, only basic salary is pensionable Simon Fox and Neil Bright 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 £123,600 The HMV Group Pension Scheme, therefore, provides Mr Fox and Mr Bright with benefits of up to one-thirtieth of their respective 'capped' salaries for each year of service

The Company made a contribution to a Self Invested Pension Plan ('SIPP') for each Executive Director in lieu of pension contribution above the cap

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 24 April 2010	49	47	49
Accrued pension at 24 April 2010 – £000 pa	15	43	17
Increase in accrued pension during the period – £000 pa	5	4	4
Increase in accrued pension during the period (net of inflation) – £000 pa	5	4	4
Transfer value of accrued pension at 24 April 2010 – £000	139	464	206
Transfer value of accrued pension at 25 April 2009 – £000	78	305	129
Directors' contributions during the period – £000	12	12	9
Increase (decrease) in transfer value over the year (net of Directors' contributions) – £000	61	159	77
Transfer value of increase in accrued pension during the period (net of inflation and Directors' contributions) – £000	29	32	31

* Mr Gerry Johnson left the Company with effect from 14 January 2010

Notes
(i) Pension accruals shown are the amounts that would be paid annually on retirement based on service to the end of the year
(ii) Transfer values have been calculated in accordance with guidance note GN11 issued by the Institute of Actuaries.
(iii) The value of the net increase or decrease represents the incremental value to the Director of his service during the year 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
(iv) 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 the Directors, such as stock market movements. It is calculated after deducting the Directors contributions.
(v) Voluntary contributions paid by the Directors and resulting benefits are not shown.
(vi) The figures above exclude contributions of £48,699 paid into Mr Bright's SIPP, £93,701 paid into Mr Fox's SIPP and £33,956 paid into Mr Johnson's SIPP

Details of Directors' remuneration

	Base salary and fees 2010 £000	Benefits in kind 2010 £000	Annual bonus 2010 £000	Compensation for loss of office 2010 £000	Total remuneration 2010 £000	Total remuneration 2009 £000
Executive Directors						
Simon Fox	**515**	**1**	**358**	**–**	**874**	579
Neil Bright	**332**	**1**	**226**	**–**	**559**	349
Gerry Johnson	**238**	**1**	**–**	**255**	**494**	312
Non-Executive Directors						
Robert Swannell	**200**	**–**	**–**	**–**	**200**	50
Andy Duncan	**40**	**–**	**–**	**–**	**40**	5
Lesley Knox	**32**	**–**	**–**	**–**	**32**	97
Orna Ni-Chionna	**26**	**–**	**–**	**–**	**26**	–
Christopher Rogers	**45**	**–**	**–**	**–**	**45**	45
Philip Rowley	**41**	**–**	**–**	**–**	**41**	40
Total	**1,469**	**3**	**584**	**255**	**2,311**	1,477

Notes
(i) Taxable benefits in kind consist of private healthcare during the financial year under review
(ii) At the end of the period under review the base salary for the Executive Directors was Simon Fox £499,035 and Neil Bright £315,180
(iii) The amount in respect of compensation for loss of office paid to Mr Johnson relates to a termination payment of £255,332 of which £58,985 is the estimated value of the 80,443 deferred shares which vested on termination The remaining £196,347 was paid in accordance with the terms of Mr Johnson s service agreement, which provides for the payment of one year's salary car allowance, and payment in lieu of pension, payable quarterly Subject to mitigation two further payments of £98,173 each will be paid to Mr Johnson in August and November 2010 Awards to Mr Johnson outstanding under the PSP lapsed on the termination of his employment
(iv) Gerry Johnson, Lesley Knox and Orna Ni-Chionna did not serve as Directors for the full 2009/10 financial year and their remuneration above reflects this accordingly
(v) Target PANI for the year was exceeded resulting in annual bonuses for the Executive Directors of 71 7% of salary
(vi) 43% of Neil Bright's annual bonus earned in the year is deferred for three years and will be payable in shares 50% of Simon Fox s bonus earned in the year is deferred into shares with 25% being released after one year and 25% being released after two years. See deferred annual bonus table on page 38.
(vii) All the fees earned by Andy Duncan in respect of his Non-Executive directorship are waived by Mr Duncan and have been paid direct to charity

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 pages 37 and 38

	Ordinary Shares	
	24 April 2010	25 April 2009 or as at the date of appointment
Executive Directors		
Simon Fox	**432,819**	432,819
Neil Bright	**314,368**	314,368
Non-Executive Directors		
Robert Swannell	**105,000**	70,000
Andy Duncan	**12,000**	–
Orna Ni-Chionna	**–**	–
Christopher Rogers	**5,580**	5,580
Philip Rowley	**17,150**	17,150

For those Directors who served at the end of the financial year there have been no changes to the shareholdings since 24 April 2010 subject only to the participation by the Executive Directors in the SIP, details of which are as indicated in the following table

Share Incentive Plan

The Directors who served as Directors at any time in the year under review and who held shares under the SIP as at 24 April 2010 are as follows

	Total SIP shares held at 25 April 2009	Partnership Shares purchased by participants on a monthly basis at prices between 73.80p–127.50 p	Matching Shares awarded on a monthly basis at prices between 73.80p–127.50p which will vest one year after the date of purchase	**Total SIP shares held at 24 April 2010 or date of termination**
Simon Fox	5,802	1,475	1,475	**8,752**
Neil Bright	14,823	1,475	1,475	**17,773**
Gerry Johnson	7,781	1,177	1,177	**10,135**

Notes.
(i) Simon Fox, and Neil Bright acquired 195 Partnership Shares and were awarded 195 Matching Shares in May 2010, in accordance with the terms of the SIP The SIP ceased to operate after that date and, therefore no further Partnership Shares were purchased or Matching Shares awarded.

Performance Share Plan

The following Performance Share Plan awards for Executive Directors who served at any time during the period under review are as follows

Executive Directors	Interests in shares as at 25 April 2009	Date of award	Number of shares conditionally awarded	Market price of shares at award	Performance period ending	**Interests in shares as at 24 April 2010**
Simon Fox	2,060,737	7 August 2007	2,060,737	115.25p	24 April 2010	**2,060,737**
	678,571	8 July 2008	678,571	108.15p	30 April 2011	**678,571**
	–	14 September 2009	529,199	113.16p	29 April 2012	**529,199**
Neil Bright	520,607	7 August 2007	520,607	115.25p	24 April 2010	**520,607**
	428,571	8 July 2008	428,571	108.15p	30 April 2011	**428,571**
	–	14 September 2009	334,231	113.16p	29 April 2012	**334,231**
Gerry Johnson	503,253	7 August 2007	503,253	115.25p	24 April 2010	–
	414,285	8 July 2008	414,285	108.15p	30 April 2011	–
	–	14 September 2009	323,090	113.16p	29 April 2012	–

Notes
(i) For the awards made in August 2007, vesting is subject to the satisfaction of a target based on adjusted earnings per share ('EPS') in the financial year 2009/10 The EPS targets were set based on the Group's performance without the contribution of HMV Japan, which was sold during the 2007/08 financial year This EPS target has not been met and consequently the awards will not vest.
(ii) To support the three-year transformation plan launched in March 2007 the Remuneration 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. 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.
(iii) Mr Johnson s share awards lapsed on the termination of his employment
(iv) No shares vested in the year under review
(v) The 2009 awards are subject to a relative TSR performance condition with performance measured against a comparator group comprising Arriva, Carpetright, Carphone Warehouse, Debenhams, Domino's Pizza UK & IRL, DSG international, Dunelm, Enterprise Inns, Game Group, Greene King, Halfords, Home Retail Group, J D Wetherspoon, Kesa Electricals, Kingfisher Marks and Spencer, Marston s, Millenium & Copthorne Hotels, Mothercare, N Brown Group Next, Sports Direct International, The Go-Ahead Group The Restaurant Group, Whitbread, WH Smith. 25% of the award vests for median performance with the percentage vesting increasing so that 100% of the award vests for upper quartile performance Vesting of awards is also subject to the satisfaction of an underpin based on the Group's absolute performance over the period

Matching award to Mr Fox

On 18 February 2010, the Company granted an option with a nil exercise price to Simon Fox. The share price on the date of the award was 73 75p The matching award was granted in accordance with the requirements of Listing Rule 9 4.2 R(2)

	Date of grant	Exercise price	Number of options at 25 April 2009 or date of appointment	Granted in year	Lapsed in year	Exercised in year	**Number of options at 24 April 2010**	Exercisable from	Exercisable to
Simon Fox	18 February 2010	0p	–	2,164,095	–	–	**2,164,095**	18 February 2013	18 February 2017

Note
(i) The performance conditions that apply to this award are disclosed on page 32 of this Report

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 are as follows

Executive Directors	Number of shares held conditionally as at 25 April 2009	Number of shares conditionally awarded	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 24 April 2010**
Simon Fox	153,721	153,721	8 July 2008	106 25p	30 April 2011	–	–	**153,721**
	–	21,235	7 July 2009	115 20p	28 April 2012	–	–	**21,235**
Neil Bright	110,957	110,957	8 July 2008	106 25p	30 April 2011	–	–	**110,957**
	–	6,706	7 July 2009	115 20p	28 April 2012	–	–	**6,706**

Note
(i) The deferred share awards usually vest three years following their grant and are not subject to any further performance criteria

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 25 April 2009 or date of appointment	Granted in year	Lapsed in year	Exercised in year	**Number of options at 24 April 2010**	Exercisable from	Exercisable to
Neil Bright	22 May 2002	167p	485,030	–	–	–	**485,030**	22 May 2005	22 May 2012

Notes
(i) Options to acquire shares were granted under the HMV Group plc 2002 Executive Share Option Scheme (the '2002 Scheme') 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 were 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. The performance conditions applying to Neil Bright's outstanding options have been satisfied and the options may be exercised before 22 May 2012.
(ii) No share options have been exercised in the year ended 24 April 2010 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
(iii) The market price of an Ordinary Share as at 24 April 2010 was 82.10p, the highest market price for the year under review being 150 50p and the lowest market price being 67.90p

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

The 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 above and, therefore, remained in place on his appointment to the Board.

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

For and on behalf of the Board

Orna Ni-Chionna
Chairman of the Remuneration Committee

29 June 2010

Corporate responsibility

Our Corporate Responsibility (CR) platform, comprising the areas of Environment, People and Community, was reinforced during the year The following is a summary of our Corporate Responsibility Report 2010, which contains a full discussion of our activities
and is available from the Group's corporate website at www hmvgroup com

Environment
The following have been identified as the principal areas for potential environmental impact by our businesses

- Energy usage
- Waste/recycling
- Supply chain
- Packaging
- Green purchasing policies of goods not for resale
- Green build initiatives
- Health and safety

We are managing our impacts through the following initiatives

Industry and environmental partners
The Group's businesses in the UK work with a number of specialist organisations to help to minimise our impacts on the environment, including The Carbon Trust, British Safety Council, Adam Energy Management Systems, Inenco, IMServe and Biffa Waste Services In addition, through our involvement in various trade bodies, we are helping to manage the environmental impacts made by the entertainment and book industries

HMV UK & Ireland partners the music industry initiative Julie's Bicycle, which aims to reduce the sector's greenhouse gas emissions, and in our next financial year these considerations will be extended to the Group's live music venues and festivals

Waterstone's works with the Booksellers' Association & Publishers' Association Environmental Action Group to ensure that various industry-wide initiatives are implemented within its stores This group considers all aspects of the trade, including packaging, book miles, paper sourcing and returns, and operates the information website green4books

Waterstone's also works with the British Safety Council (BSC) to consider wider measures of environmental impact than the company's carbon footprint A BSC audit in November 2009 awarded Waterstone's four out of a maximum five stars for its commitment to reducing its environmental impacts, an improvement on the three stars achieved in the prior year Waterstone's was commended on the role of its CR committee and its Branch Environmental Champions A further BSC assessment is expected in 2011

Carbon reduction commitment:
CRC energy efficiency scheme
The Carbon Reduction Commitment (CRC) is a UK emissions trading scheme (ETS) with the aim of cost-effectively reducing emissions in the service, public and other less energy-intensive sectors by 1 2m tonnes by 2020 The CRC will be a mandatory emissions trading scheme, targeting large organisations whose emissions are currently not included in the ETS or Climate Change Agreements of the European Union

Registration of the qualifying sites within the Company's UK store estate is due to be completed, as scheduled, before 30 September 2010

Energy usage
As the table below summarises, energy usage in our UK businesses increased during the year, reflecting a larger store portfolio in HMV UK, the extreme winter weather and extended occupancy hours during our peak trading We remain committed to reducing the amount of energy consumed and a number of initiatives are underway to support this

	Electricity		Gas		Total	
Total HMV UK & Waterstone s	Total kWh	Total CO_2 (tonnes)	Total kWh	Total CO_2 (tonnes)	Total kWh	Total CO_2 (tonnes)
2006/07	92,481,368	49,664	1,329,345	246	93,810,714	49,910
2007/08	89,599,549	48,117	1,305,943	242	90,905,492	48,358
2008/09	86,856,010	46,643	1,114,062	202	87,970,072	46,850
2009/10	100,975,059	54,427	1,968,694	361	102,943,753	54,788

NB 2009/10 figures use revised DECC conversion factors, issued 22 January 2010

When store openings and closures are factored in, energy usage per square metre is below

Group	Total kWh	Total CO_2 (tonnes)	Retail sq ft	kWh/m^2	CO_2/m^2
Financial year 2006/7	93,810,713	49,910	3,145,627	321	0 17
Financial year 2007/8	90,905,492	48,358	3,149,382	311	0 17
April 2008 – Mar 2009 (CRC Reporting Period)	87,970,072	46,850	3,318,261	285	0 15
April 2009 – Mar 2010 (CRC Reporting Period)	102,943,753	54,788	3,399,295	326	0 17

NB consumption figures exclude sites that have energy costs included in the rent

In HMV Canada, over 95% of stores are located in shopping malls, where energy usage is managed by landlords During the year, our landlords were consulted to determine their participation in green electricity procurement, from which it was established that in multiple HMV store locations there exist landlord programmes to procure power derived exclusively from renewable sources such as wind and hydro facilities

Energy management
A substantial initiative is underway to reduce energy usage in our UK stores through the implementation of an energy management system This enables systems for heating, air conditioning and lighting to be pre-programmed to ensure maximum efficiencies Following a successful trial in 17 HMV UK and Waterstone's stores during November and December 2008, in which energy savings of over 14% were achieved, in the six months to February 2010 a further 101 systems were installed in the largest HMV UK and Waterstone's stores Consumption in these sites through a full-year cycle is being monitored and will be disclosed in a future report

Automated Meter Readings (AMR) and electricity procurement
During the last financial year, 329 stores with 'domestic' energy meters were switched to AMR 'Smart Meters' to improve billing, monitoring and reporting capabilities The new meters remove the need for manual reading and estimated billing, and assist the Company and our energy suppliers to reduce waste Flexible electricity contracts are negotiated for our UK businesses, enabling us to maximise price reductions in the UK's electricity market

Environment Champions
A member from each of our UK store teams has been appointed as an Environment Champion to ensure that best practice is shared between store locations Ideas and initiatives are also shared through the CR committees to maximise the engagement of store colleagues

Waste and recycling
The total amount of waste generated by HMV UK and Waterstone's remained broadly flat during the year, despite an additional seven HMV UK stores This reflects greater rates of recycling achieved through the introduction of Dry Mixed Recycling (DMR) into stores HMV UK's central distribution centres adopted new waste management and recycling recommendations following an environmental audit in the prior year As a result, our distribution centre at Merlin Park in the West Midlands this year achieved recycling rates of 97%, and a further operation at Canning Town, London is on target to achieve the same early in the new financial year

In Canada, the high proportion of mall-based stores means that HMV's landlords have responsibility for waste and recycling, and most of these participate in mandatory municipal recycling schemes 'Green tenant' pilot schemes are currently in place with landlords covering almost a quarter of our store estate, and it is expected that this will increase

The CR committee continues to consider mall landlord environmental commitments as part of our ongoing due diligence of property For waste and recycling, HMV Canada only uses waste bags produced from oxo-biodegradable material

Table UK stores recycling averages*

HMV UK	
2008/09	28%
2009/10	61%
Waterstone's	
2008/09	46%
2009/10	52%

* Figures do not include shopping centre locations, where waste and centre management carries out recycling. Consultation on waste management and recycling is underway with landlords of these locations.

Water usage
Measures are taken, where possible, to reduce the amount of water used in our store and distribution locations Waterstone's participates in The Ripple Effect, an initiative that assists companies to reduce water consumption, and water-saving devices are being trialled in several of our stores The fit-out of all of our new stores follows a 'green blueprint', incorporating energy and water-saving design and devices, while at the Waterstone's book hub a recycled grey water system is in use In stores, our Environment Champions perform regular audits of customer and store facilities to ensure the effective management of water consumption

Supply chain
During the year, Waterstone's book hub became fully operational This will deliver a number of environmental benefits for the company and its suppliers, including

- A significant reduction in suppliers' transportation requirements, driven by the replacement of deliveries to individual branches with shipments to a single destination
- Prior to the hub, an average of 20 medium-sized cardboard boxes per day were used to deliver books direct from suppliers to each store Now books are primarily delivered to the hub on pallets and, after processing, transferred to each store in plastic reusable totes, thereby reducing the amount of cardboard and packaging involved in distribution of stock.
- 100% of all packaging used in deliveries to the hub is either re-used or recycled
- Returns of excess stock from each store are made to the hub, rather than direct to suppliers generally for pulping, allowing for sale in other branches of Waterstone's

Green benefits within the hub include motion-sensor energy-efficient lighting, half-flush sanitary systems and half-hourly metering to ensure efficient monitoring of energy usage

Corporate responsibility continued

Goods not for resale
As part of the Group's continuing commitment to tightly managing its costs, efficiencies are being made by more effectively procuring the Group's goods and services not for resale This programme is also helping to enhance our environmental commitment.

Paper
Most of the paper used by the Group worldwide is supplied from FSC-certified sources, and includes a mixture of recycled and non-recycled stock. The green credentials of suppliers of our in-store point of sale materials (POS) are carefully monitored

We continue to review our paper consumption, and in Waterstone's this declined by 11% year-on-year, reflecting changes made to both the Company's systems and the working practices at head offices and stores Where practical, the primary channel for all internal communication is the Company's Intranet, while in stores till receipts have been shortened by on average 3cm by the removal of non-essential customer information This activity has the potential to itself reduce paper consumption by approximately 1,000km per annum

In HMV Canada, electronic processes for reviewing stock reports have been implemented to reduce paper, toner and electricity consumption Additionally, the transfer from paper to electronic distribution of all communication to colleagues, including pay statements, annual earnings taxation documents and training information, is expected to lead to an estimated annual elimination of over 170,000 paper documents per annum

Carrier bags
The Group's businesses are working hard to reduce the amount of carrier bags distributed annually by our stores to customers Our stores have a policy to ask customers, individually or through point of sale communication, if a bag is required with each purchase In Waterstone's, loyalty cardholders are offered 'Eco Points' when they decline a bag, thereby rewarding our customers with money off future purchases

The table below shows a year-on-year decline of 4% in the number of the Group's customers requesting a bag, and on a two-year basis this has fallen by 21%, a strong achievement as the total number of transactions across the Group has remained broadly constant. The increase in HMV UK last year reflects an increased number of stores and transactions

Business	Bags used	Year-on-year % change
HMV UK		
2007/08	50 5m	
2008/09	44 5m	–12%
2009/10	47 2m	+6%
HMV Canada		
2007/08	10 9m	
2008/09	10 0m	–8%
2009/10	8 2m	–18%
Waterstone's		
2007/08	27 4m	
2008/09	18 6m	–32%
2009/10	14 7m	–21%
Group		
2007/08	88 9m	
2008/09	73 2m	–17%
2009/10	70 1m	–4%

Our businesses adopt a responsible approach to sourcing carrier bags Stores in HMV UK and HMV Canada provide degradable, single-use carrier bags made from 30% recycled plastic The bags degrade in landfill sites within 12 to 24 months in the presence of light, oxygen, heat and stress In addition, HMV UK has introduced a 'bag for life', manufactured from 100% recycled plastic, principally recycled water bottles Sales of these bags have exceeded 100,000, with 5p from each sale donated to HMV UK's charity partner In Canada, a 5¢ carrier bag fee was implemented during the year by the City of Toronto, where HMV has 12 stores, in an attempt to reduce carrier bag consumption Across HMV's Toronto-area stores, carrier bag consumption fell to 23% of customers, compared to the annualised average for Canada of 78%. HMV Canada donates the 5¢ per bag charge to its main charity partner At Waterstone's, plastic carrier bags are manufactured from 100% post-consumer recycled plastic. In addition, Waterstone's offers a 'bag for life' manufactured from 100% certified Fairtrade organic cotton In Ireland, where local legislation prohibits the use of plastic carrier bags, HMV and Waterstone's provide customers who request them with bags made from recycled craft paper Online products ordered from hmv com and waterstones com are shipped using recycled packaging materials

Green build
We strive to ensure that the new stores we open and those we refit are as green as possible As well as the roll-out of smart meters and energy management systems to new stores, any new timber used in store builds is FSC-certified and only energy-efficient PCs, lighting and appliances are deployed We also recycle fixtures and fittings, wherever possible, with browser units and stands re-sprayed and metallic merchandising fixtures refurbished HMV Canada uses Eco carpet for all new builds and applicable refits, and through an electronic recycling programme 6,443lbs of materials have been recycled, which previously would have been sent to landfill In addition, Waterstone's is refitting air conditioning units in its stores with more energy-efficient R410a gas, replacing R22 refrigerant gas equipment.

Health and safety
For the benefit of the millions of customers who visit our stores every year and our colleagues who work within them, the Group maintains a strong commitment to health and safety

Highlights and progress this year have included

HMV UK
- The total number of accidents reported to the risk and safety department fell by 12% from the previous year
- Conflict management training has been extended to store Loss Prevention Officers
- Two bespoke health and safety training DVDs, covering fire awareness and manual handling training, were issued to all stores

Waterstone's
- Reduction in RIDDOR accidents by 42%
- Total accidents down 5 2% year-on-year
- Importance placed on health and safety training and fire log completion
- Colleagues' engagement and compliance with health and safety promoted by regional champions

People
Our businesses fully recognise the essential nature of attracting and retaining dedicated and motivated people There are numerous initiatives to promote the engagement of our colleagues, to celebrate success, provide a range of attractive benefits, and to develop the careers of individuals

Recruitment policy
Our businesses are committed to providing equality of opportunity and to maximising the talents of our people Our recruitment decisions are made only on the basis of qualifications, skills and ability to do the job This commitment to equal opportunities includes

- The promotion of equality of opportunity in employment
- The development, implementation, regular monitoring and review of employment policies, with the aim of ensuring that colleagues receive fair and consistent treatment.
- A continuing programme of action to ensure our policy and its implementation is fully effective, including training and guidance
- The elimination of discrimination of any kind

The law sets out that our policies must at least ensure that current and potential colleagues are offered the same opportunities regardless of gender, colour, race, religion or belief, national or ethnic origin, age, disability, sexual orientation, marital status, part-time or fixed-term status Our stance is that the promotion of equal opportunities is essential and, therefore, all colleagues should be treated with respect, regardless of whether they are specifically protected by legislation

Colleague progression
The Group is committed to nurturing talent and promoting from within, wherever possible Various internal training programmes are available, as well as assistance to gain professional qualifications where this is relevant. The programmes we operate enable our businesses to have well-developed succession plans and to fill any gaps in individuals' knowledge before promotion Examples of these programmes include

HMV UK & Ireland provides an induction-training programme, Get Started, for all new colleagues This includes a company DVD, 'Get Closer' days for all new starters, and regular reviews for colleagues during their first six months with the Company Since 2000, HMV UK & Ireland has had Investors in People accreditation, which was successfully renewed in April 2009, reflecting our commitment to developing our people so they are better able to deliver what is required of them HMV believes in promoting from within and offers Fast Track programmes to ensure that talented people with the desire to progress into management roles are supported Over the past three years, more than 450 people have completed one of the four levels of Fast Track programmes available

In May 2009, HMV Canada introduced the HMV Academy, an independent e-learning platform that delivers and tracks compliance-related learning, as well as delivering knowledge and information about policies, procedures and product The Academy has delivered significant cost reduction, flexibility for end-users and administrators, as well as the elimination of workbook printing Since the launch of the HMV Academy, more than 18,000 modules have been successfully completed In order to assist colleagues in the completion of modules, we have made available books for loan to all HMV employees

To support this, a library of relevant management books has been created, and a synopsis of over 100 titles is available via the company Intranet prior to arranging a book loan HMV Canada has also developed the Heads Up programme for all stores to enhance its sales-focused culture, and to promote awareness of how individual colleagues are able to directly contribute to their store's profitability

For colleagues in Waterstone's stores, an induction programme exists for all new booksellers, following which there is a focus on customer service through the 'Get Selling' initiative For those wishing to progress up the career ladder, a Lead Bookseller development programme was launched this year, with workshops attended by 219 Lead Booksellers During the year, three of our Branch Managers were promoted to the four Regional Manager vacancies that arose, reflecting the success of our Fast Track programme for Regional Managers. Branch Managers and Assistant Managers also benefit from a range of workshops, based around various management tasks, including performance reviews, delivering training to others, Living Leadership and Get Selling for Managers

Green benefits package
Our people are encouraged to choose from a menu of benefits that directly promote green issues, including

- Loans of up to £1,000 to purchase a bicycle for travel to and from work.
- Season ticket loans to encourage travel to and from work using public transport.
- Give As You Earn (GAYE) scheme to make regular, pre-tax donations to chosen charities through payroll We are proud that our colleagues donated nearly £16,000 during the year through this scheme

In addition, Waterstone's offers colleagues the opportunity to participate in the Day for Good scheme, which enables our people to take paid time off to carry out voluntary work. Colleagues can request one day of paid time in any year to volunteer for their chosen organisation

Responsibility to customers

The customer experience
We believe that it is our responsibility to provide our customers with the best possible experience Our people are, therefore, equipped with high quality and extensive training and our most prestigious company awards recognise excellent customer service as a key criteria

As the standards expected of us increase, we must strive to deliver an ever more rewarding customer experience In support of this, we carry out regular research and brand tracking surveys with our customers, and employ 'mystery shopper' programmes. Results from these initiatives are fed back to all parts of our businesses and, where appropriate, adaptations to policy or training are made

Rewarding loyalty
In the UK, both of our main brands have programmes to reward customers for their loyalty Purehmv has been highly successful, with over 1 1 million members joining since the launch in May 2009, exceeding its first year target within six months of launch Members earn points every time they shop with HMV in-store and online, and these points can then be redeemed for 'cool stuff money can't buy' via a bespoke members' website The prestigious Marketing Week 2010 Engage Awards awarded Purehmv Best Loyalty Scheme Following its launch in autumn 2007, the Waterstone's loyalty card now has approximately 3 4 million members, enjoying a wide range of benefits Points can be earned on virtually every item in every store, and are also given as a reward if customers either bring their own carrier bag or opt not to use one During the year, customers who declined a carrier bag, saving 1 6 million bags, earned over 8 million bonus points The Waterstone's card won the Institute of Direct Marketing Business Performance Diamond Award in 2009, and in 2010 was second in The Times Online's list of the 10 best loyalty cards in the UK.

The data we collect from customers' participation in our schemes enables us to provide carefully targeted and relevant communication The right to privacy and security of customer data is taken very seriously Customers can opt in or out of communication at any time and the information we use is not sold, rented or passed on to others for marketing purposes without the express consent of customers All of the information provided to us by customers is treated securely and strictly in accordance with the Data Protection Act 1998

Responsible selling
As specialist retailers, our brands are committed to providing the widest ranges of products available either on the high street or online Sometimes, for all sorts of reasons, certain of the products we sell in stores or online can be of a sensitive nature Therefore, we adopt a responsible approach to selling Where appropriate, we liaise with trading standards and other external bodies and listen to our customers and our colleagues

Within the boundaries of existing legislation and industry regulation applied to our product categories, including the Public Order Act and British Board of Film Classification (BBFC) ratings, we maintain a strictly non-censorial approach to selling In support of this, the people in our stores are provided with training and regular communication to ensure that, if appropriate, sensitive product is clearly identified and/or is sold only to customers who are entitled to purchase it.

HMV UK and Canada believes that it is inappropriate to restrict or censor the choice that it makes available to customers However, we recognise the importance of merchandising and displaying stock in a responsible manner, which is consistent with trading standards and retail practice and sensitive to prevailing public concerns

Waterstone's believes that it should not act as censor and that customers should have the right to choose whatever they want to read The only circumstances under which we would remove a book from sale are on the advice of the police or the publisher We understand that we share a responsibility with parents to ensure that inappropriate material is not sold to minors While many books for children and teenagers include no printed direct age guidance, our booksellers can both offer advice or decline a sale if they believe a particular title should not be sold to a minor

Community
We recognise that both the products we sell and, therefore, the HMV and Waterstone's brands, have an important part to play in the lives of our customers Our commitment to the hundreds of communities in which we operate is to extend our engagement with them in ways which, we hope, can help to make even more of a difference

Charitable support
The focus of HMV's community engagement activity is its nominated charity CLIC Sargent, which supports children and young adults with cancer Since 2008, HMV has generated over £500,000 for CLIC Sargent through a range of fundraising events, donations and cause-related marketing, and has helped to raise awareness for the invaluable work of the organisation among HMV's customers, employees, suppliers and other stakeholders On behalf of CLIC Sargent, HMV has created a number of sports-related annual events and, with its suppliers, has created a range of products to sell in stores and online During the year, £50,000 was raised for CLIC Sargent by donating the proceeds from the sale of HMV's eco-charity bags

HMV Canada's charitable focus is on the promotion of education and awareness-raising activities to help reduce the incidence of suicide amongst young Canadians This is in partnership with the Centre for Addiction and Mental Health (CAMH), Canada's largest addiction and mental health teaching hospital, which leads groundbreaking research and influences public policy

Waterstone's and its customers raised £120,000 for its charity partner, Dyslexia Action through various activities in our stores and initiatives carried out by our teams A special edition book, Modern Delight, created by notable authors in partnership with Waterstone's, raised nearly £60,000

Our stores also sold charity Christmas and Valentine's cards during the year, which contributed to a total donation of £118,000 apportioned between Macmillan Nurses, Wateraid, Save the Children, Unicef, Oxfam Ireland, Irish Cancer Society and Great Ormond Street Hospital Kiss it Better (cancer care for children) Following a review of community activities, Waterstone's appointed Rainbow Trust as a worthy successor to DA as its charity partner

Events
Among the important added-value experiences our local stores are uniquely placed to provide, is the opportunity for our customers to meet their favourite artists and authors from the entertainment and literary worlds at live performances, signings and other special events

During the year, HMV UK, Fopp and HMV Canada hosted several hundred personal appearances by some of the biggest names in the music and filmed entertainment industries
They provided volume sales for artists and stores, local, national and, in some instances, international publicity, and provided unique experiences for our customers Demonstrating a commitment to help develop the careers of new and emerging artists, HMV and MAMA launched a new music festival, Next Big Thing, to showcase and celebrate a broad and diverse range of 50 breakthrough artists drawn from across the music spectrum

Waterstone's ran over 8,000 events during the year, including nearly 4,000 author appearances, over 800 reading groups and nearly 3,000 children's activity times These took place in stores as well as at numerous local community venues First-time authors as well as household names launched their new books, with signings, talks, readings and workshops Of the nearly 5,000 events held this year for children, Waterstone's ran activity and story-time sessions with themes as varied as fairy and pirate parties, Horrid Henry parties, treasure hunts, mask-making, Where's Wally hunts, dinosaur days, and, for older children, launch activities for Stephanie Meyer's Breaking Dawn series

Waterstone's also supports, through activities in its stores, World Book Day, by honouring the vouchers that permit every child in the UK to a free book A senior manager of Waterstone's serves as a trustee of the charity, and held the Chairmanship of World Book Day in 2009 Throughout March, hundreds of thousands of children redeemed their £1 vouchers in Waterstone's Stores held a range of events to celebrate World Book Day itself, from the official launch at Waterstone's Piccadilly flagship with four authors and 160 pupils from two schools, to activity days and readings across stores and schools

The World Book Day campaign is supported by Quick Reads, a selection of nine books which appeal to reluctant adult readers across fiction and non-fiction, which this year included titles from a number of well-known authors The Big Book Bank is an award-winning Waterstone's initiative that enables children to bring a favourite book to school to share with other children and, in return, receive a voucher from the school to redeem against a new book from Waterstone's During the school year ended June 2009, a total of 3,468 schools took part in the scheme, with nearly 15,000 books being exchanged across the country This scheme was recognised by the Institute of Sales Promotion (ISP), winning three of its Gold Awards in June 2009 the ISP Gold for Retail, Home Shopping and E-Commerce, ISP Gold for Art Direction & Copywriting, and ISP Gold for Social Responsibility

Waterstone's was also involved in nearly 20 literary festivals during the year, offering varying levels of support and sponsorship These included the Times Cheltenham Festival of Literature, UEA Spring Literary Festival, Stratford Literary Festival, Daphne du Maurier Festival in Fowey, Glasgow's Aye Write! Durham Book Festival, and Discovery Season in Bloomsbury

Directors' report

The Directors submit their report and audited financial statements for the 52 weeks ended 24 April 2010, which were approved on behalf of the Board on 29 June 2010

Principal activities and business review
The principal activities of the Group are the retailing of pre-recorded music, video, electronic games and related entertainment products under the HMV and Fopp brands, the retailing of books principally under the Waterstone's brand and the operation of a number of live music venues and festivals 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 purchased the entire issued share capital of MAMA Group Plc for a total consideration of £46 0m Commentary on the strategy of the Company, the performance of the Group during the year, likely future developments and details of the purchase of MAMA Group Plc can be found in the Chairman's Statement on pages 6 and 7, and the Business and Financial Review on pages 8 to 23, 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 and development 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 for the HMV and Waterstone's businesses Lower than expected performance in this period may have an adverse impact on results for a full financial year

External factors
Both the retail and live music markets are sensitive to economic conditions and if the current economic downturn is prolonged this could further reduce consumer spending 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 and venues, causing a decline in revenue and profit

Credit risk and liquidity
The Group has adequate medium-term financing in place to support its business operations The Board regularly reviews and stress tests its liquidity and covenant headroom to ensure compliance with its facilities In view of the global economic and financial conditions, the Board has assessed its exposure to counterparty risk and its treasury policies have been amended to restrict counterparties with which deposits, investments and other transactions may be made

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 and the brands of the live music and festival companies 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 adverse trading or rental inflation Over the last financial year the Group has looked to limit its exposure by negotiating shorter lease lengths and rents linked to turnover 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 2010, a strategic plan was laid out for the continued transformation of the Group, which included a number of key initiatives for improving the financial performance of the Group over a three-year period 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 £49 2m (2009 £44 2m) 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 (2009 7 4p per Ordinary Share) Subject to approval at the forthcoming Annual General Meeting the final dividend will be paid on 9 November 2010 to those shareholders whose names are on the register of members on 1 October 2010

Directors
Orna Ni-Chionna was appointed as a Non-Executive Director on 30 September 2009, Gerry Johnson resigned as a Director on 14 January 2010 and Lesley Knox resigned as a Non-Executive Director on 1 February 2010 All other Directors served throughout the year under review and details for all present Directors are listed, together with their biographical details, on pages 24 and 25 The Directors have decided, to comply with the requirement introduced by the new UK Corporate Governance Code, that directors should be subject to annual election by shareholders Accordingly, all the Directors will be retiring and seeking re-election at the forthcoming AGM

With regards to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 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 26

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 30 to 39

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 pages 33 and 39

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 28 June 2010 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	**54,821,697**	**12.94**
Standard Life Investments Ltd	**45,390,160**	**10.71**
Schroders plc	**34,619,783**	**8.17**
Blackrock Inc	**24,022,040**	**5.67**
Fidelity International Ltd	**23,068,556**	**5.44**
Artemis Fund Managers	**19,450,931**	**4.59**
Legal & General Investment Management Ltd	**18,450,931**	**4.47**

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 Group had 62 days purchases outstanding at 24 April 2010 (2009 59 days), based on the trade creditors at that date and purchases made during the year 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 25 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 During the year under review the Group operated a Share Incentive Plan, which ceased in April 2010 but which is being replaced by a new Save as You Earn share option scheme for all UK employees subject to shareholder approval at the forthcoming Annual General Meeting

Share capital
At the Annual General Meeting held in September 2009, shareholders authorised the Company to purchase up to a maximum of 42.3 million 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 for cancellation

Details of the Company's share capital can be found in Note 27 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 28 and in the Directors' Remuneration Report on pages 30 to 39 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 £13,000 in the period under review (2009 £18,000) It is Group policy not to make donations to political parties or independent election candidates 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 45

Significant agreements
The Company's Senior Bank Facility agreement, details of which can be found in Note 25 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 Annual Bonus Plan and share plans set out consequences of a change of control of the Company on the employees 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 33 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 24 and 25 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 and Company financial statements can be found on page 50, 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business and Financial Review on pages 8 to 23 In addition, this report describes the management of risks and uncertainties, including credit risk and liquidity, with further information on the Group's borrowing facilities detailed in the financial statements (see Note 25)

The Directors report that having reviewed current performance and forecast they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements

Annual General Meeting
The Annual General Meeting of the Company will be held at 2.30pm on 9 September 2010 at Nomura House, 1 St Martin's-le-Grand, London EC1A 4NT 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, to avoid an inadvertent breach of Companies Act 2006, the renewal of the Group's authority to make political donations, the adoption of the HMV Group Share Option Scheme 2010 and the amendment of the Company's articles of association 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

29 June 2010
Shelley House, 2–4 York Road, Maidenhead, Berkshire SL6 1SR

Statement of Directors' responsibility

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities on page 51, 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, the Listing Rules of the UK Listing Authority 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,

(iv) state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements, and

(v) make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate 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 Act 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, present fairly 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 the Group may face

By order of the Board

Simon Fox
Chief Executive Officer

Neil Bright
Group Finance Director

29 June 2010

Independent Auditor's Report to the Members of HMV Group plc

We have audited the financial statements of HMV Group plc for the 52 weeks ended 24 April 2010 which comprise the consolidated income statement, the Group and Parent Company statements of comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of changes in equity and the related notes 1 to 35 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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
As explained more fully in the Directors' Responsibilities Statement set out on page 50, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 24 April 2010 and of the Group's profit for the 52 weeks then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 26 to 29 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the Company

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 49, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 26 to 29 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Ernst & Young LLP.

John Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

29 June 2010

Consolidated income statement
For the 52 weeks ended 24 April 2010 and 25 April 2009

	Notes	Before exceptional items 2010 £m	Exceptional items 2010 £m	Total 2010 £m
Revenue	3,4	**2,016.6**	**–**	**2,016.6**
Cost of sales		**(1,853.6)**	**(2.0)**	**(1,855.6)**
Gross profit		**163.0**	**(2.0)**	**161.0**
Administrative expenses		**(82.9)**	**(3.3)**	**(86.2)**
Trading profit	3	**80.1**	**(5.3)**	**74.8**
Share of post-tax profits of associates and joint ventures accounted for using the equity method	17	**0.3**	**–**	**0.3**
Operating profit	5	**80.4**	**(5.3)**	**75.1**
Finance revenue	10	**0.4**	**–**	**0.4**
Finance costs	10	**(6.6)**	**–**	**(6.6)**
Profit before taxation		**74.2**	**(5.3)**	**68.9**
Taxation	11	**(20.7)**	**1.0**	**(19.7)**
Profit for the period		**53.5**	**(4.3)**	**49.2**
Attributable to				
Shareholders of the Parent Company		**53.5**	**(4.3)**	**49.2**
Minority interests		**–**	**–**	**–**
		53.5	**(4.3)**	**49.2**
Earnings per share for profit attributable to shareholders	12			
Basic		**12.7p**	**(1.1)p**	**11.6p**
Diluted		**12.7p**	**(1.1)p**	**11.6p**

See Accounting Policies on pages 60 to 64 for the description of the 2010 reporting period
For details of the exceptional items included above, see Note 7

	Notes	Before exceptional items 2009 £m	Exceptional items 2009 £m	Total 2009 £m
Revenue	3,4	1,956 7	–	1,956 7
Cost of sales		(1,799 5)	(4 5)	(1,804 0)
Gross profit		157.2	(4 5)	152.7
Administrative expenses		(87 1)	2.8	(84 3)
Trading profit	3	70 1	(1 7)	68 4
Share of post-tax profits of associates and joint ventures accounted for using the equity method	17	0.2	–	0 2
Operating profit	5	70 3	(1 7)	68 6
Finance revenue	10	1.2	–	1 2
Finance costs	10	(8 5)	–	(8.5)
Profit before taxation		63 0	(1 7)	61.3
Taxation	11	(17 6)	0 5	(17 1)
Profit for the period		45 4	(1 2)	44.2
Attributable to				
Shareholders of the Parent Company		45 4	(1.2)	44.2
Minority interests		–	–	–
		45 4	(1.2)	44.2
Earnings per share for profit attributable to shareholders	12			
Basic		11 1p	(0 3)p	10 8p
Diluted		11 0p	(0 3)p	10 7p

See Accounting Policies on pages 60 to 64 for the description of the 2009 reporting period
For details of the exceptional items included above, see Note 7

Statements of comprehensive income

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

	Notes	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Profit for the period		**49.2**	44 2	**82.0**	51 6
Foreign exchange differences on retranslation of foreign operations		**(1.1)**	6 4	–	0 1
Tax effect		**(0.5)**	1 0	–	–
		(1.6)	7 4	–	0 1
Cash flow hedges					
Gain on forward foreign exchange contracts		–	0 1	–	–
Transfers to the income statement on cash flow hedges (cost of sales)		–	0 4	–	–
		–	0 5	–	–
Actuarial loss on defined benefit pension schemes	32	**(19.3)**	(11 0)	**(19.3)**	(11 1)
Tax effect		**5.4**	3 1	**5.4**	3 1
		(13.9)	(7 9)	**(13.9)**	(8 0)
Other comprehensive loss for the period, net of tax		**(15.5)**	–	**(13.9)**	(7 9)
Total comprehensive income for the period		**33.7**	44 2	**68.1**	43 7
Attributable to					
Shareholders of the Parent Company		**33.7**	44 2	**68.1**	43 7
Minority interests		–	–	–	–
		33.7	44 2	**68.1**	43 7

Balance sheets

	Notes	Group as at 24 April 2010 £m	Group as at 25 April 2009 £m	Company as at 24 April 2010 £m	Company as at 25 April 2009 £m
Assets					
Non-current assets					
Property, plant and equipment	14	**167.3**	161.9	**0.1**	0.2
Intangible assets	16	**122.2**	73.0	**–**	–
Investments in subsidiaries and joint ventures	17	**–**	–	**695.6**	673.6
Investments accounted for using the equity method	17	**13.0**	14.7	**–**	–
Deferred income tax asset	11	**30.1**	26.1	**12.6**	9.8
Trade and other receivables	18	**12.7**	1.2	**–**	–
		345.3	276.9	**708.3**	683.6
Current assets					
Inventories	19	**247.8**	213.9	**–**	–
Trade and other receivables	18	**80.7**	71.6	**28.3**	75.4
Derivative financial instruments	24	**0.1**	0.1	**0.1**	–
Current income tax recoverable		**1.8**	1.3	**–**	–
Cash and short-term deposits	20	**29.7**	52.7	**48.9**	15.8
		360.1	339.6	**77.3**	91.2
Total assets		**705.4**	616.5	**785.6**	774.8
Liabilities					
Non-current liabilities					
Deferred income tax liabilities	11	**(1.6)**	(0.1)	**–**	–
Retirement benefit liabilities	32	**(39.0)**	(21.0)	**(39.0)**	(20.7)
Interest-bearing loans and borrowings	22	**(11.8)**	(5.0)	**–**	–
Provisions	23	**(1.1)**	(0.2)	**–**	–
		(53.5)	(26.3)	**(39.0)**	(20.7)
Current liabilities					
Trade and other payables	21	**(442.4)**	(415.5)	**(7.8)**	(8.6)
Current income tax payable		**(20.8)**	(17.2)	**(0.9)**	(2.3)
Interest-bearing loans and borrowings	22	**(84.5)**	(53.3)	**(227.5)**	(267.5)
Derivative financial instruments	24	**(0.8)**	–	**–**	–
Provisions	23	**(3.0)**	(4.6)	**–**	–
		(551.5)	(490.6)	**(236.2)**	(278.4)
Total liabilities		**(605.0)**	(516.9)	**(275.2)**	(299.1)
Net assets		**100.4**	99.6	**510.4**	475.7

Balance sheets continued

	Notes	Group as at 24 April 2010 £m	Group as at 25 April 2009 £m	Company as at 24 April 2010 £m	Company as at 25 April 2009 £m
Equity					
Equity share capital	29	**347.1**	347 1	**347.1**	347 1
Other reserve – own shares	29, 30	**(0.6)**	(2 7)	**(0.6)**	(2 7)
Hedging reserve	29	**0 1**	0 1	**–**	–
Foreign currency translation reserve	29	**12.9**	14 0	**–**	–
Capital reserve	29	**0.3**	0 3	**0.3**	0 3
Retained earnings		**(260.4)**	(259 2)	**163.6**	131 0
Equity attributable to shareholders of the Parent Company		**99 4**	99 6	**510.4**	475 7
Minority interests		**1.0**	–	**–**	–
Total equity		**100 4**	99 6	**510 4**	475 7

The financial statements were approved by the Board of Directors on 29 June 2010 and were signed on its behalf by

Simon Fox
Chief Executive Officer

Neil Bright
Group Finance Director

Statements of changes in equity

Group	Notes	Equity share capital £m	Own shares £m	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
At 26 April 2008		323.1	(2.0)	(0.4)	7.6	0.3	(269.8)	58.8	–	58.8
Profit for the period		–	–	–	–	–	44.2	44.2	–	44.2
Other comprehensive income (loss)		–	–	0.5	6.4	–	(6.9)	–	–	–
Total comprehensive income		–	–	0.5	6.4	–	37.3	44.2	–	44.2
Ordinary dividend	13	–	–	–	–	–	(29.7)	(29.7)	–	(29.7)
Issue of equity shares		24.7	–	–	–	–	–	24.7	–	24.7
Share issue costs		(0.7)	–	–	–	–	–	(0.7)	–	(0.7)
Purchase of own shares	30	–	(1.0)	–	–	–	–	(1.0)	–	(1.0)
Share-based payment awards		–	0.3	–	–	–	(0.3)	–	–	–
Charge for share-based payments		–	–	–	–	–	1.7	1.7	–	1.7
Deferred tax on share-based payments		–	–	–	–	–	1.6	1.6	–	1.6
At 25 April 2009		347.1	(2.7)	0.1	14.0	0.3	(259.2)	99.6	–	99.6
Profit for the period		–	–	–	–	–	49.2	49.2	–	49.2
Other comprehensive loss		–	–	–	(1.1)	–	(14.4)	(15.5)	–	(15.5)
Total comprehensive (loss) income		–	–	–	(1.1)	–	34.8	33.7	–	33.7
Ordinary dividend	13	–	–	–	–	–	(31.2)	(31.2)	–	(31.2)
Purchase of own shares	30	–	(0.3)	–	–	–	–	(0.3)	–	(0.3)
Share-based payment awards		–	2.4	–	–	–	(2.4)	–	–	–
Credit for share-based payments		–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Deferred tax on share-based payments		–	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Minority interests acquired with subsidiary		–	–	–	–	–	–	–	1.0	1.0
At 24 April 2010		**347.1**	**(0.6)**	**0.1**	**12.9**	**0.3**	**(260.4)**	**99.4**	**1.0**	**100.4**

Statements of changes in equity continued

Company	Notes	Equity share capital £m	Own shares £m	Capital reserve £m	Retained earnings £m	Total £m
At 26 April 2008		323 1	(2.0)	0.3	114 7	436 1
Profit for the period		–	–	–	51 6	51 6
Other comprehensive loss		–	–	–	(7 9)	(7 9)
Total comprehensive income		–	–	–	43 7	43 7
Ordinary dividend	13	–	–	–	(29 7)	(29 7)
Issue of equity shares		24 7	–	–	–	24 7
Share issue costs		(0 7)	–	–	–	(0 7)
Purchase of own shares	30	–	(1 0)	–	–	(1 0)
Share-based payment awards		–	0 3	–	(0 3)	–
Charge for share-based payments		–	–	–	0 3	0 3
Deferred tax on share-based payments		–	–	–	0 9	0 9
Capital contribution to subsidiaries for share-based payments		–	–	–	1 4	1 4
At 25 April 2009		347 1	(2 7)	0 3	131 0	475 7
Profit for the period		–	–	–	82.0	82 0
Other comprehensive loss		–	–	–	(13 9)	(13 9)
Total comprehensive income		–	–	–	68 1	68 1
Ordinary dividend	13	–	–	–	(31.2)	(31 2)
Purchase of own shares	30	–	(0 3)	–	–	(0 3)
Share-based payment awards		–	2 4	–	(2 4)	–
Credit for share-based payments		–	–	–	(0 6)	(0 6)
Deferred tax on share-based payments		–	–	–	(0 3)	(0 3)
Capital contribution to subsidiaries for share-based payments		–	–	–	(1 0)	(1 0)
At 24 April 2010		**347.1**	**(0 6)**	**0.3**	**163 6**	**510.4**

Cash flow statements

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

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash flows from operating activities					
Profit (loss) before tax		**68.9**	61.3	**(32.9)**	(21.5)
Net finance costs		**6.2**	7.3	**6.7**	16.1
Share of post-tax profits of associates and joint ventures		**(0.3)**	(0.2)	**–**	–
Depreciation	14	**43.4**	42.5	**–**	0.1
Amortisation	16	**0.1**	–	**–**	–
Net impairment charges	14, 17	**2.0**	3.4	**25.0**	–
Profit on disposal of property, plant and equipment		**(0.9)**	(0.5)	**–**	–
Equity-settled share-based payment (credit) charge	28	**(1.5)**	1.7	**(0.6)**	0.3
Pension contributions less income statement charge		**(2.4)**	(6.8)	**(2.0)**	(6.8)
		115.5	108.7	**(3.8)**	(11.8)
Movement in inventories		**(29.6)**	(3.6)	**–**	–
Movement in trade and other receivables		**(6.0)**	(6.5)	**(0.1)**	(0.1)
Movement in trade and other payables		**3.4**	(5.4)	**1.4**	(5.5)
Movement in provisions		**(1.8)**	1.1	**–**	–
Cash generated from operations		**81.5**	94.3	**(2.5)**	(17.4)
Income tax (paid) received		**(15.6)**	(19.3)	**5.6**	6.8
Net cash flows from operating activities		**65.9**	75.0	**3.1**	(10.6)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(39.9)**	(51.5)	**–**	–
Proceeds from sale of property, plant and equipment		**1.1**	1.5	**–**	–
Interest received		**0.4**	1.2	**7.8**	13.3
Repayment of loan by joint venture	17	**4.5**	–	**4.5**	–
Payments to acquire investments in joint ventures	17	**(8.1)**	(20.0)	**–**	(20.0)
Payments to acquire subsidiary	15	**(47.0)**	–	**(47.0)**	–
Cash acquired with subsidiary	15	**7.8**	–	**–**	–
Dividends received from subsidiaries		**–**	–	**112.2**	67.1
Net cash flows from investing activities		**(81.2)**	(68.8)	**77.5**	60.4
Cash flows from financing activities					
Movements in funding		**35.0**	11.0	**34.8**	11.0
Movement in intercompany funding		**–**	–	**(12.5)**	44.0
Costs of raising debt		**(0.2)**	(1.1)	**–**	(1.1)
Proceeds of issue of equity shares, net of costs	27	**–**	24.0	**–**	24.0
Purchase of own shares	30	**(0.3)**	(1.0)	**(0.3)**	(1.0)
Interest paid		**(5.1)**	(7.8)	**(15.2)**	(26.4)
Equity dividends paid to shareholders	13	**(31.2)**	(29.7)	**(31.2)**	(29.7)
Repayment of capital element of finance leases		**(0.9)**	(0.8)	**–**	–
Net cash flows from financing activities		**(2.7)**	(5.4)	**(24.4)**	20.8
Net (decrease) increase in cash and cash equivalents		**(18.0)**	0.8	**56.2**	70.6
Opening cash and cash equivalents	26	**45.5**	35.5	**(14.2)**	(84.8)
Effect of exchange rate changes	26	**(0.2)**	9.2	**–**	–
Closing cash and cash equivalents	20, 26	**27.3**	45.5	**42.0**	(14.2)

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 24 April 2010 were authorised for issue by the Board of Directors on 29 June 2010, 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 2006 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 408 of the Companies Act 2006 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 24 April 2010, whilst the comparative period covered the 52 weeks ended 25 April 2009 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

Judgements and key sources of estimation uncertainty

The judgements and 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 as follows

Impairment of goodwill and other assets – The Group is required to test goodwill for impairment on at least an annual basis As part of this testing, the value in use of the cash-generating units to which the goodwill is allocated is assessed, which requires the estimation of future cash flows and choosing a suitable discount rate (see Note 16) Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (see Note 14)

Measurement of defined benefit pension obligations – This 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 (see Note 32)

For the Company, key areas of estimation uncertainty are those listed above for the Group and the measurement and impairment of investments in subsidiaries and joint ventures (see Note 17)

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 Where the end of the reporting period of a subsidiary, joint venture or associate is different to that of the Group, the entity prepares additional financial statements, for consolidation purposes, as of the same date as the financial statements of HMV Group plc

2. Accounting policies continued

Interests in joint ventures and associates
A joint venture is a contractual arrangement with other parties to undertake an economic activity that is subject to joint control An associate is an entity in which the Company holds a long-term non-controlling interest and has the power to exercise significant influence, being the power to participate in the financial and operating policies of the entity

The Group recognises its interest in joint ventures and associates using the equity method of accounting Under the equity method, the interest in the joint venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value The Group income statement reflects the share of the jointly controlled or associated entity's results after tax. The Group statement of comprehensive income reflects the Group's share of any income and expense recognised by the jointly controlled entity or associate outside profit and loss

Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying value of the jointly controlled entity and is not amortised

Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group The Group ceases to use the equity method on the date from which it no longer has joint control over, or significant influence on, the joint venture or associate

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 when the right to receive the distribution is established

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 in the HMV Live division is recognised at the point that an event occurs or, in the case of services provided, over a period of time in accordance with the relevant contract in place 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 sublet properties is recognised on a straight-line basis over the period of the sublease

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 in other comprehensive income in 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, reversal of impairments and costs associated with restructuring the business

Goodwill
On transition to IFRS, the Group 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
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

Notes to the financial statements continued

2. Accounting policies continued

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

Freehold property	Over 50 years
Leasehold improvements	Shorter of useful life and period of the lease
Plant, equipment and vehicles	10 to 33⅓%

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 less amortisation and impairment losses Intangible assets with finite lives are amortised on a straight-line basis over their useful lives of between three and 20 years and 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 not amortised but are tested for impairment annually or more frequently if events indicate that the carrying value may be impaired

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 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.

2. Accounting policies continued

Deferred tax liabilities are not recognised for temporary differences associated with investments in subsidiaries, branches, and joint ventures 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 are not discounted

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

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

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 in other comprehensive income in full in the period in which they occur 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

Except for awards subject to market related conditions, the cumulative expense is calculated at each balance sheet date before vesting, 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. If options are subject to market related conditions awards are not cumulatively adjusted for the likelihood of these targets being met. Instead these conditions are included in the calculation of the fair value of the awards

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 financial 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 forward foreign exchange contracts 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 is their quoted market value at the balance sheet date, being the present value of the quoted forward price

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 in other comprehensive income and any ineffective portion is recognised immediately in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when hedged transactions affect profit or loss, such as when a forecast sale or purchase occurs

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 other comprehensive income 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 other comprehensive income 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

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 24 April 2010 or have been adopted early as appropriate

- IAS 1 Presentation of Financial Statements (revised 2007), effective for periods beginning on or after 1 January 2009 This is a presentational change only, affecting the naming and positioning of items within the financial statements It has no impact on reported income or total equity

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

- Amendments to IFRS 1 and IAS 27 Cost of an investment in a subsidiary, joint-controlled entity or associate (effective 1 January 2009)
- Amendment to IFRS 2 Share-based Payment vesting conditions and cancellations (1 January 2009)
- Amendment to IFRS 7 Improving disclosures about financial instruments (1 January 2009)
- IAS 23 Borrowing Costs (1 January 2009)
- IAS 32 Financial Instruments Presentation and IAS 1 Financial Instruments – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments) (1 January 2009)
- IFRIC 9 Reassessment of Embedded Derivatives, IAS 39 Financial Instruments Recognition and Measurement (periods ending on or after 30 June 2009)
- IFRIC 15 Agreements for the Construction of Real Estate (1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1 October 2008)
- IFRIC 18 Transfer of Assets from Customers (1 July 2009)
- Annual improvements to IFRS (1 January 2009)

The Group has not adopted early the requirements of the following accounting standards and interpretations, which have an effective date after the start date of these financial statements

- IFRS 3 (R) Business Combinations (revised 2008) (1 July 2009)
- IAS 27 Consolidated and Separate Financial Statements (revised 2008) (1 July 2009)
- IFRIC 17 Distribution of Non-cash Assets to Owners (1 July 2009)
- IAS 39 Eligible Hedged Items (1 July 2009)
- Annual improvements to IFRS (various effective dates)

The Directors do not anticipate that the adoption of these standards and interpretations in the year ended 30 April 2011 will have a material impact on the Group's financial statements

The effective dates stated are those given in the original IASB/IFRIC standards and interpretations As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism

3. Segmental information

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

HMV UK & Ireland and HMV International are the pre-recorded music, video and electronic games retailing divisions that primarily trade under the HMV brand HMV Live primarily represents the activities of MAMA Group Plc acquired during the financial year These activities include the operation of live music venues and events, including festivals, together with sponsorship income relating to brands held within the business It also includes the management of recording artists and other related activities 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 Finance costs, finance income and income taxes are managed on a Group basis

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

	52 weeks ended 24 April 2010				
	HMV UK & Ireland £m	HMV International £m	HMV Live £m	Waterstone's £m	Total operations £m
Segment revenue	1,241.9	253.0	8.1	513.6	2,016.6
Segment trading profit (loss) before exceptional items	73.8	3.7	(0.2)	2.8	80.1
Operating exceptional items					
Impairment charge	–	(1.0)	–	(1 0)	(2.0)
Restructuring costs	–	–	–	(1.7)	(1.7)
Integration costs	–	–	(1.6)	–	(1.6)
Total exceptional items	–	(1.0)	(1.6)	(2.7)	(5.3)
Share of post-tax profits of associates and joint ventures allocated to segments	–	–	0.9	–	0.9
Segment operating profit (loss)	73.8	2.7	(0.9)	0.1	75.7
Share of post-tax profits of other associates and joint ventures					(0.6)
Total operating profit					75.1
Net finance costs					(6.2)
Profit before taxation					68.9
Taxation					(19.7)
Profit for the period					49.2
Average employees (number)	6,740	2,349	129	4,936	14,154
Segment assets	227.7	57.3	87.1	283.2	655.3
Unallocated assets managed on a Group basis					
Investments accounted for using the equity method					7.6
Deferred income tax asset					30.1
Current income tax recoverable					1.8
Centrally held cash and short-term deposits					10.6
Total assets					705.4
Depreciation	23 1	3.8	0.4	16.1	43.4

Notes to the financial statements continued

3. Segmental information continued

	HMV UK & Ireland £m	HMV International £m	Waterstone's £m	Total operations £m
				52 weeks ended 25 April 2009
Segment revenue	1,154 6	253 8	548 3	1,956 7
Segment trading profit before exceptional items	53 7	6 4	10 0	70 1
Operating exceptional items				
Store closure costs	–	–	(1 6)	(1 6)
Impairment charge	(2.1)	(2 2)	–	(4.3)
Reversal of impairment charge	0 9	–	–	0 9
Restructuring costs	–	–	(2.3)	(2.3)
Defined benefit pension scheme past service credit	3 5	–	2 1	5 6
Total exceptional items	2.3	(2 2)	(1 8)	(1 7)
Segment operating profit	56 0	4 2	8.2	68 4
Share of post-tax profits of associates and joint ventures				0 2
Total operating profit				68 6
Net finance costs				(7 3)
Profit before taxation				61.3
Taxation				(17 1)
Profit for the period				44 2
Average employees (number)	6,020	2,404	5,377	13,801
Segment assets	233 8	53 7	270 7	558.2
Unallocated assets managed on a Group basis				
Investments accounted for using the equity method				14 7
Deferred income tax asset				26 1
Current income tax recoverable				1 3
Centrally held cash and short-term deposits				16 2
Total assets				616 5
Depreciation	22.0	4 2	16 3	42 5

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

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

					52 weeks ended 25 April 2009
	United Kingdom £m	Rest of Europe £m	Asia £m	Canada £m	Total £m
Segment revenue from third party customers	1,616 1	86 8	32.5	221 3	1,956 7
Non-current assets	217 5	5 5	2.7	10 4	236 1
Unallocated non-current assets					40 8
Total non-current assets					276 9

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

4. Revenue
Revenue disclosed in the consolidated income statement is analysed as follows

	2010 £m	2009 £m
Sale of goods	**2,015.3**	1,956 7
Rendering of services	**1.3**	–
Financial revenue (Note 10)	**0.4**	1.2
Total revenue	**2,017.0**	1,957 9

Notes to the financial statements continued

5. Group operating profit

	2010 £m	2009 £m
Total Group operating profit is stated after charging (crediting)		
Depreciation of property, plant and equipment	**43.4**	42 5
Impairment of property, plant and equipment	**2.0**	4 3
Reversal of impairment of property, plant and equipment	**–**	(0 9)
Amortisation of intangible assets	**0.1**	0 1
Cost of inventories recognised as expense	**1,296.3**	1,276 3
Write down of inventories	**5.4**	3 4
Operating lease rentals		
Minimum rentals	**161.9**	154 5
Contingent rentals	**3.3**	3 6
Sublease rentals	**(3.4)**	(3 8)
Net operating lease rentals	**161.8**	154 3

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

	2010 £m	2009 £m
Audit of the Group financial statements	**0.2**	0 2
Other fees to auditors		
Local statutory audits for subsidiaries	**0.2**	0.2
Other services pursuant to legislation	**0.1**	0 1
Tax services	**–**	0 1
Services relating to corporate finance transactions	**0.1**	0 3
	0.6	0 9

7. Exceptional items (before taxation)

	2010 £m	2009 £m
Recognised in arriving at operating profit		
Impairment of property, plant and equipment	**(2 0)**	(4 3)
Restructuring costs	**(1.7)**	(2 3)
Integration of Live division	**(1 6)**	–
Acquisition of Ottakar's Store closure costs	**–**	(1 6)
Reversal of impairment of property, plant and equipment	**–**	0 9
Defined benefit pension scheme past service credit	**–**	5 6
Total exceptional items	**(5.3)**	(1 7)

7. Exceptional items (before taxation) continued
Included within cost of sales are exceptional impairment charges of £2 0m (Waterstone's £1 0m, HMV Canada £1 0m) following a review of the carrying value of certain retail assets based on prevailing market trading conditions Administration expenses include restructuring costs of £1 7m relating to Waterstone's and £1 6m of integration costs following the acquisition of MAMA Group Plc A tax credit of £1 0m arose in respect of these charges

During the previous period, included within cost of sales were exceptional costs of £1 6m in connection with the review of the combined Waterstone's store portfolio and associated store closures following the acquisition of Ottakar's, £4.3m of impairment of certain assets, partially offset by a £0 9m reversal of previous asset impairments, based on market trading conditions in HMV UK and HMV Canada and store restructuring costs of £2.3m as a result of the implementation of the Waterstone's book hub A tax credit of £2.0m arose in respect of these costs Partially offsetting these charges was an exceptional credit totalling £5 6m (£2 8m within cost of sales and £2 8m within administrative expenses), which represented a past service credit as a result of changes to the Group's defined benefit pension scheme with effect from 1 November 2008 A tax charge of £1 5m arose in respect of this credit

8. Directors' emoluments

	2010 £m	2009 £m
Directors' emoluments	**2.3**	1 6
Number of Directors accruing benefits under defined benefit pension schemes	**3**	3

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 30 to 39

9. Employee costs

	2010 £m	2009 £m
Employee costs, including Executive Directors' emoluments		
Wages and salaries	**219.6**	214 5
Social security costs	**17.0**	16 9
Other pension costs (see Note 32)	**3.7**	5 1
	240.3	236 5

Included in wages and salaries is a total credit for equity-settled share-based payments of £1 5m (2009 charge of £1 7m) In addition, wages and salaries includes a charge of £0 4m (2009 £0 4m) for the Share Incentive Plan (see Note 28)

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

10. Net finance costs

	2010 £m	2009 £m
Finance revenue		
Bank interest receivable	**0.4**	09
Other interest receivable	**–**	03
Total finance revenue	**0.4**	12
Finance costs		
Bank loans and overdrafts	**5.2**	75
Amortisation of deferred financing fees	**0.4**	05
Other finance expense – pensions (see Note 32)	**1.0**	05
Total finance costs	**6.6**	85
Net finance costs	**6.2**	7.3

Included within the total net finance costs are net non-cash charges totalling £1 4m (2009 £1 0m) These comprise the amortisation of deferred financing fees and other finance costs relating to pensions

11. Taxation

Group	2010 £m	2009 £m
Taxation recognised in the income statement		
United Kingdom, current year		
Corporation tax	**19.8**	162
Over provision in prior periods	**(0.3)**	(1 0)
	19.5	152
Overseas tax, current year		
Corporation tax	**0.9**	1 3
Total current tax	**20.4**	165
Deferred tax		
United Kingdom	**(0.7)**	1.2
Overseas	**–**	(0 6)
Total deferred tax	**(0.7)**	06
Total taxation expense in the income statement	**19.7**	171

11. Taxation continued

The effective tax rate on continuing operations before exceptional items is 28% (2009 28%) The tax expense in the current year includes a net credit of £1 0m (2009 £0 5m) in relation to the exceptional items of £5.3m (2009 £1 7m) The tax charge is reconciled with the standard rate of UK corporation tax as follows

	2010 £m	2009 £m
Profit before tax	**68.9**	61 3
Less share of post-tax profits of associates and joint ventures	**(0.3)**	(0 2)
Profit before taxation	**68.6**	61 1
Corporation tax at UK average statutory rate of 28% (2009 28%)	**19.2**	17 1
Effects of		
Income not taxable/permanent disallowables	**0.8**	1 1
Overseas income taxed at different rates	**(0.2)**	(1 0)
Permanent disallowables on exceptional items	**0.4**	0 1
Net prior period over provision	**(0.3)**	(1 0)
Temporary differences relating to prior periods	**(0.4)**	0 8
Deferred tax rate change	**0.2**	–
Total tax charge	**19.7**	17 1

Key factors affecting the tax charge are

(i) The tax charge is reduced by the release of prior year provisions relating to UK tax returns

(ii) The tax charge is increased by non-deductible expenses including non-qualifying depreciation

Tax relating to other items charged or credited is as follows

	2010 £m	2009 £m
Deferred tax relating to defined benefit pension schemes	**(5.1)**	(3 1)
Current tax relating to defined benefit pension schemes	**(0.3)**	–
Current tax on foreign exchange gains and losses	**(0.8)**	(1 0)
Deferred tax on foreign exchange gains and losses	**1.3**	–
Tax credit in other comprehensive income	**(4.9)**	(4 1)
Deferred tax relating to share-based payments charged (credited) directly to equity	**0.9**	(1 6)
	(4.0)	(5 7)

Notes to the financial statements continued

11. Taxation continued
The deferred tax included in the Group balance sheet is as follows

	2010 £m	2009 £m
Deferred tax liability		
Other temporary differences	**(1.6)**	(0 1)
Deferred tax asset		
Accelerated depreciation for tax purposes	**17.5**	14 8
Other temporary differences	**(0.2)**	2.2
Defined benefit pension scheme obligations	**10.9**	5 8
Share-based payments	**1.9**	3 3
	30.1	26 1

The deferred tax asset on the balance sheet is largely in respect of UK and Canadian temporary differences

The UK Government issued an announcement that the headline rate of UK corporation tax will be reduced from 28% to 24% over the course of the next four years The exact implications of these changes are not yet fully understood as no draft legislation has yet been issued so it is not possible to quantify the impact of these proposals at this stage

Unrecognised tax losses
There are no capital losses available for offset against the Group's future capital gains

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

	2010 £m	2009 £m
Accelerated depreciation for tax purposes	**(2.5)**	(1 2)
Other	**1.3**	0.2
Share-based payments	**0.5**	(0 2)
Defined benefit pension scheme obligations	**–**	1 8
	(0.7)	0 6

Company
Tax relating to other items charged or credited in the Company is as follows

	2010 £m	2009 £m
Deferred tax relating to defined benefit pension schemes	**(5.1)**	(3 1)
Current tax relating to defined benefit pension schemes	**(0.3)**	–
Current tax on foreign exchange gains and losses	**1.2**	–
Deferred tax on foreign exchange gains and losses	**(1.2)**	–
Tax credit in other comprehensive income	**(5.4)**	(3 1)
Deferred tax relating to share-based payments charged (credited) directly to equity	**0.3**	(0 9)
	(5.1)	(4 0)

11. Taxation continued
The deferred tax included in the balance sheet of the Company is as follows

	2010 £m	2009 £m
Deferred tax asset		
Other temporary differences	**0.5**	23
Defined benefit pension scheme obligations	**10.9**	58
Share-based payments	**1.2**	17
	12.6	98

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

	2010 £m	2009 £m
Profit attributable to shareholders of the Parent Company	**49.2**	442
Exceptional items, less tax thereon (see Note 7)	**4.3**	12
Adjusted profit attributable to shareholders of the Parent Company	**53.5**	454

	2010 Number Million	2009 Number Million
Weighted average number of Ordinary Shares – Basic	**422.5**	408 5
Dilutive share options	**–**	49
Weighted average number of Ordinary Shares – Diluted	**422.5**	4134

Earnings per Ordinary Share is calculated as follows

	2010 Pence	2009 Pence
Basic	**11.6**	108
Adjusted	**12.7**	111
Basic diluted	**11.6**	107
Adjusted diluted	**12.7**	110

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

The weighted average number of shares excludes shares held by an Employee Benefit Trust and has been adjusted for the issue of shares during the period The diluted earnings per share calculations reflect the weighted average dilutive effect of employee share awards outstanding during the year of nil (2009 4 9m) At the year end 1 5m anti-dilutive share awards were in issue (2009 1 6m)

13. Dividends paid and proposed

	2010 £m	2009 £m
Ordinary final dividend of 5 6p per share for 2009 (2008 5 6p)	**23.6**	225
Ordinary interim dividend of 1 8p per share for 2010 (2009 1 8p)	**7 6**	72
	31.2	297

The Directors have proposed a final dividend of 5 6p per share (2009 5 6p), which, in line with the requirements of IAS 10 Events after the Balance Sheet date, has not been recognised within these results This results in a full year dividend for 2010 of 7 4p (2009 7 4p)

Notes to the financial statements continued

13. Dividends paid and proposed continued
The proposed final dividend for 2010 of £23 7m (2009 £23 7m), subject to approval by shareholders at the Annual General Meeting, will be paid on 9 November 2010 to shareholders on the Register at the close of business on 1 October 2010 Shares will be quoted ex-dividend from 29 September 2010

14. Property, plant and equipment

Group	Freehold property £m	Leasehold property and improvements £m	Plant, equipment and vehicles £m	Total £m
Cost at 26 April 2008	–	12 2	418 0	430 2
Currency retranslation	–	2 7	12 5	15 2
Disposals	–	–	(5 1)	(5 1)
Additions	–	0 7	56 9	57 6
Cost at 25 April 2009	–	15 6	482.3	497 9
Currency retranslation	–	(0 5)	7 0	6 5
Disposals	–	–	(5 4)	(5 4)
Additions	–	1.2	38 7	39 9
Acquisition of subsidiary (see Note 15)	2 6	4 0	3 6	10.2
Cost at 24 April 2010	**2.6**	**20.3**	**526.2**	**549.1**
Depreciation and impairment at 26 April 2008	–	6 5	274 3	280 8
Currency retranslation	–	2 7	10 2	12 9
Charge for period	–	0 9	41 6	42.5
Impairment loss	–	–	4 3	4 3
Reversal of previous impairment	–	–	(0 9)	(0 9)
Disposals	–	–	(3 6)	(3 6)
Depreciation and impairment at 25 April 2009	–	10 1	325 9	336 0
Currency retranslation	–	(0 5)	5 8	5 3
Charge for period	–	0 7	42.7	43 4
Impairment loss	–	–	2.0	2 0
Disposals	–	–	(4 9)	(4 9)
Depreciation and impairment at 24 April 2010	**–**	**10.3**	**371.5**	**381.8**
Net book value at 24 April 2010	**2.6**	**10 0**	**154.7**	**167.3**
Net book value at 25 April 2009	–	5 5	156 4	161 9
Net book value at 26 April 2008	–	5 7	143 7	149 4

Property, plant and equipment has been written down by £2 0m, of which £1 0m relates to Waterstone's and £1 0m to HMV Canada (2009 £4 3m charge and a £0 9m reversal of a previous impairment charge), 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 seven-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

The carrying value of plant, equipment and vehicles held under finance leases at 24 April 2010 was £6 5m (2009 £6 7m), of which £nil (2009 £6 1m) is included within additions during the year £0 1m of fixed assets acquired with a subsidiary are held under finance lease at 24 April 2010 Leased assets are pledged as security for the related finance leases

14. Property, plant and equipment continued

Company	Plant, equipment and vehicles £m	Total £m
Cost at 25 April 2009 and 26 April 2008	2 0	2 0
Disposals	(0 1)	(0 1)
Cost at 24 April 2010	**1.9**	**1.9**
Depreciation at 26 April 2008	1 7	1 7
Charge for period	0 1	0 1
Depreciation at 25 April 2009	1 8	1 8
Charge for period	–	–
Depreciation at 24 April 2010	**1.8**	**1.8**
Net book value at 24 April 2010	**0.1**	**0.1**
Net book value at 25 April 2009	0 2	0 2
Net book value at 26 April 2008	0 3	0 3

15. Business combinations

On 29 January 2010 the Group completed its acquisition of MAMA Group Plc, when its offer for the entire issued share capital became unconditional MAMA comprised a diverse range of music-related businesses, and was the Group's joint venture partner in the Mean Fiddler Group, the UK's second largest multiple live music venue operator The consideration paid to acquire MAMA's shares was £46 0m, which included £4.2m incurred in December 2009, when 10% of share capital was acquired at 5.25p per share, with the remaining share capital subsequently purchased at 5 4p per share Associated fees totalled £1 0m The total consideration also includes £15 5m (including £1 7m fees) incurred in the Group's earlier investment in Mean Fiddler Group (see Note 17) This gives a total cost of acquisition of £62.5m, all of which was satisfied in cash There has been no change in the fair value of Mean Fiddler Group since the original acquisition except for the share of profits of £1 1m recognised in the period during which it was equity accounted

As a result of the acquisition, goodwill of £44 1m has been capitalised (see Note 16) The Group has paid an amount in excess of the fair value of the net assets based on the expected future profitability and cash generation of the business, as well as a number of synergy benefits including using the HMV brand and business relationships to improve operating metrics, and the opportunity with MAMA to build a wider ticketing business of scale As part of the fair value exercise, historic goodwill of £22 0m in the books of MAMA Group was written-off In addition, intangible assets totalling £5 2m (£3 6m over the book value) have been recognised on acquisition, reflecting the fair value of various brands predominantly relating to MAMA's festivals business

From the date of acquisition to 24 April 2010, the operations of MAMA Group contributed £8 1m of revenue and made a loss before tax and exceptional items of £0 2m In addition, exceptional costs of £1 6m were charged in the period relating to integration costs (see Note 7) If the acquisition had taken place at the beginning of the period, revenue for the Group would have been £2,053 9m, operating profit before exceptional items would have been £83 3m and profit before tax and exceptional items would have been £76 5m

15. Business combinations continued

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

	Book value £m	Provisional fair value to Group £m
Property, plant and equipment	107	10.2
Intangible assets	1 6	5 2
Goodwill	22 0	–
Investments	5 8	5 5
Inventories	0 4	0 4
Receivables	21 3	20 1
Cash	7 8	7 8
Payables	(14.2)	(14 8)
Provisions	(0 2)	(1.2)
Taxation	(2 1)	(3 1)
Borrowings	(8 8)	(8 8)
Derivative financial instrument	(0 8)	(0 8)
	43 5	20 5
Minority interest		(1 0)
Effect of the change in fair value of equity previously owned		(1 1)
HMV Group share of net assets acquired		18 4
Goodwill arising on acquisition		44 1
Consideration (satisfied by cash)		62 5

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

16. Intangible assets

Group	Trademarks and brands £m	Goodwill £m	Total £m
Cost at 25 April 2009 and 26 April 2008	2 1	71 0	73 1
Acquisition of subsidiary	5 2	44 1	49 3
Cost at 24 April 2010	**7.3**	**115.1**	**122.4**
Amortisation at 26 April 2008	–	–	–
Charge for period	0 1	–	0 1
Amortisation at 25 April 2009	0 1	–	0 1
Charge for period	0 1	–	0 1
Amortisation at 24 April 2010	**0.2**	**–**	**0.2**
Net book value at 24 April 2010	**7.1**	**115.1**	**122.2**
Net book value at 25 April 2009	2 0	71 0	73 0
Net book value at 26 April 2008	2 1	71 0	73 1

Intangible assets include the various trademark registrations and applications for the acronym 'HMV' 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

16. Intangible assets continued

Also included are various trademarks and domain names pertaining to the Fopp brand These are considered to have a useful life of 10 years and amortisation is being charged over this period

Various brands predominantly relating to MAMA's festivals business, totalling £5 2m, have been capitalised on the acquisition of MAMA Group Plc on 29 January 2010 They are considered to have a useful life of 20 years and amortisation is being charged over this period Goodwill of £44 1m has been recognised relating to the same acquisition, which is allocated to the Live cash-generating unit. The fair values used in the calculation of the goodwill, and hence the carrying value of the goodwill, are provisional, as detailed in Note 15 The carrying value of the goodwill is subject to an annual impairment review, however there are no indicators of impairment in the short trading period since acquisition

Goodwill of £71 0m arising on the purchase of Ottakar's plc on 3 July 2006 has been capitalised The goodwill is subject to an annual impairment review so as to ensure that the carrying amount is not greater than the recoverable amount, which is determined from a value in use calculation incorporating cash flow projections based on forecasts approved by senior management over a five year period The recoverable amount was determined in previous years on the basis of a value in use calculation with regard to the portfolio of Ottakar's stores acquired Following extensive restructuring of the Waterstone's business, into which the former Ottakar's stores have been subsumed, the recoverable amount is now based on the value in use of the Waterstone's business as a whole as this is the level at which the goodwill is now monitored internally The forecasts used include management's most recent and cautious view of medium-term trading prospects Cash flows beyond the five years have been extrapolated using a 1% growth rate (2009 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% (2009 10%) based on an adjusted WACC for the Group On the basis of the impairment review undertaken, no impairment of the capitalised goodwill was required

The calculation of value in use is sensitive to assumptions made with respect to sales forecasts, gross margin and discount rates To illustrate, the recoverable amount would reduce to a value equal to the carrying amount if budgeted sales reduce 2 5%, budgeted gross margin rate reduces by 0 5% or the discount rate increases by 1 4%

The Company had no intangible assets.

17. Investments in subsidiaries, joint ventures and associates

Group	Investment in joint ventures £m	Investment in associates £m	Total £m
At 26 April 2008	–	–	–
Additions (including fees incurred)	14 5	–	14 5
Share of results for the period	0 2	–	0 2
At 25 April 2009	14 7	–	14 7
Additions (including fees incurred)	9 1	–	9 1
Additions via acquisition of subsidiary	2 8	2 7	5 5
Share of results for the period	0 3	–	0 3
Transfer to subsidiary investment upon full acquisition	(16 6)	–	(16 6)
At 24 April 2010	**10.3**	**2.7**	**13.0**

Joint ventures

The Group had the following interests in joint ventures at the balance sheet date, further details of which are given below

Name of undertaking	Year end date	Proportion of voting rights and shares held	Country of incorporation	Nature of business
7digital Inc	31 December	50%	England and Wales	Digital media
Angel Festivals Limited	31 December	42 42%	England and Wales	Festivals
Eleven 78 Limited	31 July	50%	England and Wales	Recording
PAPA Projects Limited	31 July	50%	England and Wales	Event management

Notes to the financial statements continued

17. Investments in subsidiaries, joint ventures and associates continued
During the year the Group invested in a jointly controlled entity through the acquisition of a 50% equity interest in 7digital Inc, a leading international digital media services company for £8 1m in cash (including fees incurred) Put and call arrangements are in place over the residual shareholdings in 7digital at valuations based on financial performance for the years ending 31 December 2011 to 31 December 2013 No amounts have been required to be reflected in the financial statements in respect of these options The Group's investment in 7digital Inc is as follows

	2010 £m
Cost of investment, satisfied by cash	**7.7**
Professional fees incurred	**0.4**
Share of results for the period	**(0.6)**
Investment accounted for using the equity method	**7.5**

Also included in additions for the year was a £1 0m increase in the investment in Mean Fiddler Group, a 50% joint venture with MAMA Group Plc, which operates live music and entertainment venues in the UK The Group had outstanding a £5 5m loan note granted by Mean Fiddler during the acquisition process in January 2009 On 13 November 2009, £4 5m of this loan note was repaid to the Group, with the balance converting to ordinary shares On 29 January 2010 the Group completed the acquisition of MAMA Group Plc (see Note 15), thereby also completing the 100% acquisition of Mean Fiddler Group As a result, the £16 6m carrying value of the investment, including £15 5m cost of investment and £1 1m share of joint venture profits since acquisition, was reflected in the assessment of the acquisition of the wider MAMA Group

The joint ventures listed on page 77, excluding 7digital Inc, were acquired as part of the MAMA Group transaction

The Group's share of the net assets and results of joint ventures is as follows

	2010 £m	2009 £m
Non-current assets	**1.8**	10 0
Current assets	**2.3**	2 6
Current liabilities	**(1.7)**	(8 5)
Share of net assets	**2.4**	4 1
Revenue	**9.7**	2 4
Cost of sales	**(4.9)**	(1 1)
Administrative expenses	**(4.1)**	(1 0)
Finance costs	**(0.1)**	–
Profit before taxation	**0 6**	0.3
Taxation	**(0.3)**	(0 1)
Profit for the period	**0.3**	0 2

17. Investments in subsidiaries, joint ventures and associates continued

Associates

The Group had the following interests in associates at the balance sheet date, all of which were acquired on 29 January 2010 as part of the MAMA Group transaction (see Note 15)

Name of undertaking	Year end date	Proportion of voting rights and shares held	Country of incorporation	Nature of business
Lovebox Entertainment Limited	31 December	38 49%	England and Wales	Festivals
Metal Box Recordings Limited[1]	31 July	33%	England and Wales	Music production and recording
Nettwerk Records LLC	30 June	20%	State of Delaware, USA	Recording
Nettwerk Management Company Ltd	30 June	20%	Canada	Artist management
Nettwerk Management (USA) LLC	30 June	20%	California, USA	Artist management
Nettwerk Management UK Limited	30 June	20%	England and Wales	Artist management
Nettwerk Productions Partnership	30 September	20%	Canada	Recording
Nettwerk Productions UK Limited	30 September	20%	England and Wales	Recording
You Are Here LLP	31 July	25%	England and Wales	Artist management

The Group's share of the net assets and results of associates is as follows

	2010 £m	2009 £m
Non-current assets	**0.1**	–
Current assets	**2.2**	–
Current liabilities	**(2.5)**	–
Share of net assets	**(0.2)**	–
Revenue	**0 6**	–
Loss for the period	**–**	–

17. Investments in subsidiaries, joint ventures and associates continued

Company	Investment in subsidiaries £m	Investment in joint ventures £m	Total £m
Cost at 26 April 2008	794 6	–	794 6
Acquisition including professional fees	–	14 5	14 5
Capital contribution to subsidiaries for share-based payments (see Note 28)	1 4	–	1 4
Cost at 25 April 2009	796 0	14 5	810 5
Acquisition including professional fees	47 0	1 0	48 0
Transfer to subsidiary investment upon full acquisition	15 5	(15 5)	–
Capital contribution to subsidiaries for share-based payments (see Note 28)	(1 0)	–	(1 0)
Cost at 24 April 2010	**857.5**	**–**	**857.5**
Provision at 26 April 2008 and 25 April 2009	136 9	–	136 9
Impairment charge	25 0	–	25 0
Provision at 24 April 2010	**161 9**	**–**	**161.9**
Net book value at 24 April 2010	**695.6**	**–**	**695.6**
Net book value at 25 April 2009	659 1	14 5	673 6
Net book value at 26 April 2008	657 7	–	657 7

An impairment charge of £25 0m was made during the year against the carrying value of the Company's investment in Waterstone's, following a review based on current market trading conditions The recoverable amount of the investment was determined from a value in use calculation incorporating five-year cash flow projections extrapolated at a 1% growth rate and discounted using a pre-tax rate of 10% The cash flows reflect management's best estimates of revenue, margin and operating costs over the forecast period

Details of the Group's investments in joint ventures and associates are listed on pages 77 and 79 The following information relates to those further investments whose results, or financial position, in the opinion of the Directors, principally affect the figures of the Group as at 24 April 2010 All undertakings listed below are included in the consolidation

Name of undertaking	Year end date	Proportion of voting rights and shares held	Country of incorporation	Nature of business
Subsidiaries				
Angel Music Group Limited[1]	31 July	85%	England and Wales	Holding company
Angel Entertainment Limited[1]	31 July	85%	England and Wales	Sponsorship
Fopp Entertainments Limited[1]	24 April	100%	England and Wales	Retailing
Forum Club (Kentish Town) Limited[1]	31 July	100%	England and Wales	Live venue
G-A-Y Group Limited[1]	31 July	66 25%	England and Wales	Live venues
Hammersmith Apollo Limited[1]	31 July	100%	England and Wales	Live venue
Heaven (London) Limited[1]	31 July	66 26%	England and Wales	Live venue
HMV Canada Inc	24 April	100%	Canada	Retailing
HMV Guernsey Limited	24 April	100%	Guernsey	Retailing
HMV Hong Kong Limited	24 April	100%	Hong Kong	Retailing
HMV (IP) Limited	24 April	100%	England and Wales	Trademarks
HMV Ireland Limited[1]	24 April	100%	Ireland	Retailing
HMV Music Limited	24 April	100%	England and Wales	Retailing
HMV Singapore Pte Limited	24 April	100%	Singapore	Retailing
HMV UK Limited[1]	24 April	100%	England and Wales	Retailing
Lovebox Festivals Limited[1]	31 July	60%	England and Wales	Festivals

17. Investments in subsidiaries, joint ventures and associates continued

Name of undertaking	Year end date	Proportion of voting rights and shares held	Country of incorporation	Nature of business
MAMA Festivals Limited[1]	31 July	100%	England and Wales	Festivals
MAMA Group Plc	31 July	100%	England and Wales	Holding company
Mean Fiddler Aberdeen Limited[1]	31 July	100%	England and Wales	Live venue
Mean Fiddler Group Limited[1]	31 July	100%	England and Wales	Holding company
Mean Fiddler Holdings Limited[1]	31 July	100%	England and Wales	Live music venues
MF Presents Limited[1]	31 July	100%	England and Wales	Promoter
Supervision CC LLP1	28 February	83.3%	England and Wales	Artist management
Supervision Management Group Limited1	31 July	100%	England and Wales	Artist management
Supervision Sandom LLP1	31 July	85%	England and Wales	Artist management
Waterstone's Booksellers Amsterdam BV	24 April	100%	Netherlands	Retailing
Waterstone's Booksellers Belgium SA	24 April	100%	Belgium	Retailing
Waterstone's Booksellers Ireland Limited1	24 April	100%	Ireland	Retailing
Waterstone's Booksellers Limited	24 April	100%	England and Wales	Retailing

1 Not directly held by the Company

18. Trade and other receivables

	Group 2010 £m	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Non-current				
Lease premiums paid	**11.9**	–	–	–
Other receivables	**0.8**	12	–	–
	12.7	1.2	–	–
Current				
Trade receivables	**13.2**	99	–	–
Amounts owed by subsidiary undertakings	–	–	**27.7**	690
Amounts owed by joint venture	–	55	–	55
Other receivables	**16.9**	101	–	–
Prepayments and accrued income	**50.6**	461	**0.6**	09
	80.7	716	**28.3**	754

The carrying value of trade and other receivables approximates to fair value The terms and conditions of amounts owed by subsidiary undertakings are given in Note 35

Notes to the financial statements continued

18. Trade and other receivables continued
Trade receivables are denominated in the following currencies

	Group 2010 £m	Group 2009 £m
Sterling	**12.7**	94
Euro	**0.2**	03
Canadian dollar	**0.3**	01
Singapore dollar	**–**	01
	13.2	99

The Group's credit risk is limited due to the nature of its retailing business. As at 24 April 2010 £08m of Group trade receivables was overdue (2009 £0 7m), of which £04m (2009 £0 6m) was provided for See Note 25 for further discussion of credit risk. Trade and other receivables are non-interest bearing and are generally on 30 day terms

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. Cash and short-term deposits

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash at bank and in hand	**27.8**	52.1	**48 9**	158
Short-term deposits	**1.9**	06	**–**	–
	29.7	527	**48.9**	158

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 through the year with counter parties that have a strong credit rating, with an agreed limit for each counterparty, so as to limit the risk of loss arising from a failure Counterparties include AAA-rated liquidity funds, as well as banks

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash at bank and in hand	**27.8**	52 1	**48.9**	158
Short-term deposits	**1.9**	06	**–**	–
Bank overdrafts	**(2.4)**	(7 2)	**(6.9)**	(30 0)
	27.3	455	**42.0**	(14 2)

21. Trade and other payables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current				
Trade payables	**255.1**	235 7	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**0.7**	0.2
Other payables	**103.3**	91 9	**4.0**	6 1
Accruals and deferred income	**83.4**	87 9	**3 1**	2.3
Amounts owed to joint ventures and associates	**0.6**	–	**–**	–
	442.4	415 5	**7.8**	8 6

The carrying value of trade and other payables approximates to fair value Trade payables are not interest-bearing and are generally settled on 30–60 day terms Other payables and accruals are not interest-bearing The terms and conditions of amounts owed to subsidiary undertakings are given in Note 35 In previous years, amounts owed to subsidiary undertakings by the Company included interest-bearing loans These have been reclassified to interest bearing loans and borrowings (see Note 22)

22. Interest-bearing loans and borrowings

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Non-current				
Finance leases	**4.1**	5 0	**–**	–
Bank loans	**7.7**	–	**–**	–
	11.8	5 0	**–**	–
Current				
Finance leases	**1.0**	1 0	**–**	–
Current borrowings	**81.1**	45 1	**80.3**	45 1
Bank overdrafts	**2.4**	7.2	**6.9**	30 0
	84.5	53 3	**87.2**	75 1
Total external loans and borrowings	**96.3**	58 3	**87.2**	75 1
Loans from subsidiary undertakings	**–**	–	**140 3**	192 4
Total loans and borrowings	**96.3**	58 3	**227.5**	267 5

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 25), repayments due on the Group's five year term loan and the short-term element of finance leases Bank overdrafts are repayable on demand Non-current bank loans consists of repayments due on the Group's five year term loan in more than one year The maturity of non-current finance leases is shown in Note 25 The terms and conditions of loans from subsidiary undertakings are shown in Note 35

Notes to the financial statements continued

22. Interest-bearing loans and borrowings continued
Interest-bearing loans and borrowings analysed by currency are as follows

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Sterling – revolving credit facility	**80.3**	45 1	**80.3**	45 1
– term loan	**8.5**	–	–	–
– overdraft	–	6 6	**6.9**	30 0
– finance leases	**5.1**	6 0	–	–
Canadian Dollars – overdraft	**2.4**	0 6	–	–
External loans and borrowings	**96.3**	58 3	**87.2**	75 1
Sterling – loans from subsidiary undertakings	–	–	**140.3**	154 1
Euro – loans from subsidiary undertakings	–	–	–	38 3
Total loans and borrowings	**96.3**	58 3	**227.5**	267 5

All loans and borrowings of the Group and Company as at 24 April 2010 and 25 April 2009 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 Terms and conditions of loans from subsidiary undertakings are given in Note 35

Details of security granted under the Facility Agreement are given in Note 25

23. Provisions

Group	Total £m
At 25 April 2009	
Current	4 6
Non-current	0 2
	4 8
Provisions utilised	(3 5)
Charged during the year	1 6
Acquisition of subsidiary	1.2
At 24 April 2010	**4.1**
Analysed as	
Current	**3.0**
Non-current	**1.1**
	4.1

Provisions consist of amounts in respect of store closures, restructuring and onerous leases 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 £1 6m provision created in the year was in respect of restructuring costs in Waterstone's The £1 2m provision acquired as part of the MAMA Group acquisition relates to an onerous property lease which expires in April 2026

The Company did not have any provisions at either 24 April 2010 or 25 April 2009

24. 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 qualify for hedge accounting The fair value of cash flow hedges in place at 24 April 2010 is £0 1m asset (2009 £0 1m asset), 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 during the period, except that detailed below Interest rate exposures continue to be monitored in accordance with the Group's treasury policies

On acquisition of MAMA Group Plc, the Group acquired a callable interest rate swap, which had been entered into by MAMA as a hedge against interest payments The carrying value and the fair value of this financial instrument was a £0 8m liability at acquisition and at 24 April 2010 The hedge is deemed to be ineffective and therefore future changes to the carrying value will be charged or credited to the income statement

Fair values

Derivative financial instruments recognised on the balance sheet are considered to be level two of the fair value hierarchy Valuation of these instruments involves the use of a model with inputs that are directly or indirectly observable market data 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

	24 April 2010		25 April 2009	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and short-term deposits	**29.7**	**29.7**	52 7	52 7
Foreign exchange forward contracts	**0.1**	**0.1**	0 1	0 1
Financial liabilities				
Long-term borrowings	**(7.7)**	**(7 7)**	–	–
Short-term borrowings	**(81.1)**	**(81.1)**	(45 1)	(46 0)
Interest rate swap	**(0.8)**	**(0.8)**	–	–
Bank overdrafts	**(2.4)**	**(2.4)**	(7 2)	(7 2)
Finance leases	**(5.1)**	**(5.1)**	(6 0)	(6 0)

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

	24 April 2010		25 April 2009	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and short-term deposits	**48.9**	**48.9**	15 8	15 8
Foreign exchange forward contracts	**0.1**	**0.1**	0 1	0 1
Financial liabilities				
Short-term borrowings	**(80.3)**	**(80.3)**	(45 1)	(46 0)
Foreign exchange forward contracts	**–**	**–**	(0 1)	(0 1)
Bank overdrafts	**(6.9)**	**(6.9)**	(30 0)	(30 0)

Notes to the financial statements continued

24 Derivatives and financial instruments continued
The fair value of cash and short-term deposits and overdrafts is based on the carrying amount as a result of their short maturity The fair value of borrowings is based on the carrying amount, adjusted for unamortised deferred financing fees, as a result of their short maturity The fair value of finance lease obligations represents the present value of minimum lease payments (Note 34)

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 The fair value of foreign exchange forward contracts is determined using foreign exchange spot rates prevailing at the balance sheet date

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 2010 £m	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Commercial activities				
Euro	**4.3**	4 6	**4.3**	4 6
US Dollar	**1.8**	1.3	**1.8**	1 3
	6.1	5 9	**6.1**	5 9

25. Financial risk factors
The Company's and 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 Company's and Group's strategy for managing liquidity risk is to ensure that the Company and Group have sufficient funds and facilities available to satisfy their current requirements. Liquidity forecasts are prepared on a regular basis to ensure the optimal use of facilities and although covenant compliance is tested every six months, forecast compliance is reviewed on a monthly basis Longer term projections are also made to assess strategic funding requirements

The Company has a £240m multi-currency revolving credit facility, with a final maturity date of 9 October 2011 The facility amortised by £20m on 20 November 2009 but was subsequently extended by £40m on 1 March 2010 following the acquisition of MAMA Group Plc. The facility extension amortises on 1 January 2011 The Group also has a five year term loan in Mean Fiddler Group Ltd, a wholly owned subsidiary acquired with MAMA Group Plc, repayable by £0 2m quarterly, with an outstanding balance at 24 April 2010 of £8 8m and a final maturity of 13 November 2014 The Group also has some locally arranged bank facilities, which do not have a fixed maturity date but are reviewed annually

	Total available at	
	24 April 2010 £m	25 April 2009 £m
Multi-currency revolving credit facility	**240.0**	220 0
Term loan	**8.8**	–
Other local facilities	**5.6**	5.2
Total	**254.4**	225 2

Fees totalling £1 3m (including £0 2m paid during the current year) incurred in arranging the revolving credit facility have been deferred and are being amortised over the three year term of the facility to October 2011 Fees totalling £0 3m incurred in arranging the Mean Fiddler Group term loan were deferred and are being amortised over the five year term of the facility to November 2014

Interest is payable on the revolving credit facility at a rate equal to LIBOR plus a margin of 2 50% and on the term loan at a rate equal to LIBOR plus a margin of 4 25%.

25. Financial risk factors continued

Of the £240 0m (2009 £220 0m) revolving credit facility, £81 0m (2009 £46 0m) had been drawndown at 24 April 2010
Analysis of the availability of undrawn committed facilities available to the Group is shown below·

	2010 £m	2009 £m
Expiring within one year	**21.5**	20 7
Expiring in more than one year but not more than two years	**139.0**	20 0
Expiring between two and five years	–	134 0
Total	**160.5**	174 7

Analysis of the maturity profile of the Group's financial liabilities at 24 April 2010 is shown below

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Bank overdrafts	2 4	–	–	–	–	2 4
Current borrowings	–	80 6	0 9	–	–	81 5
Finance lease	–	0.2	0 9	2.7	1 7	5 5
Trade and other payables	–	442 4	–	–	–	442 4
Long-term borrowings	–	–	–	8 9	–	8 9
At 24 April 2010	**2.4**	**523.2**	**1.8**	**11.6**	**1.7**	**540.7**
Bank overdrafts	7 2	–	–	–	–	7 2
Current borrowings	–	45 1	–	–	–	45 1
Finance lease	–	–	1 0	3 1	1 9	6 0
Trade and other payables	–	415 5	–	–	–	415 5
At 25 April 2009	7 2	460 6	1 0	3 1	1 9	473 8

Analysis of the maturity profile of the Company's financial liabilities at 24 April 2010 is shown below

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
Bank overdrafts	6 9	–	–	–	–	6 9
Current borrowings	–	80 3	142.3	–	–	222.6
Finance lease	–	–	–	–	–	–
Trade and other payables	–	7 8	–	–	–	7 8
At 24 April 2010	**6.9**	**88.1**	**142.3**	**–**	**–**	**237.3**
Bank overdrafts	30 0	–	–	–	–	30 0
Current borrowings	–	45 1	194 2	–	–	239 3
Finance lease	–	–	–	–	–	–
Trade and other payables	–	8 6	–	–	–	8 6
At 25 April 2009	30 0	53 7	194 2	–	–	277 9

25. 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

The Mean Fiddler term loan is secured on the assets of the Mean Fiddler Group of companies, which include freehold and long leasehold music and entertainment venues

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 Company and Group are exposed to interest rate risk from their borrowings and cash deposits However, without core longer term borrowings (as is currently the position) the strong seasonality to their 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 counterparties that have a strong credit rating, with an agreed limit for each counterparty, so as to limit the risk of loss arising from a failure Counterparties include banks forming the Group's syndicated banking facility

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

The Company does not have any trade receivables

Foreign exchange risk

The Company and Group are exposed to foreign exchange risk from their 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 24

The Group is also exposed to foreign currency translation risk through its investment in overseas subsidiaries, which is partially offset by foreign currency translation risk in 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' funds

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' equity by approximately £0 8m (2009 £0 1m) The impact on the Company would have been £2.4m (2009 £0 6m)

Foreign exchange rate sensitivity

The Group has a number of cash flow hedges in place, as shown in Note 24 A 10% change in the value of hedged currencies against Sterling would affect the Group's profit before tax and shareholders' equity by £0 5m (2009 £0 5m)

There would not have been any impact on the Company

26. Additional cash flow information
Movements in the Group's net debt position are as follows

	At 25 April 2009 £m	Cash flow £m	Net debt acquired £m	Other non-cash changes[1] £m	Exchange movements £m	**At 24 April 2010 £m**
Cash and short-term deposits	52.7	(30 8)	7.8	–	–	**29.7**
Bank overdrafts	(7 2)	5 0	–	–	(0 2)	**(2.4)**
Cash and cash equivalents	45 5	(25 8)	7 8	–	(0 2)	**27.3**
Loans and borrowings – non-current	(5 0)	0 9	(8 0)	0 3	–	**(11.8)**
Loans and borrowings – current	(46 1)	(34 8)	(0 8)	(0 4)	–	**(82.1)**
Total loans and borrowings	(51 1)	(33 9)	(8 8)	(0 1)	–	**(93.9)**
Net debt	(5 6)	(59 7)	(1 0)	(0 1)	(0 2)	**(66.6)**

	At 26 April 2008 £m	Cash flow £m	Other non-cash changes[1] £m	Exchange movements £m	At 25 April 2009 £m
Cash and short-term deposits	35 5	8 0	–	9 2	52 7
Bank overdrafts	–	(7 2)	–	–	(7.2)
Cash and cash equivalents	35 5	0 8	–	9 2	45 5
Loans and borrowings – non-current	(0 5)	–	(4 5)	–	(5 0)
Loans and borrowings – current	(35 0)	(9 1)	(2.0)	–	(46 1)
Total loans and borrowings	(35 5)	(9 1)	(6 5)	–	(51 1)
Net debt	–	(8 3)	(6 5)	9 2	(5 6)

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

Notes to the financial statements continued

26. Additional cash flow information continued

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

	At 25 April 2009 £m	Cash flow £m	Other non-cash changes[1] £m	Exchange movements £m	**At 24 April 2010 £m**
Cash and short-term deposits	15 8	33 1	–	–	**48.9**
Bank overdrafts	(30 0)	23 1	–	–	**(6.9)**
Cash and cash equivalents	(14 2)	56.2	–	–	**42.0**
Loans and borrowings – non-current	–	–	–	–	**–**
Loans and borrowings – current	(45 1)	(34 8)	(0 4)	–	**(80.3)**
Total loans and borrowings	(45 1)	(34 8)	(0 4)	–	**(80.3)**
Net debt	(59.3)	21 4	(0 4)	–	**(38.3)**

	At 26 April 2008 £m	Cash flow £m	Other non-cash changes[1] £m	Exchange movements £m	At 25 April 2009 £m
Cash and short-term deposits	4 1	11 7	–	–	15 8
Bank overdrafts	(88 9)	58 9	–	–	(30 0)
Cash and cash equivalents	(84 8)	70 6	–	–	(14 2)
Loans and borrowings – non-current	–	–	–	–	–
Loans and borrowings – current	(34 8)	(9 9)	(0 4)	–	(45 1)
Total loans and borrowings	(34 8)	(9 9)	(0 4)	–	(45 1)
Net debt	(119 6)	60 7	(0 4)	–	(59 3)

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

27. Share capital

Group and Company	Number	£m
Allotted, called up and fully paid Ordinary Shares of 1p each		
At 26 April 2008	403,370,494	4 0
Issue of new shares for cash	20,168,524	0.2
Issued on exercise of share options	48,039	–
At 25 April 2009 and 24 April 2010	**423,587,057**	**4.2**

No new shares were issued in the Company during the period In the prior year, 48,039 Ordinary Shares were issued in the Company to satisfy options exercised under the Company's share option schemes, for which no consideration was received and 20,168,524 Ordinary Shares were issued in the Company via a Placing Agreement for cash consideration, net of issue costs, of £24 0m

27. Share capital continued
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

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 business and deliver improving returns for its shareholders The management of the Group's capital is performed by the Board of Directors, taking into account economic conditions and strategic requirements. The Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares No changes were made to dividend policy, which is currently to declare two payments each year, one at the Half Year of approximately 25% of the total expected dividend and the second at the Full Year There are no externally imposed capital requirements

28. 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. 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 were 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 24 April 2010 was £nil (2009 £nil) There were no grants of share options during the period under review or the prior period

The movements in the number of share options during the year are detailed in the table below The options outstanding at 24 April 2010 had a weighted average exercise price of 167p (2009 167p) and a weighted average remaining contractual life of 2 1 years (2009 3 1 years) The weighted average share price at the date of exercise for share options exercised during the prior period was 131p

Group	**2010 Options Number**	**2010 Weighted average exercise price Pence**	2009 Options Number	2009 Weighted average exercise price Pence
Outstanding at beginning of period	**1,639,581**	**167**	5,221,834	203
Exercised during the period	**–**	**–**	(48,039)	19
Lapsed during the period	**(110,223)**	**167**	(3,534,214)	223
Outstanding at end of the period[1]	**1,529,358**	**167**	1,639,581	167
Exercisable at end of the period	**1,529,358**	**167**	1,639,581	167

1 Included within this balance are options over 1 529 358 (2009 1,639,581) 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	**2010 Options outstanding Number**	**2010 Weighted average remaining contractual life Years**	2009 Options outstanding Number	2009 Weighted average remaining contractual life Years
2002 Executive Share Option Scheme				
Exercise price 167p	**1,529,358**	**2.1**	1,639,581	3 1

28. Share-based payments continued

Company	2010 Options Number	2010 Weighted average exercise price Pence	2009 Options Number	2009 Weighted average exercise price Pence
Outstanding at beginning of period	**601,555**	**167**	1,285,754	207
Lapsed during the period	**(94,236)**	**167**	(684,199)	242
Outstanding at end of the period[1]	**507,319**	**167**	601,555	167
Exercisable at end of the period	**507,319**	**167**	601,555	167

1 Included within this balance are options over 507,319 (2009 601,555) 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

Company	2010 Options outstanding Number	2010 Weighted average remaining contractual life Years	2009 Options outstanding Number	2009 Weighted average remaining contractual life Years
2002 Executive Share Option Scheme				
Exercise price 167p	**507,319**	**2.1**	601,555	3 1

Equity-settled deferred annual bonus

As part of the HMV Group plc Incentive Plan for Senior Executives, as discussed more fully in the Directors' Remuneration Report on page 31, the Company makes deferred awards to certain Directors and senior management. These awards are made in shares and the number of shares awarded, together with the fair value of the award, 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 performance of the individual

The charge in respect of deferred awards during the period ended 24 April 2010 was £0 5m (2009 £0 4m)

The number and weighted average fair values of, and movements in, deferred share awards during the year are as follows

Group	2010 Share awards Number	2010 Weighted average fair value Pence	2009 Share awards Number	2009 Weighted average fair value Pence
Outstanding at beginning of period	**1,137,480**	**120**	532,692	203
Granted during the period	**269,847**	**115**	910,579	108
Vested during the period	**(204,982)**	**129**	(133,593)	242
Forfeited during the period	**-**	**-**	(28,294)	108
Lapsed during the period	**(156,177)**	**165**	(143,904)	242
Outstanding at end of the period	**1,046,168**	**110**	1,137,480	120

28. Share-based payments continued

Company	2010 Share awards Number	2010 Weighted average fair value Pence	2009 Share awards Number	2009 Weighted average fair value Pence
Outstanding at beginning of period	**426,795**	**120**	177,200	226
Granted during the period	**123,678**	**115**	389,336	108
Vested during the period	**(28,094)**	**165**	(46,796)	242
Lapsed during the period	**(9,365)**	**165**	(92,945)	242
Outstanding at end of the period	**513,014**	**110**	426,795	120

Of the outstanding balance, the assessment of performance conditions at 24 April 2010 will result in nil (2009 156,177) share awards lapsing after the period end (Company nil, 2009 9,365), whilst 21,986 (2009 77,032) share awards will vest (Company nil, 2009 28,094) The vesting awards will be settled by shares held in an Employee Benefit Trust (see Note 30) and will be transferred to employees in July 2010

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. For awards up to and including grants made during the year ended 25 April 2009, vesting conditions were non-market related, primarily being Group earnings per share targets For the award granted during the year ended 24 April 2010, the vesting condition is market related, being relative total shareholder return The credit in respect of the PSP during the year ended 24 April 2010 was £2 0m (2009 charge of £1 3m) A credit has arisen as management have revised their estimate of the achievability of performance conditions relating to awards vesting in future periods

The number and weighted average fair values of, and movements in, PSP awards during the year are as follows

Group	2010 Share awards Number	2010 Weighted average fair value Pence	2009 Share awards Number	2009 Weighted average fair value Pence
Outstanding at beginning of period	**14,843,056**	**125**	11,362,008	131
Granted during the period	**1,348,599**	**113**	4,166,712	108
Vested during the period	**(1,452,083)**	**162**	(20,214)	162
Lapsed during the period	**(3,426,789)**	**143**	(665,450)	130
Outstanding at end of the period	**11,312,783**	**113**	14,843,056	125

Company	2010 Share awards Number	2010 Weighted average fair value Pence	2009 Share awards Number	2009 Weighted average fair value Pence
Outstanding at beginning of period	**6,282,022**	**122**	4,836,783	127
Granted during the period	**863,430**	**113**	1,628,946	108
Vested during the period	**(61,056)**	**162**	–	–
Transfer from other Group companies	**43,520**	**125**	17,063	162
Lapsed during the period	**(1,126,421)**	**162**	(200,770)	130
Outstanding at end of the period	**6,001,495**	**113**	6,282,022	122

Notes to the financial statements continued

28. Share-based payments continued
The fair value of the PSP grants during the current and prior financial years were based on the following assumptions

Award date	Number of shares granted	Fair value Pence	Price at grant date Pence	Expected term Years	Expected dividend yield %	Expected volatility %	Risk free rate %	Vesting condition
8 Jul 2008	4,166,712	90	108	3	n/a	n/a	n/a	Non-market[1]
14 Sep 2009	1,348,599	31	115	3	58	465	192	Market[2]

1 Earnings per share
2 Total shareholder return

Matching award to Simon Fox
In addition to the above, on 18 February 2010, the Company granted an option over 2,164,095 shares with a £nil exercise price to Simon Fox. The share price on the date of the award was 74p This award will vest in three years, subject to the achievement of a range of performance objectives over a three year period, Mr Fox remaining employed by the Group over that period and the retention of his current shareholding of 432,819 shares The fair value of this grant is based on the following assumptions

Award date	Number of shares granted	Fair value Pence	Price at grant date Pence	Expected term Years	Expected dividend yield %	Expected volatility %	Risk free rate %	Vesting condition
18 Feb 2010	1,442,730	55	74	3	n/a	n/a	n/a	Non-market[1]
18 Feb 2010	721,365	39	74	3	61	42.2	155	Market[2]

1 Earnings per share and strategic performance objectives
2 Total shareholder return

Share Incentive Plan
The HMV Group plc Share Incentive Plan (the 'SIP') provided share-based incentives to eligible employees until closing to further participation during April 2010 Under the SIP, employees could 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 could invite UK employees to purchase Ordinary Shares, known as Partnership Shares, and thirdly, the Company could, if it wished, agree to match the shares purchased with additional shares, known as Matching Shares As at 24 April 2010 the number of shares held in Trust in respect of the SIP was 3,790,074 (2009 3,442,723)
See Note 30 for further details
The charge in respect of the SIP during the year ended 24 April 2010 was £0 4m (2009 £0 4m)

29. Reserves
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 25 April 2010, equity share capital included share premium of £342 9m (2009 £342 9m)

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 30

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

29. Reserves continued
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

Goodwill
The cumulative amount of goodwill eliminated against retained earnings at 24 April 2010 is £645 5m (2009 £645 5m)

Company
The Company has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 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 £82.0m (2009 £51 6m)

30. Other reserve – own shares

Group and Company	Number of shares	Cost £m
Ordinary Shares		
Balance at 26 April 2008	1,026,572	2.0
Shares vested	(153,807)	(0.3)
Shares purchased	900,000	1 0
Balance at 25 April 2009	1,772,765	2.7
Shares vested	(1,657,065)	(2 4)
Shares transferred from Overseas Trust	77,956	–
Shares purchased	250,000	0 3
Balance at 24 April 2010	**443,656**	**0.6**

The own shares deducted from shareholders' equity represent the Company's shares held by an Employee Benefit Trust ('the Trust') At 24 April 2010, the Trust held 443,656 (2009 1,772,765) shares with a nominal value of £4,437 (2009 £17,728) and a market value of £0 4m (2009 £2 6m) This shareholding represented 0 1% (2009 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 24 April 2010 amounted to £0 5m (2009 £2 4m)

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 28) During the period, 1,657,065 shares were released to employees to satisfy the vesting of awards It is expected that a further 21,986 shares will vest and be transferred to employees in July 2010

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 Directors' Remuneration Report on page 37 and in Note 28 At 24 April 2010, the UK Trust held 3,790,074 shares (2009 3,442,723) with a nominal value of £37,900 (2009 £34,427) The Overseas Trust was closed during the year and its shareholding was transferred into the Employee Benefit Trust as detailed above The shares within the UK Trust are not held as own shares by the Group or the Company as neither has de facto control over the shares

31. 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 25

32. 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

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 2007 and was based on an assumed investment return of 5 0% to 6 75% a year, salary increases of 3 0% a year, and annual pension increases of 2 5% to 3 0%, and used the projected unit method The result of the valuation was a level of asset cover of 94%, representing a funding deficit of £5 1m, which is being funded by three special contributions of £2 17m on 31 October 2009, 1 May 2009 and 1 May 2010 The valuation reflected a number of changes to the Scheme effective from 1 November 2008, as follows

- future increases to pensionable salaries are capped at the lower of RPI and 5% pa,
- pension increases in respect of service from 1 November 2008 are capped at the lower of RPI and 2.5% pa,
- regular funding rates increased to 21 2% of pensionable pay from 19 9% previously The increased regular funding is being met through higher member contributions, with the previous rate of 5 0% of pensionable pay increasing from 1 November 2008 to 6 5% for non-executive members and 10 0% for executive members, with the Group's contribution rate moving from 14 9% of pensionable pay to 14 7% for non-executive members and 22 5% for executive members,
- the Company has agreed to settle directly the administrative costs of the Scheme

The curtailment of the Scheme due to the cap on pensionable salary, resulted in a £5 6m past service cost credit which was recognised in the income statement for the year ended 25 April 2009 as an exceptional item (see Note 7) The next actuarial review will take place no later than 30 June 2010

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 24 April 2010 were £2.2m (2009 £2 5m) excluding the special contribution noted above of £2 17m In addition, a special contribution of £0 4m was made to the Group's Pension Benefit Section in Ireland Employer contributions to the defined benefit plans for the financial year commencing on 25 April 2010 are expected to be £2 2m, in addition to the final special contribution of £2 17m noted above and a further special contribution to the Irish scheme of Euro 0 4m

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 24 April 2010 were £0 8m (2009 £1 1m) In addition, employer contributions to similar pension arrangements in HMV's international businesses totalled £0 5m (2009 £0 6m)

32. Pension arrangements continued

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, Towers Watson, 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

	As at 24 April 2010 % per annum	As at 25 April 2009 % per annum
Rate of price inflation	**3.7**	36
Rate of salary increase	**3.7**	36
Rate of increase for pensions in payment	**3.5**	34
Rate used to discount scheme liabilities	**5.5**	65
Expected rate of return on equities	**8.2**	8.2
Expected rate of return on bonds	**5.1**	6.2
Expected rate of return on index-linked bonds	**4.4**	46

The expected rate of return on Scheme assets are based on external historical and forecast market information

The post-retirement mortality assumptions used as at both 24 April 2010 and 25 April 2009 are in line with the 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 These bases imply the following life expectancies

Life expectancy (years)	**2010 At age 65 for someone currently aged 65**	**2010 At age 65 for someone currently aged 50**	2009 At age 65 for someone currently aged 65	2009 At age 65 for someone currently aged 50
Male	**21.5**	**23.0**	214	229
Female	**23.9**	**25.4**	238	25.3

Other non-financial assumptions are also consistent with those used in the actuarial valuation of the Scheme as at 30 June 2007

Notes to the financial statements continued

32. Pension arrangements continued

Group

On the basis of the above assumptions, the amounts charged or credited to the consolidated income statement and other comprehensive income for the period ended 24 April 2010 are set out below

	2010 £m	2009 £m
Recognised in the income statement		
Current service cost	**(2.4)**	(3 4)
Past service credit	–	5 6
Total recognised in arriving at operating profit	**(2.4)**	2 2
Finance charge		
Interest on pension scheme liabilities	**(6.5)**	(6 3)
Expected rate of return on assets in the pension scheme	**5.5**	5 8
Net charge to other finance expense	**(1.0)**	(0 5)
Total income statement (charge) credit before deduction for taxation	**(3.4)**	1 7
Taken to other comprehensive income		
Actual return on scheme assets	**22.2**	(12 2)
Less expected return on scheme assets	**(5.5)**	(5 8)
	16.7	(18 0)
Other actuarial gains and losses	**(36.0)**	7 0
Actuarial loss recognised in other comprehensive income	**(19.3)**	(11 0)

The assets and liabilities of the Scheme at the end of the period were

	As at 24 April 2010 £m	As at 25 April 2009 £m
Equities	**53.1**	39 7
Bonds	**25.4**	19 4
Index-linked bonds	**25.0**	18 8
Other	**0.9**	1 1
Total market value of assets	**104.4**	79 0
Actuarial value of scheme liabilities	**(143.4)**	(100 0)
Deficit in the Scheme	**(39.0)**	(21 0)
Deferred tax	**10.9**	5 8
Net pension liability	**(28.1)**	(15 2)

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

32. Pension arrangements continued

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

	2010 £m	2009 £m
Total market value of assets at the beginning of the period	**79.0**	86 3
Employer contributions	**4.8**	4 6
Employee contributions	**1.0**	0 9
Benefits paid	**(2.5)**	(1 1)
Expected return on plan assets	**5.5**	5 8
Actuarial gain (loss)	**16.7**	(18 0)
Foreign exchange (loss) gain	**(0.1)**	0 5
Total market value of assets at the end of the period	**104.4**	79 0

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

	2010 £m	2009 £m
Defined benefit pension obligations at the beginning of the period	**(100.0)**	(102.6)
Current service cost	**(2.4)**	(3 4)
Past service credit	**–**	5 6
Interest on pension scheme liabilities	**(6.5)**	(6 3)
Employee contributions	**(1 0)**	(0 9)
Benefits paid	**2.5**	1 1
Actuarial (loss) gain	**(36.0)**	7 0
Foreign exchange loss	**–**	(0 5)
Defined benefit pension obligations at the end of the period	**(143.4)**	(100 0)

History of experience gains and losses	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	**104.4**	79 0	86 3	86 9	75 5
Present value of defined benefit obligation	**(143.4)**	(100 0)	(102.6)	(109 1)	(100 5)
Deficit in the Scheme	**(39 0)**	(21 0)	(16 3)	(22 2)	(25 0)
Experience adjustments arising on scheme liabilities	**0.2**	0 1	6 6	–	–
Other actuarial changes	**(36.2)**	6 9	6 5	1 3	(6 5)
Experience adjustments arising on scheme assets	**16.7**	(18 0)	(5 8)	(1 3)	8 7

The cumulative amount of actuarial gains and losses recognised since 25 April 2004 in other comprehensive income is £(35 9)m (2009 £(16 6)m) The Directors are unable to determine how much of the Scheme deficit of £17 4m, recognised on transition to IFRS and taken to other comprehensive income 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's other comprehensive income before 25 April 2004

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below

Assumption	**Change in assumption**	**Impact on defined benefit obligation**
Discount rate	Increase by 0 25%	Decrease by 7%
Price inflation	Increase by 0 25%	Increase by 7%
Pensionable salary increase	Increase by 0 25%	Increase by 1%
Post-retirement mortality	Life expectancy increase by one year	Increase by 3%

Notes to the financial statements continued

32. 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

	2010 £m	2009 £m
Deficit in scheme at the beginning of the period	**(20.7)**	(15 9)
Contributions paid	**4.3**	4 6
Current service cost	**(2.3)**	(3 4)
Past service credit	–	5 6
Net charge to other finance expense	**(1.0)**	(0 5)
Actuarial loss	**(19.3)**	(11 1)
Deficit in scheme at the end of the period	**(39.0)**	(20 7)
Deferred tax	**10.9**	5 8
Net pension liability	**(28.1)**	(14 9)

History of experience gains and losses	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	**100 6**	76 4	83 2	84 1	73 0
Present value of defined benefit obligation	**(139.6)**	(97 1)	(99 1)	(106 1)	(97 8)
Deficit in the Scheme	**(39.0)**	(20 7)	(15 9)	(22 0)	(24 8)
Experience adjustments arising on scheme liabilities	**0.2**	–	6 9	–	–
Other actuarial changes	**(35.6)**	5 6	5 8	1 3	(6 7)
Experience adjustments arising on scheme assets	**16.1**	(16 7)	(5 2)	(1 3)	8 3

The cumulative amount of actuarial gains and losses recognised since 25 April 2004 in the Company's other comprehensive income is £(36 0)m (2009 £(16 7)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 other comprehensive income 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 's other comprehensive income before 25 April 2004

33. Capital commitments

Group	2010 £m	2009 £m
Capital expenditure contracted but not provided	–	0 8

The Company had no capital commitments contracted but not provided at either 24 April 2010 or 25 April 2009

34. 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 six years At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows

	Land and buildings		Other	
Group	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Not later than one year	**166.4**	1662	**0.5**	04
Between two and five years inclusive	**522.9**	5340	**0.7**	04
After five years	**469.2**	5294	–	–
	1,158.5	1,2296	**1.2**	08

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 24 April 2010 is £19 6m (2009 £19 3m)

	Land and buildings		Other	
Company	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Not later than one year	**0.2**	02	–	–
Between two and five years inclusive	**0.5**	07	–	–
After five years	–	–	–	–
	0.7	09	–	–

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

Group	**2010 £m**	2009 £m
Not later than one year	**1.1**	12
Between two and five years inclusive	**2.7**	38
After five years	**1.7**	25
	5.5	75
Less finance charges allocated to future periods	**(0.4)**	(1 5)
Present value of minimum lease payments	**5.1**	60

The present value of minimum lease payments is analysed as follows

	2010 £m	2009 £m
Not later than one year	**1.0**	10
Between two and five years inclusive	**2.7**	31
After five years	**1.4**	19
	5.1	60

The Company had no obligations under finance leases

35. Related party transactions

During the period the Group and 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

Group	Services received from related parties £m	Amounts owed by related parties £m	Amounts owed to related parties £m
With joint ventures			
2010	**0.5**	**–**	**0.9**
2009	–	5 5	–

The Group did not enter into any transactions with associates during the course of the year Provision has been made against £0 8m of advances to minority interests which are not expected to be recoverable

Company	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				
2010	**112.2**	**6.5**	**27.7**	**141 0**
2009	67 1	2 5	69 0	192 6
With joint ventures				
2010	**–**	**–**	**–**	**–**
2009	–	–	5 5	–

Included within the amounts owed by and to subsidiaries, £0 3m (2009 £0 4m) related to intercompany trading balances which are settled regularly with no interest charge and £4.2m (2009 £6 3m) relates to group taxation relief, which is settled annually with no interest charge The remaining net balance of £117 8m (2009 £130 3m) related to intercompany loans, which usually have a term of up to six months and on which interest is charged at the Bank of England base rate prevailing at the date of inception

During the prior 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$3 5m until 31 July 2010

On 13 November 2009 a loan note of £4 5m receivable from the joint venture, Mean Fiddler Group Limited (see Note 17) was repaid The remaining £1 0m outstanding was converted to ordinary shares

Remuneration of key management personnel

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Short-term employee benefits	**2.9**	1 9	**2.0**	0 9
Post-employment benefits	**0.2**	0.3	**0.2**	0.2
Share-based payments	**0.1**	–	**–**	–
Termination benefits	**0.2**	0.3	**–**	–
	3.4	2 5	**2.2**	1 1

Group financial record

Summarised Profit and Loss Account	**52 weeks ended 24 April 2010 £m**	52 weeks ended 25 April 2009 £m	52 weeks ended 26 April 2008 £m	52 weeks ended 28 April 2007 £m	52 weeks ended 29 April 2006 £m
Turnover					
HMV UK & Ireland	**1,241.9**	1,154.6	1,079.0	932.2	937.2
HMV International[1]	**253.0**	253.8	231.6	215.1	241.8
HMV Live	**8.1**	–	–	–	–
Waterstone's[2]	**513.6**	548.3	564.3	537.5	418.7
Total continuing operations	**2,016.6**	1,956.7	1,874.9	1,684.8	1,597.7
Discontinued operation[3]	**–**	–	61.2	209.7	228.2
Total HMV Group	**2,016.6**	1,956.7	1,936.1	1,894.5	1,825.9
Trading profit (loss) before exceptional items					
HMV UK & Ireland	**73.8**	53.7	41.4	24.3	60.6
HMV International[1]	**3.7**	6.4	8.5	13.4	14.8
HMV Live	**(0.2)**	–	–	–	–
Waterstone's[2]	**2.8**	10.0	16.3	16.3	20.9
Share of post-tax profits of associates and joint ventures	**0.3**	0.2	–	–	–
Total continuing operations	**80.4**	70.3	66.2	54.0	96.3
Discontinued operation[3]	**–**	–	0.1	3.3	6.3
Total HMV Group	**80.4**	70.3	66.3	57.3	102.6
Operating exceptional items	**(5.3)**	(1.7)	(4.6)	(24.7)	(18.0)
Net finance charges before exceptional items	**(6.2)**	(7.3)	(9.8)	(9.2)	(4.4)
Exceptional finance charges	**–**	–	–	(1.8)	–
Profit before tax	**68.9**	61.3	51.9	21.6	80.2
Tax	**(19.7)**	(17.1)	(14.7)	(5.5)	(24.0)
Profit after tax on disposal of discontinued operation	**–**	–	51.8	–	–
Profit for the financial period	**49.2**	44.2	89.0	16.1	56.2
Basic earnings per share	**11.6p**	10.8p	22.1p	4.0p	14.0p
Adjusted earnings per share	**12.7p**	11.1p	10.1p	8.7p	17.4p
Diluted basic earnings per share	**11.6p**	10.7p	21.8p	4.0p	13.8p
Dividend per share	**7.4p**	7.4p	7.4p	7.4p	7.4p
Total equity	**100.4**	99.6	58.8	(13.2)	(2.4)

1 HMV International comprises the results of HMV Canada, Hong Kong and Singapore.
2 Waterstone's includes the results of Ottakar's since its acquisition on 3 July 2006
3 Discontinued operation is HMV Japan which was sold on 25 August 2007

Store and venue directory

HMV UK & Ireland

UK
Aberdeen
Ashford
Ashton under Lyne
Aylesbury
Ayr
Ballymena
Banbury
Bangor, NI
Bangor, Wales
Barnsley
Basildon
Basingstoke
Bath
Bedford*
Belfast Boucher Rd
Belfast Donegall
Belfast Forestside
Bexleyheath
Birkenhead
Birmingham Bullring
Birmingham High St
Birmingham Pallasades
Birmingham The Fort
Blackburn
Blackpool
Bluewater
Bluewater Satellite*
Bolton
Bolton Middlebrook
Boston
Bournemouth
Bournemouth Castlepoint
Bracknell
Bradford
Brighton Weston Road
Brighton Churchill Sq.
Bristol Broadmead
Bristol Cribbs Causeway
Burnley*
Burton Upon Trent
Bury*
Bury St Edmunds*
Camberley*
Cambridge
Canterbury
Cardiff
Carlisle
Chelmsford
Cheltenham
Cheshire Oaks
Chester
Chesterfield
Chichester
Clydebank
Colchester
Coleraine
Coventry
Craigavon
Crawley
Crewe
Croydon
Croydon Centrale
Cwmbran
Darlington
Derby
Derry
Doncaster
Dumfries
Dundee
Durham
Eastbourne
East Kilbride
Edinburgh Gyle*
Edinburgh Fort Kinnaird
Edinburgh Ocean Terminal
Edinburgh Princes St
Edinburgh St James
Enfield
Epsom
Exeter
Falkirk
Folkestone
Gateshead
Gatwick North Terminal
Gatwick South Terminal
Glasgow Argyle St
Glasgow Braehead
Glasgow Buchanan St
Glasgow Fort
Glasgow Sauchiehall St
Glasgow Silverburn
Gloucester
Greenwich
Grimsby
Guernsey
Guildford
Hanley
Harlow
Harrogate
Hastings
Hatfield Galleria
Heathrow Terminal 1
Heathrow Terminal 3
Heathrow Terminal 4
Heathrow Terminal 5
Hemel Hempstead
Hereford*
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
Liverpool One
Livingstone
Llandudno
Llanelli
London
Bayswater Whiteleys
Beckton
Brent Cross
Bromley
Canary Wharf
Covent Garden
Ealing
Fulham
Hammersmith
Hampstead
Harrods
Harrow
Hounslow
Islington
Kings Road*
Leadenhall Market
Moorgate
Oxford Circus
Oxford St (360)
Putney
Richmond
Selfridges
Stratford
Trocadero
Victoria Station
Walthamstow
Wandsworth
Westfield White City
Wimbledon
Wood Green

Loughborough*
Luton
Maidstone
Manchester Arndale
Manchester 90 Market St
Manchester Trafford Centre
Manchester West One
Mansfield
Merry Hill
Middlesbrough
Milton Keynes
Monks Cross
Newbury
Newcastle
Newcastle Silverlink*
Newport
Newry
Newtownabbey*
Northampton
Norwich
Norwich Chapelfield
Nottingham Listergate
Nottingham Victoria
Nottingham Wheelergate
Nuneaton
Oldham
Orpington
Oxford
Perth
Peterborough
Peterborough Queensgate
Plymouth
Plymouth Drake Circus
Poole
Portsmouth
Portsmouth Gunwharf Quay
Preston
Reading Friar St
Reading Oracle
Redditch
Rochdale
Romford
Rotherham
Salisbury
Scarborough
Scunthorpe
Sheffield High St
Sheffield Meadowhall
Shrewsbury
Solihull
Southampton
Southend Victoria
Southport
Southshields
Speke Park
St Albans
St Helens
Stafford
Staines
Stansted
Stevenage
Stirling
Stockport
Stockton-on-Tees
Stratford
Sunderland
Sutton
Swansea
Swindon
Tamworth
Taunton*
Teeside
Telford
Thanet
Thurrock
Torquay*
Truro
Tunbridge Wells
Uxbridge
Wakefield
Walsall
Walton on Thames*
Warrington
Watford
Wellingborough
Wigan
Winchester
Windsor
Woking
Wolverhampton
Worcester
Workington
Worthing
Wrexham
Yeovil
York

Ireland
Blanchardstown
Cork
Drogheda
Dublin Grafton Street
Dublin Henry Street
Dublin Swords
Dundalk
Dundrum
Galway
Kilkenny*
Liffey Valley
Limerick
Limerick Crescent
Newbridge
Sligo*
Tallaght

Fopp
Bristol
Cambridge
Covent Garden
Exeter*
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 Cross Iron Mills*
Calgary Marlborough
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
Drummondville
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
Grandview Corners
Guelph Stone Road
Halifax*
Halifax Spring Garden Rd
Hamilton Limeridge
Kelowna Orchard Park
Kingston Cataraqui
Kitchener Fairview
Langley Willowbrook
Lasalle Carrefour Angrignon
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
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
Rosemère
Saint John McAllister Place
Saskatoon Lawson Heights
Saskatoon Midtown Mall
Sault Ste Marie Station Mall
Scarborough
Sherbrooke
St Bruno
St Catharines Pen Centre
Ste Foy Laurier
St Jean-sur-Richelieu Carrefour de Richelieu
St Jerome Carrefour du Nord
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 Rivieres
Vancouver Superstore
Vaughan Mills
Victoria Hillside
Victoria Mayfair
Victoriaville
Ville d'Anjou
Ville Mount-Royal Rockland
Ville St. Laurent Place Vertu
Waterloo Conestoga Mall**
West Edmonton Mall
Windsor Devonshire Mall
Winnipeg Kildonan
Winnipeg Polo Park
Winnipeg Portage Place
Winnipeg St. Vital

Hong Kong
Causeway Bay
Central Building
Elements, Union Square
Telford Plaza
Tsimshatsui

Singapore
CityLink
Somerset Centre*

HMV Live
Borderline (London)
Camden Barfly (London)
G-A-Y (London)
G-A-Y Late (London)
Heaven (London)
HMV Forum, Kentish Town
HMV Hammersmith Apollo
HMV Institute, Birmingham***
HMV Picture House Edinburgh
Jazz Café (London)
Relentless Garage (London)
Warehouse (Aberdeen)

Waterstone's
Aberdeen Langstane
Aberdeen Union Bridge
Abergavenny
Aberystwyth
Alton
Altrincham
Amersham
Amsterdam
Andover
Ashford
Aviemore
Aylesbury
Ayr
Ballymena
Banbury
Barnet
Barnstaple
Barrow
Basildon
Basingstoke
Bath
Bedford
Belfast
Berkhamsted
Birkenhead
Birmingham High St
Birmingham New Street
Birmingham University
Bishops Stortford
Blackpool
Bluewater
Bolton
Boston
Bournemouth Arcade
Bournemouth Castle Point
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
Bury St Edmunds Arc*

Store and venue directory continued

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 Commill Centre
Derby
Derby University
Doncaster
Dorchester
Dorking
Douglas, Isle of Man
Drogheda
Dublin Dawson St
Dublin Hodges Figgis
Dublin Jervis St
Dumfries
Dunfermline
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 Ashley Centre
Essex University
Exeter High St
Exeter Roman Gate

Falkirk
Fareham
Farnham
Folkestone Sandgate Road
Gateshead
Glasgow Argyle St
Glasgow Braehead
Glasgow Sauchiehall St
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 St Helier
Keele University
Kendal
Kettering
King's Lynn Norfolk St
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
Liverpool One
Livingston
Llandudno

London
Bromley
Camden
Canary Wharf Cabot
Canary Wharf Jubilee
City University
Clapham
Clare Market University
Covent Garden
Ealing Broadway
Finchley
Finchley O2
Fleet Street
Gower Street
Greenwich
Hampstead
Harrods
High Holborn
Islington
Kensington
Kings Road
Leadenhall Market
London Wall
Ludgate Circus
Notting Hill Gate
Oxford Street (421)
Oxford Street Plaza*
Piccadilly
Piccadilly Hatchards
Putney
Richmond
Science Museum
Trafalgar Square
Wandsworth
Wimbledon Bridge

Loughborough
Lowestoft
Luton
Lymington
Macclesfield
Maidenhead
Maidstone Earl St
Maidstone Fremlin Walk
Manchester Arndale
Manchester Deansgate
Manchester Trafford Centre
Market Harborough
Merry Hill
Middlesbrough
Milton Keynes Silbury Arcade
Milton Keynes Midsummer
Place
Morpeth*

Newbury
Newcastle Emerson Chambers
Newcastle Silverlink*
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
Petersfield
Plymouth New George St
Plymouth Drake Circus
Poole
Portsmouth
Preston
Reading Broad St
Reading Oracle
Redhill
Redditch
Romford
Salisbury High St
Scarborough
Sheffield Meadowhall Arcade
Sheffield Meadowhall
Park Lane
Sheffield Orchard Sq
Shrewsbury
Slough
Solihull
Southampton Above Bar
Southampton West Quay
Southend High St
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
Uxbridge
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 Wolsey Walk
Wolverhampton
Worcester High St
Worcester The Shambles
Worthing
Wrexham
Yeovil
York 28 Ousegate

* Opened in 52 weeks ended 24 April 2010
** Opened since 24 April 2010
*** Due to open September 2010

Shareholder information

Financial calendar	
Annual General Meeting	9 September 2010
Ex-dividend date	29 September 2010
Record date	1 October 2010
Final dividend payable	9 November 2010
Interim results	December 2010
Interim dividend payable	February 2011
Announcement of results for year ending 30 April 2011	June 2011

Ordinary Shares
The total number of Ordinary Shares in issue as at 24 April 2010 was 423,587,057 shares, which were held by a total of 4,060 shareholders

Share price information
The latest information on the HMV Group plc Ordinary Share price is available on 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

Other websites
www hmv com
tickets hmv com
www hmv ca
www hmv com hk
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

Nomura
25 Bank Street
Canary Wharf
London E14 5LE

Principal bankers
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25 Gresham Street
London EC2V 7HN

The Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Lawyers
Simmons & Simmons
CityPoint
One Ropemaker Street
London EC2Y 9SS

Registrars
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Huddersfield HD8 0GA