

Financial Services



Home Retail Group Financial Services is one of the **largest store card providers** in the UK, having over one million active store card users.


Adding support


Financial Services makes an important contribution to the success of the Group and its retail brands.

Our Financial Services operation is one of the many areas of skills or infrastructure that are shared across the Group in order to drive synergy benefits. By making products easier for Argos and Homebase customers to afford, its credit offers help to drive product sales and maximise profits for the Group. Customers can apply for credit whether they shop in-store, online or over the phone.

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Around 9% of Group sales are now transacted on our in-house store cards.

Financial Services business review

Financial Services works in conjunction with Argos and Homebase to provide their customers with the most appropriate credit offers to drive product sales, and to maximise the total profit from the transaction for Home Retail Group.

£573m

of Group retail sales were driven by our **in-house store card operations**.

Operational review

The in-house store card operations drove £573m of Group retail sales over the year, up 1% on the previous year. Sales penetration increased from 8.5% to 8.8%. The proportion of promotional credit sales continued to increase, representing 77% of all sales placed on the store cards. The offer of 'buy now, pay later' products remains a key enabler of driving sales in 'big ticket' categories. In addition to credit sales placed on the Group's own store cards, product loans for purchases over £3,000 have been introduced, with these credit offers being provided by Barclays Partner Finance.

Changes to credit decisioning to manage bad debt risk has continued, with a further tightening of score card cut-off levels being implemented, and a programme of credit limit decreases for existing higher-risk accounts. Additionally, a major project to migrate the account management system to a new platform has recently been completed.

Financial review

Total gross receivables were level year-on-year, with a £6m increase in the store card and a £6m reduction from the planned run-off of the personal loans receivables.

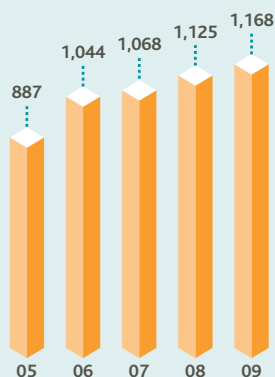
Delinquency rates have marginally risen over the year. As a result, the income statement bad debt charge increased by £3m. Financing costs reduced in the year reflecting gross receivables being level but a lower funding cost rate being applied, since this non-cash internal recharge is based upon UK base rates. A corresponding impact is recognised in Group net interest income.

The benchmark operating result of £6.1m for the year reflects the financial return on the revolving (i.e. interest-bearing) element of receivables, as promotional credit products are recharged to Argos and Homebase at cost. The cost advantage of this internal arrangement versus third-party promotional credit provision is therefore a benefit within the Argos and Homebase benchmark operating profits.

52 WEEKS TO	28 FEBRUARY 2009	1 MARCH 2008
Sales (£m)	102.3	95.4
Benchmark operating profit before financing costs	19.7	25.1
Financing costs	(13.6)	(19.6)
Benchmark operating profit (£m)	6.1	5.5
AS AT	28 FEBRUARY 2009	1 MARCH 2008
Store card gross receivables	488	482
Personal loans gross receivables	3	9
Total gross receivables	491	491
Provision	(67)	(59)
Net receivables at year-end (£m)	424	432
Provision % of gross receivables	13.6%	12.0%

Financial Services key performance indicators

NUMBER OF ACTIVE STORE CARD HOLDERS ('000s)

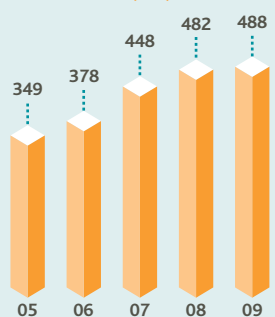


The total number of active accounts grew to 1.2 million. The cards offer a range of 3, 6, 9 and 12 month 'buy now pay later' plans. The offer is also fully multi-channel, with the availability of credit online being a feature on both www.argos.co.uk and www.homebase.co.uk.

Definition:
 Total number of store card accounts that have had monetary activity, either making a sale transaction, a payment or having an outstanding balance in the last six months.

Source:
 Measured internally.

GROSS STORE CARD RECEIVABLES (£M)

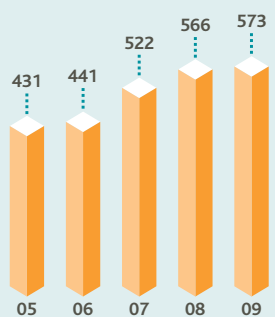


There was a £6m increase in gross store card receivables in the year driven by the continued success in the range of promotional credit products offered.

Definition:
 Total balances outstanding on customer store card accounts.

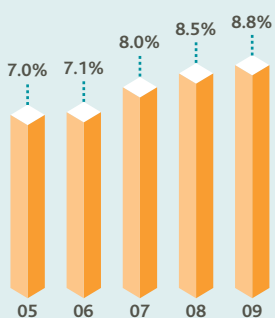
Source:
 Measured internally.

GROUP RETAIL CREDIT SALES (£M)



The in-house store card operations drove £573m of Group retail sales over the year, up 1% on the previous year. Sales penetration increased from 8.5% to 8.8%. The proportion of promotional credit sales continued to increase, representing 77% of all sales placed on the store cards. Credit offerings are available through each of the different channels; application can be made and approved in-store, online and over the phone. The level of sales funded by store card is higher for 'big-ticket' purchases as the cards enhance affordability.

GROUP CREDIT PENETRATION (%)



Definition:
 Store card retail credit sales (including VAT), divided by total UK retail sales (including VAT for penetration).

Source:
 Measured internally.

Central Activities

Central Activities represents the cost of central corporate functions and the investment costs of new development opportunities. Corporate functions costs for the year were approximately 10% lower reflecting ongoing cost management, while the investment costs of new development opportunities were also at a lower level than the prior year.

A review of the trial to develop the Argos format in India was completed in January 2009. A decision to discontinue the trial following the initial two year development period was taken mutually by Home Retail Group and its Indian partners Shoppers' Stop and HyperCITY. The trial had not met the planned performance levels to support the investment required in the current Indian economic climate. The retail operations are being wound down at minimal cost to Home Retail Group. At some point in the future, the Indian retail market may still present an attractive long-term growth opportunity for the Argos multi-channel model.

The HomeStore&More development opportunity continues to be trialled. This out-of-town homewares format has seen its third UK store open recently in Harlow. In the latest store, greater emphasis has been placed on the bedding and textiles categories in order to further test the opportunity in these areas. A fourth trial store is expected to open in the new financial year. The Irish operation in which Home Retail Group has a 33% stake has now expanded to six stores in total; further expansion is likely to be dependent on conditions in the Irish economic climate improving.

52 weeks to	28 February 2009	1 March 2008
Benchmark operating expense (£m)	(24.2)	(28.8)

FOR ALL CHARTS, 06 AND 07 ARE ON A 52-WEEK PRO FORMA BASIS