

HMV launches HMV Digital

New HMV music downloads service goes live September 5th

September 1, 2005, London - HMV, the UK and Ireland's leading music, dvd and games specialist, today unveiled HMV Digital, its new music downloads service, created in partnership with Microsoft.

Reflecting HMV brand attributes of range authority and specialist service, the HMV Digital 'Player' – effectively, a customised jukebox - allows customers to download tracks from the HMV Digital store. Users can then create their own playlists from a personal music library, which they can enjoy at home or on the move - either by playing it on their PCs or personal digital music players or by 'burning' their own CDs. The Jukebox will also enable customers to transfer physical CD collections onto their digital music players.

A key aim of HMV Digital is the empowerment of HMV customers, offering them versatility and choice in how they wish to access, purchase and manage their music online. Accordingly, they can download from an extensive list of songs - either as individual tracks or whole albums, or they can gain full access to the entire catalogue available on the system by subscribing each month to 'HMV Unlimited'.

The software needed to use HMV Digital will be distributed as a free CD-Rom through the 200-plus network of HMV stores across the UK and Ireland or it can simply be downloaded via the HMV website, www.hmv.co.uk.

Importantly, Windows Media Audio 9, the technology on which the HMV Digital service is based, is compatible with a wide range of digital music players, a selection of which will be sold and merchandised in specially created HMV Digital sections in all HMV UK and Ireland stores. Leading brands include Creative and iRiver, which will be priced between £69 and £229, with more players to follow before Christmas. HMV Digital also includes support for Windows Media Digital Rights Management 10 which will enable consumers to take both music downloads and subscription content with them on the go using their portable players.

Content for the new service is enabled by **MusicNet**, which will effectively act as a huge digital warehouse that will also provide the back-end technology and software to deliver the music to HMV Digital customers. At launch, well over 1 million tracks will be made available for download, though this is expected to grow significantly in the coming months as more music is digitised by record labels.

HMV Digital will offer a huge selection of music from many of the world's leading recording artists, ranging from American icons such as Elvis and Madonna to domestic superstar acts including U2, Coldplay and David Bowie. Current recordings by the new Brit Wave performers, including Franz Ferdinand, Razorlight, Kaiser Chiefs and Keane will all be featured, while a diverse range of genres, taking in everything from Classical to Jazz and Country to World Music, will be extensively represented.

A further feature of the service will be its focus on local UK and Irish music, including new artist content and back catalogue from independent 'Indie' music labels. HMV has offered a free encoding service to smaller labels to ensure that the widest possible range of music is available for download.

In an extension of the HMV in-store experience, HMV Digital will incorporate an 'HMV Live' section – exclusive tracks of live sets specially recorded during artist personal appearances (PAs) at HMV stores. HMV stages over a hundred live events each year, and will aim to record as many as possible to make available as downloads. Live PAs in recent years have, for example, included Madonna, Coldplay, Franz Ferdinand, Kaiser Chiefs, Darkness, Ian Brown, Jamie Cullum and Kasabian.

The HMV Digital Sections in HMV stores will act as an information point for digital customers and will be staffed by dedicated 'Super User' employees, trained to ensure they are the high street's leading authority on digital downloading, offering practical advice, service and demonstrations to whatever level is required.

As such, HMV believes that its entry into the digital market will not only make downloading more accessible to the mainstream music buyer, but will act as an important catalyst for the continued growth of legal digital sales. These currently stand at less than 2% of the UK market for pre-recorded music.

HMV Digital will leverage the valuable specialist retailing expertise from HMV stores to provide customers with excellent value. In line with the market, the majority of tracks will be set at 79 pence with albums available at £7.99. However, just as HMV stores offer varied pricing for physical products, some downloaded tracks, for example, of new artists, may be cheaper, while content from a number of 'premium' artists may be charged at a slightly higher level. The HMV Unlimited subscription is set at £14.99 per month. In pursuing such a versatile approach, HMV Digital will be competitively priced, and will ultimately reflect the value that the content owners i.e. the record labels, choose to place on the repertoire they make available.

HMV Digital will be promoted with a major £1 million-plus marketing campaign, including extensive press and online advertising, and will be supported in-store with a month-long series of live performances, kicking off with a live set by The Bravery at HMV's Oxford Circus flagship store on September 1st. This will be followed by a further twenty live appearances, including by Mercury nominees Maximo Park and The Go! Team, and by Katie Melua, Echo and the Bunnymen and Paul Weller.

Steve Knott, Managing Director of HMV UK & Ireland, said:

"HMV has a track record of embracing new technologies and always being part of the process of change. We have sold every available music format since we opened our doors in 1921, and are dedicated to offering our customers specialist access to the widest selection of recorded music through whichever medium or format they require.

"While downloading is still in its infancy, we believe that now is the right time to fully establish HMV's presence in this market. Our research shows that although customers remain very keen to buy and own CDs for the foreseeable future, many are also ready to start downloading for the first time and we are eager to cater to this demand.

"Working with Microsoft, HMV Digital combines state-of-the-art technology with a simple and easy to use service, allowing our customers to buy and manage their music online. We believe that our extensive range, as well as the expertise, knowledge and service provided by our staff, both in-store and online, will make HMV Digital a leading choice for digital downloading in the UK."

Mark Bennett, HMV Head of Digital, added:

"I believe that HMV – represented through its stores, online and now in this new digital space, will increasingly come to be seen as an 'entertainment hub', that will empower customers to buy and enjoy music in a way that meets their lifestyle requirements.

"While it's fair to say that consumers have more choice than ever before, it's also the case that in an environment still largely in a state of flux, they will look to a trusted brand with a strong specialist reputation, such as HMV, to deliver the service and products they require."

Alistair Baker, Microsoft Managing Director, UK and Vice President EMEA, said:

"This leading edge retail project enables music fans to buy music in-store and online – in fact anywhere. Consumers will be able to listen to the music they want to hear on a whole range of devices from different manufacturers. The development of the HMV jukebox player combines the industry knowledge of the HMV team with the software development, product

expertise and consulting skills of Microsoft. HMV Digital is all about freedom of choice and Microsoft is proud that its technology is at the heart of this service."

Alan McGlade, President and CEO of MusicNet, said:

"MusicNet was built on the premise of enabling major global brands such as HMV with the ability to expand their consumer relationships through a compelling, customised digital music service. We are very pleased to have HMV as a premier European partner and are confident that their customers will soon discover that HMV Digital will deliver their favourite music when and how they want it."

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NOTES TO EDITORS

HMV UK & Ireland

HMV is the UK and Ireland's leading specialist retailer of music, dvd and games.

HMV's very first store was officially opened in July 1921 by the celebrated British composer, Sir Edward Elgar on London's Oxford Street. Since that time, the chain has become symbolised throughout the world by its iconic 'His Master's Voice' dog and trumpet trademark. HMV is dedicated to offering specialist access to the widest selection of recorded music, dvd and games products through whichever medium or format is required by its customers or enabled by technology.

The company has a history of embracing alternative distribution channels and technologies, and is unique among retailers in that it has sold every music and home entertainment format since it opened its doors in 1921. From cylinders to 78-rpm shellac discs; 33 1/3rd rpm long player albums to 45-rpm singles; audio cassettes to compact discs; miniDiscs to SACD; and now digital music – HMV stores have stocked and sold them all.

The success of any retailer is, first and foremost, based on the standard of service it provides to its customers. HMV recognises the critical importance of recruiting a skilled and motivated workforce and employs staff that are knowledgeable and passionate about the products that

they sell. Members of staff receive extensive training aimed at maintaining the best possible customer service standards – the objective at all times is to meet customers' needs, whether in-store, over the phone or via the internet.

The company currently operates more than 200 stores in key shopping locations across the UK and Ireland, equating to well over 1million sq. ft. of trading space, as well as a successful online store at www.hmv.co.uk. The chain currently opens between 20-25 new stores each year, primarily focused on medium-sized towns and suburbs across both territories.

HMV is part of HMV Group plc, which operates 395 HMV stores across the UK and Ireland, Canada and Asia Pacific as well as 194 Waterstone's stores principally in the UK and Ireland. All of the Group's operations, both in the UK and internationally, are wholly owned. The Group was listed on the London Stock Exchange on 15 May 2002, having been formed in March 1998 through the acquisition of Waterstone's from WH Smith Group plc and HMV and Dillons from EMI Group plc.

MICROSOFT

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THE MICROSOFT TECHNOLOGY BEHIND HMV DIGITAL

HMV Digital uses several components of Microsoft's Windows Media technology for distributing and playing back digital music:

- Windows Media Player 10
- Windows Media Audio 9 Series
- Windows Media DRM 10 (Microsoft's next generation of Windows Media Digital Rights Management technology which makes it possible to protect, deliver, and play a la carte, subscription and promotional digital media content on PCs, portable audio devices etc).

Built using Microsoft's Visual Studio.NET environment, HMV Digital is based upon downloadable software, using Windows Media Player controls and running on Windows XP. The entire server infrastructure runs on the Windows Server System™, and will be monitored by Microsoft Operations Manager 2005. The Windows Server System components include Windows Server 2003, Microsoft Operations Manager 2005, SQL Server 2005 and Microsoft Internet Security and Acceleration (ISA) Server 2004. The Solution Delivery Group within the Microsoft Services Organisation is responsible for consultancy to HMV and the software integration, in association with Gold Certified Partner, Conchango.

MUSICNET

MusicNet is the world's leading business-to-business digital music service provider. The top U.S. and global consumer brands private label MusicNet's comprehensive suite of digital music services. MusicNet enables its partners to offer their customers a fully customised experience, including the ability to buy music downloads and subscriptions, choose from more than 1.8 million tracks (the industry's largest catalogue of licensed music), explore engaging editorial programming and enjoy an easy-to-use interface. Headquartered in New York, MusicNet is wholly-owned by Baker Capital, a New York-based private equity firm with \$1.5 billion under management. For more information, please visit www.musicnet.com.