

Independent auditors' report to the members of Home Retail Group plc – Group

We have audited the Group financial statements of Home Retail Group plc for the 52 weeks ended 28 February 2009 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Home Retail Group plc for the 52 weeks ended 28 February 2009 and on the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information that is cross referred from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the chairman's statement, the business review, the Board of Directors, the directors' report which incorporates the corporate governance statement, the unaudited part of the directors' remuneration report and the Group four-year summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 February 2009 and of its loss and cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

29 April 2009

Consolidated income statement

For the 52 weeks ended 28 February 2009

	Notes	52 weeks ended 28 February 2009			52 weeks ended 1 March 2008		
		Before exceptional items £m	Exceptional items £m	After exceptional items £m	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Revenue	5,6	5,897.4	–	5,897.4	5,984.8	–	5,984.8
Cost of sales		(3,873.8)	–	(3,873.8)	(3,881.0)	–	(3,881.0)
Gross profit		2,023.6	–	2,023.6	2,103.8	–	2,103.8
Net operating expenses	7,9	(1,731.6)	(694.0)	(2,425.6)	(1,717.5)	0.8	(1,716.7)
Operating profit/(loss)	5	292.0	(694.0)	(402.0)	386.3	0.8	387.1
– Finance income		63.7	–	63.7	62.3	–	62.3
– Finance expense		(53.5)	–	(53.5)	(25.0)	–	(25.0)
Net financing income	10	10.2	–	10.2	37.3	–	37.3
Share of post-tax (loss)/profit of joint ventures and associates	17	(2.4)	–	(2.4)	1.6	–	1.6
Profit/(loss) before tax		299.8	(694.0)	(394.2)	425.2	0.8	426.0
Taxation	9,11	(101.2)	82.3	(18.9)	(137.1)	5.7	(131.4)
Profit/(loss) for the year attributable to equity shareholders		198.6	(611.7)	(413.1)	288.1	6.5	294.6
Earnings per share				pence			pence
– Basic	13			(47.7)			34.0
– Diluted	13			(47.7)			33.6
Non-GAAP measures					Notes	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Reconciliation of profit before tax ('PBT') to benchmark PBT (Loss)/profit before tax						(394.2)	426.0
Adjusted for:							
Exceptional items					9	694.0	(0.8)
Demerger incentive schemes					29	8.4	11.7
Financing fair value remeasurements					10	28.9	9.0
Financing impact on retirement benefit balances					10	(11.2)	(13.0)
Discount unwind on exceptional onerous lease provisions						1.8	–
Benchmark PBT						327.7	432.9
Benchmark earnings per share						pence	pence
– Basic					13	25.9	33.9
– Diluted					13	25.6	33.6

Consolidated statement of recognised income and expense

For the 52 weeks ended 28 February 2009

	Notes	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Net income/(expense) recognised directly in equity			
Net change in fair value of cash flow hedges			
– Foreign currency forward exchange contracts		153.3	(17.7)
Net change in fair value of cash flow hedges transferred to inventory			
– Foreign currency forward exchange contracts		(130.1)	19.8
Actuarial (losses)/gains in respect of defined benefit pension schemes	24	(135.4)	73.9
Fair value movements on available-for-sale financial assets		(2.3)	0.1
Currency translation differences		35.9	13.5
Tax credit/(charge) in respect of items taken directly to equity		32.5	(22.8)
Net (expense)/income recognised directly in equity for the year	28	(46.1)	66.8
(Loss)/profit for the year attributable to equity shareholders		(413.1)	294.6
Total recognised (expense)/income for the year attributable to equity shareholders		(459.2)	361.4

Consolidated balance sheet

At 28 February 2009

	Notes	28 February 2009 £m	1 March 2008 £m
ASSETS			
Non-current assets			
Goodwill	14	1,541.0	1,922.7
Other intangible assets	15	103.6	83.7
Property, plant and equipment	16	559.3	731.8
Investment in joint ventures and associates	17	8.4	7.7
Deferred tax assets	26	87.4	46.6
Trade and other receivables	19	3.4	4.8
Retirement benefit assets	24	–	83.7
Other financial assets	25	9.2	14.2
Total non-current assets		2,312.3	2,895.2
Current assets			
Inventories	18	930.3	1,004.8
Trade and other receivables	19	593.7	597.8
Current tax assets		15.1	16.9
Other financial assets	25	53.7	4.3
Current asset investments	20	75.0	–
Cash and cash equivalents	21	209.4	174.0
Total current assets		1,877.2	1,797.8
Total assets		4,189.5	4,693.0
LIABILITIES			
Non-current liabilities			
Trade and other payables	22	(64.0)	(41.3)
Provisions	23	(198.6)	(72.6)
Deferred tax liabilities	26	(26.3)	(67.4)
Retirement benefit obligations	24	(46.4)	–
Total non-current liabilities		(335.3)	(181.3)
Current liabilities			
Trade and other payables	22	(999.2)	(1,089.5)
Provisions	23	(51.6)	(26.1)
Other financial liabilities	25	(1.5)	(2.8)
Current tax liabilities		(43.5)	(48.1)
Total current liabilities		(1,095.8)	(1,166.5)
Total liabilities		(1,431.1)	(1,347.8)
Net assets		2,758.4	3,345.2
EQUITY			
Share capital	27,28	87.7	87.7
Merger reserve	28	(348.4)	(348.4)
Other reserves	28	35.4	3.9
Retained earnings	28	2,983.7	3,602.0
Total equity		2,758.4	3,345.2

The financial statements were approved by the Board of Directors on 29 April 2009 and were signed on its behalf by:

Terry Duddy,
Chief Executive

Richard Ashton,
Finance Director

Consolidated cash flow statement

For the 52 weeks ended 28 February 2009

	Notes	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Cash flows from operating activities			
Cash generated from operations	33	468.4	564.2
Interest received		16.6	18.7
Interest paid		–	(3.6)
Tax paid		(74.7)	(95.1)
Net cash inflow from operating activities		410.3	484.2
Cash flows from investing activities			
Purchase of property, plant and equipment		(110.9)	(176.3)
Proceeds from the disposal of property, plant and equipment		2.6	3.4
Purchase of intangible assets		(44.7)	(35.0)
Loan to joint venture		(2.0)	–
Purchase of investments		(75.2)	(8.7)
Disposal of investment		–	3.9
Acquisition of businesses		–	(41.4)
Net cash used in investing activities		(230.2)	(254.1)
Cash flows from financing activities			
Purchase of own shares		(21.6)	–
Proceeds from sale of own shares		0.1	2.3
Repayment of finance leases		–	(0.1)
Repayment of loans		–	(225.0)
Dividends paid	12	(127.2)	(118.9)
Net cash used in financing activities		(148.7)	(341.7)
Net increase/(decrease) in cash and cash equivalents		31.4	(111.6)
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	21	174.0	283.8
Effect of foreign exchange rate changes		4.0	1.8
Net increase/(decrease) in cash and cash equivalents		31.4	(111.6)
Cash and cash equivalents at the end of the year	21	209.4	174.0

Analysis of net cash/(debt)

At 28 February 2009

	Notes	28 February 2009 £m	1 March 2008 £m
Non-GAAP measures			
Financing net cash:			
Cash at bank and in hand	21	209.4	174.0
Current asset investments	20	75.0	–
Total financing net cash		284.4	174.0
Operating net (debt):			
Property leases		(3,304.3)	(3,057.1)
Total operating net (debt)		(3,304.3)	(3,057.1)
Total net (debt)		(3,019.9)	(2,883.1)
Adjusted for:			
Operating leases that are off balance sheet		3,304.3	3,057.1
Current asset investments	20	(75.0)	–
Total net cash reflected in balance sheet		209.4	174.0

The Group uses the term total net cash/(debt) which highlights the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably property leases. The capitalised value of these property leases is £3,304.3m (2008: £3,057.1m) based upon discounting the current rentals at the estimated current long-term cost of borrowing of 4.1% (2008: 5.3%).

The current asset investment comprises a term cash deposit invested for a period of nine months which matured after the balance sheet date on 15 April 2009. The analysis of net cash/(debt) forms part of the notes to the financial statements.

Notes to the financial statements

For the 52 weeks ended 28 February 2009

1. GENERAL INFORMATION

Home Retail Group plc ('the Company'), which is the ultimate parent company of Home Retail Group ('the Group'), is a public limited company incorporated and domiciled in England under the Companies Act 1985 and listed on the London Stock Exchange. Home Retail Group is a home and general merchandise retailer. These consolidated financial statements were authorised for issue by the Board of Directors on 29 April 2009.

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the European Union. They also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRSs.

2. BASIS OF PREPARATION

The Group consolidated financial statements are presented in sterling, rounded to the nearest hundred thousand. They are prepared on the historic cost basis modified for the revaluation of certain financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

Basis of consolidation

The Group financial statements consist of the financial statements of the ultimate parent company (Home Retail Group plc), entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates. The accounting policies of subsidiaries are consistent with the policies adopted by the Group for the purposes of the Group's consolidation.

Subsidiaries

A subsidiary is an entity whose operating and financing policies are controlled by the Group. Subsidiaries are consolidated from the date on which control was transferred to the Group. Subsidiaries cease to be consolidated from the date that the Group no longer has control. Intercompany transactions, balances and unrealised gains on transactions between Home Retail Group companies have been eliminated on consolidation.

Joint ventures and associates

Joint ventures are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other interested parties under a contractual agreement. Associates are entities over which the Group has significant influence but not control. The equity method is used to account for investments in joint ventures and associates and investments are initially recognised at cost.

The Group's share of net assets of its joint ventures and associates are included on the Group balance sheet. The Group's share of its joint ventures and associates post-acquisition profits or losses are recognised in its income statement. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. The carrying amount of an investment in a joint venture or associate is tested for impairment by comparing its recoverable amount to its carrying amount whenever there is an indication that the investment may be impaired.

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method. The cost of business acquisitions is the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill.

Changes in accounting standards

A number of new standards, amendments and interpretations are effective for the 52 weeks ended 28 February 2009, but have had no material impact on the results or the financial position of the Group.

- IFRIC 12 – 'Service Concession Arrangements'
- IFRIC 14 – 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

In addition, the Group has early-adopted the amendment to IFRS 2 – ‘Share-Based Payments’ relating to vesting conditions and cancellations. The amendment clarifies that vesting conditions are service and performance conditions only. These conditions are now included in the grant date fair value. All cancellations, whether by the Group or the individual, are subject to the same accounting treatment. The effect of adopting this revised standard on the results from prior periods was not material, so comparative figures have not been restated. As a result of early adoption of the revised standard an additional charge of £3.2m has been reflected in the current year, which has no impact on the tax charge.

At the balance sheet date a number of IFRSs and IFRIC interpretations were in issue but not yet effective. Those relevant for the Group, if endorsed by the European Union, for the financial year beginning 1 March 2009 are listed below:

- IFRIC 13 – ‘Customer Loyalty Programmes’
- IFRIC 15 – ‘Agreements for the Construction of Real Estate’
- IFRIC 16 – ‘Hedges of a Net Investment in a Foreign Operation’
- Amendments to IFRS 7 – ‘Improving Disclosures about Financial Instruments’
- IFRS 8 – ‘Operating Segments’
- Amendments to IAS 1 – ‘Presentation of Financial Statements’
- Amendments to IAS 23 – ‘Borrowing Costs’
- Amendments to IAS 39 and IFRS 7 – ‘Reclassification of Financial Instruments’
- Improvements to IFRSs (May 2008).

Those relevant for the Group, if endorsed by the European Union, for future financial years are listed below:

- IFRIC 17 – ‘Distributions of Non-Cash Assets to Owners’
- IFRIC 18 – ‘Transfers of Assets from Customers’
- Amendments to IFRS 3 – ‘Business Combinations’
- Amendments to IAS 27 – ‘Consolidated and Separate Financial Statements’
- Amendments to IAS 39 – ‘Eligible Hedged Items’.

The impact on the Group of the above new standards, interpretations and amendments to published standards that are not yet effective will be fully considered in due course, however it is considered unlikely that they will have a significant impact on the Group’s financial statements, apart from additional disclosures.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management’s best judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods where appropriate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Taxes

The Group is subject to taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective income tax and deferred tax provisions in the year in which such determination is made.

Pension benefits

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligations and net pension costs include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions may impact the amounts disclosed in the Group’s balance sheet and income statement.

The expected return on plan assets is calculated by reference to the plan investments at the year-end and is a weighted average of the expected returns on each main asset type (based on market yields available on these asset types at the year-end).

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

2. BASIS OF PREPARATION CONTINUED

The Group determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Group considers the market yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability. Other key assumptions for defined benefit obligations and pension costs are based in part on market conditions at the relevant year-ends and additional information is disclosed in note 24.

Goodwill

Goodwill is allocated to cash-generating units (CGUs) at the level of each business segment. The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount, being the higher of the CGU's fair value less costs to sell and its value-in-use. The value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates as disclosed in note 14. Actual outcomes could vary from these estimates.

Impairment of assets

Assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Assets are written down to the higher of fair value less costs to sell and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. This includes estimates of both the expected cash flows and an appropriate discount rate which use management's assumptions and estimates of the future performance of the asset. Differences between expectations and the actual cash flows will result in differences in the level of impairment required.

Provisions

Provisions have been estimated for onerous leases, self insurance and other liabilities. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular store or the incidence of insurance claims against the Group. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Inventory provisions

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised as follows:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods to be delivered is recognised when the customer accepts delivery. The Group operates a variety of sales promotion schemes that give rise to goods being sold at a discount to the standard retail price. Revenue is adjusted to show sales net of all related discounts. Commissions receivable on the sale of services for which the Group acts as agent are included within revenue. A provision for estimated returns is made, representing the profit on goods sold during the year which will be returned and refunded after the year-end.

Interest income

Interest income on customer store card accounts and loans is recognised as revenue on a time proportion basis using the effective interest method.

Foreign currency translation

Functional and presentation currency

The consolidated financial information is presented in sterling, which is the Group's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement with the exception of differences on transactions that are subject to effective cash flow hedges. Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the income statement as appropriate.

Group companies

The results and financial position of overseas Home Retail Group entities are translated into sterling as follows:

- assets and liabilities are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at the average exchange rate for the period; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. Tax charges and credits attributable to those exchange differences are taken directly to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary, associate or joint venture acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment. Goodwill is stated at cost less any provision for impairment. Goodwill is not amortised and is tested at least annually for impairment. An impairment charge is recognised where the carrying value of goodwill exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Group's retail businesses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, allocated where necessary on the basis of relative fair value.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. Intangible assets acquired separately from the acquisition of a business are capitalised at cost. Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

The cost of other intangible assets with finite useful economic lives is amortised over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired, they are written down to the higher of fair value less costs to sell and value-in-use.

Brands

Acquired brands have a finite useful life and are shown at their fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated to spread the cost of the brands over their estimated useful lives of 10 years on a straight-line basis. This amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are held at cost and are amortised on a straight-line basis over three to five years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to five years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Property, plant and equipment

Property, plant and equipment are held at cost being the purchase price and other costs directly attributable to bringing the asset into use less accumulated depreciation and any impairment in value. An impairment charge is recognised where the carrying value of the asset exceeds its recoverable amount, being the higher of the asset's fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Group's businesses.

Depreciation is charged on a straight-line basis as follows:

- freehold properties are depreciated over 50 years;
- leasehold premises are depreciated over the period of the lease;
- plant, vehicles and equipment are depreciated over 2 to 10 years according to the estimated life of the asset;
- equipment on hire or lease is depreciated over the period of the lease; and
- land is not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Receivables

Trade

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade receivables recognised in the income statement immediately.

Financial services

The gross margin from the sale of a retail product on extended credit terms is recognised at the time of the sale of the retail product. The finance charges relating to the sale of financial services are included in the income statement as and when instalments are received. Income under instalment agreements is credited to the income statement using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate, and continues to recognise the unwinding of the discount as interest income.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost bases in use within the Group are general retail goods valued on a standard cost or weighted average basis which approximates to actual cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventory include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to their purchase.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Current asset investments

Current asset investments include cash on deposit held with banks, with original maturities of greater than three months.

Borrowings and borrowing costs

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value and other borrowing costs is recognised in the income statement over the period of the borrowings using the effective interest method.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

Deferred taxation

Deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Provisions are made for onerous lease contracts for stores that have closed or where a decision to close has been announced, and for those stores where the projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use.

Provisions are also made for legal claims, restructuring costs and estimated cost of claims incurred by the Group's captive insurance company but not settled at the balance sheet date.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the life of the lease.

Employee benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected-unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated statement of recognised income and expense. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Catalogue costs

Costs incurred during the production of the Group's catalogues are deferred on the balance sheet net of any associated advertising revenue and marketing support until the catalogue is launched, at which point the net deferred cost is charged to the income statement.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Dividends

Dividends proposed by the Board of Directors and unpaid at the year-end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised in the financial statements when they are paid. Final dividends are recognised in the financial statements when they are approved by the shareholders.

Insurance

Certain of the Group's insurances are handled by the Group's captive insurance company, Global Guernsey Limited, which accounts for all insurance business on an annual basis and the net consolidated result is dealt with as part of the operating costs in these financial statements. Insurance premiums in respect of insurance placed with third parties and re-insurance premiums in respect of risks not retained by the Group's captive insurance company are charged to the income statement in the period to which they relate.

Financial instruments

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through the income statement, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets and liabilities at fair value through the income statement

Financial assets and liabilities at fair value are so designated by management on initial recognition. Derivatives are generally designated as hedges. Items in this category are classified as current assets or current liabilities if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade and other receivables, cash and cash equivalents and current asset investments in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Accounting for derivative financial instruments and hedging activities

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates derivatives as either cash flow hedges or fair value hedges.

The Group documents the relationship between hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in equity are shown in the Group statement of recognised income and expense.

Cash flow hedges

The cash flow hedges are intended to hedge the foreign currency exposures of the future purchases of inventory. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to the ineffective portion would be recognised immediately in the income statement. The hedged cash flow is expected to occur up to one year into the future and will be transferred to the consolidated income statement via inventory carrying value as applicable.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of forward currency exchange contracts hedging the Group's exposure to foreign currency liabilities is recognised in the income statement within cost of sales.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

Fair value estimation

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price. The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the shares granted is recognised as an expense after taking into account the best estimate of the number of awards expected to vest. The Group revisits the vesting estimate at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes, Monte Carlo model and closing market price is most appropriate to the award. Market based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

Non-GAAP financial information

Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant income statement line. The separate reporting of exceptional items helps provide a better indication of underlying performance of the Group. Examples of items which may be recorded as exceptional items are impairment charges, restructuring costs and the profits/losses on the disposal of businesses.

Benchmark profit before tax ('PBT')

The Group uses the term benchmark PBT as a measure which is not formally recognised under IFRS. Benchmark PBT is defined as profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit balances, the discount unwind on non-benchmark items and taxation. This measure is considered useful in that it provides investors with an alternative means to evaluate the underlying performance of the Group's operations.

Total net debt

The Group uses the term total net debt which is considered useful in that it provides the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably property leases.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

There are a number of financial risks and uncertainties which could impact the performance of the Group: market risk (foreign exchange and interest rate risk), credit risk and liquidity risk. The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties.

The Group's treasury function seeks to reduce exposures to foreign exchange, interest rate and other financial risks, and to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Policies and procedures are subject to review and approval by the Board of Directors as well as subject to audit review.

Market risk – foreign exchange risk

The Group is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with external banks. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

4. FINANCIAL RISK MANAGEMENT CONTINUED

Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts. The key objective of the Group's foreign exchange transaction exposure management is to minimise potential volatility in profits which could arise as a result of exchange rate fluctuations whilst maintaining an appropriate competitive stance.

To achieve the above objectives, the Group will initially seek to hedge up to 90% of any foreign exchange transaction risks expected to arise as a result of uncertain, but probable, foreign currency cash flows up to one year forward. This subsequently increases to 100% as cash flows become certain.

For segment reporting purposes, each subsidiary designates contracts as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The cash flow hedges are intended to hedge the foreign currency exposure of future purchases of inventory. Weekly reports are made to management to demonstrate that this objective is being achieved. The hedged cash flows are expected to occur up to one year into the future and will be transferred to the consolidated income statement or inventory carrying value as applicable. The Group has foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is not hedged.

If on 28 February 2009, the last day of the financial year, sterling had been 5 cents, or approximately 3.5% (2008: approximately 2.5%), weaker/stronger against the US dollar, with all other variables held constant, post-tax profit would have been £6.7m lower/higher (2008: £3.9m lower/higher) mainly as a result of foreign exchange losses/gains arising on retranslation of US dollar denominated balances in subsidiary companies with a sterling functional currency. Equity would have been £11.7m higher/lower (2008: £5.3m higher/lower), arising mainly from the revaluation of US dollar forward currency contracts.

If on 28 February 2009, the last day of the financial year, sterling had been 5 cents, or approximately 4.4% (2008: approximately 3.8%), weaker/stronger against the euro, with all other variables held constant, post-tax profit would have been £5.0m lower/higher (2008: £2.9m lower/higher), mainly as a result of foreign exchange losses/gains on retranslation of sterling denominated cash balances in subsidiary companies with a euro functional currency. Equity would have been £0.4m lower/higher (2008: £0.3m higher/lower), arising mainly from foreign exchange gains or losses on retranslation of euro-denominated net assets held by subsidiary companies with a euro functional currency.

Market risk – cash flow and fair value interest rate risk

Whilst the Group's Financial Services business has gross instalment receivable balances on fixed interest rates and floating rates, the Group's income and operating cash flows are still considered to be substantially independent of changes in market interest rates.

The Group currently holds a net cash position and has undrawn borrowing facilities.

The Group's interest rate risk arises from the variance in market rate when deposits are made. This risk is managed by combining overnight deposits with term deposits. Interest rate risk also arises from any future long-term borrowings that it may incur. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The principal objective of the Group's interest rate risk management is to manage the trade-off between obtaining the most beneficial effective rates of interest whilst minimising the impact of interest rate volatility on profits before tax. The aim will normally be to manage interest rate risks by achieving a ratio of between 30% and 70% of net debt fixed rate.

The Group had no borrowings at any point during the year.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of financial services products are made to customers with an appropriate credit history. Customers are credit scored using an external credit agency. Sales to retail customers are made in cash, via major debit and credit cards or via in-house operated financial products.

The Group's exposure to credit risk with regard to treasury transactions is managed by dealing only with major banks and financial institutions. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis.

Foreign exchange counterparty limits are set for each organisation on a scale based on credit rating and maturity period.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

Group policy is that at the date that cash is deposited with major banks and financial institutions they must have a credit rating of at least AA- (Standard & Poor's) or Aaa (Moody's) and are subject to a maximum exposure of £50m. For any organisation that holds a credit rating of AAA, the maximum exposure is £100m. The policy was extended temporarily during the year to include banks with a rating of A+, which benefited from the Republic of Ireland's State Guarantee Scheme, whilst that country maintained a AAA rating. Amounts with a maturity of up to one year may be invested with sign off from the finance director but the Board may approve deposits with unlimited duration.

The above policy has been complied with throughout the year. Where a term deposit has been made and the counterparty ratings have subsequently reduced, each relevant position has been reviewed and all decisions to maintain each position until the normal maturity date have been approved by the Board. Since the year-end all term deposits have matured and been repaid, with the Group's cash balance deposited in overnight AAA rated money market funds.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings as follows:

Cash and term deposits and current asset investment

Bank and institution rating at transaction date	Bank and institution rating at 28 February 2009	Maturity date	Cash and short term cash deposits £m	Current asset investment (a) £m
AAA	AAA	n/a	134.4	–
AA	AA	7 April 2009	25.0	–
AA	A+	15 April 2009	–	75.0
A+ (b)	A	7 April 2009	50.0	–
			209.4	75.0

(a) The current asset investment comprises a term cash deposit invested for a period of nine months.

(b) Covered by the Republic of Ireland's State Guarantee Scheme. The Republic of Ireland maintained a credit rating of AAA (Standard & Poor's) or Aaa (Moody's) at the date of the transaction and at the balance sheet date, but this has subsequently been reduced to a AA+ rating.

Marked to market forward foreign exchange contracts

Bank and institution rating	2009 £m	2008 £m
AA	6.7	0.8
AA-	14.1	0.2
A+	22.9	0.5
A	8.4	–
	52.1	1.5

Of the £52.1m marked to market forward foreign exchange contracts held at the year-end, 84% will have matured within three months of the balance sheet date.

Liquidity risk

Home Retail Group manages its cash and committed borrowing facilities to maintain liquidity and funding flexibility. Liquidity is achieved through arranging funding ahead of requirements and maintaining sufficient undrawn committed facilities to meet short-term needs. At 28 February 2009, the Group had an undrawn committed borrowing facility available of £700m, £685m of which does not expire until 2013. This facility includes a covenant related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent. It is in place to enable the Group to finance its working capital requirements and for general corporate purposes, should the need arise. The Group has not drawn down on the facility and has been in compliance with the requirements of the covenant throughout the year.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

4. FINANCIAL RISK MANAGEMENT CONTINUED

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	At 28 February 2009				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Trade and other payables	(574.1)	–	–	–	(574.1)

	At 1 March 2008				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Trade and other payables	(596.6)	–	–	–	(596.6)

When a forward foreign exchange contract matures, this requires an outflow of the currency being sold and an inflow of the currency being bought. The table below analyses the Group's outflow and inflow from derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	At 28 February 2009				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Forward foreign exchange contracts					
– outflow	(324.4)	(232.1)	(92.6)	(22.8)	(671.9)
– inflow	368.2	239.7	93.0	23.1	724.0

	At 1 March 2008				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Forward foreign exchange contracts					
– outflow	(256.6)	(200.9)	(86.1)	–	(543.6)
– inflow	256.7	201.1	83.9	–	541.7

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group finances its operations through a combination of retained profits, property leases and borrowing facilities where necessary. The Group has significant liabilities through its obligations to pay rents under property leases. The Group, in common with the credit rating agencies, treats its lease liabilities as debt when evaluating financial risk and investment returns. The Group's net debt varies significantly throughout the year due to trading seasonality, and the position as at 28 February 2009 is set out in the analysis of net cash/(debt) on page 73.

Foreign currency

The principal exchange rates used were as follows:

	Average		Closing	
	52 weeks ended 28 February 2009	52 weeks ended 1 March 2008	28 February 2009	1 March 2008
US dollar	1.77	2.00	1.43	1.99
Euro	1.22	1.43	1.13	1.31

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

5. SEGMENTAL INFORMATION

Primary reporting format – business segments

The Group's primary reporting format is by business segment. This is in line with the current management structure, which reflects the different risks associated with the different businesses. The Group is organised into three main business segments: Argos, Homebase and Financial Services, together with Central Activities. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination.

52 weeks ended 28 February 2009

<i>Income statement</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Revenue	6	4,281.9	1,513.2	102.3	–	5,897.4
Profit						
Operating profit/(loss) before exceptional items		303.6	14.9	6.1	(32.6)	292.0
Exceptional items	9	(17.8)	(672.3)	(0.6)	(3.3)	(694.0)
Segment result		285.8	(657.4)	5.5	(35.9)	(402.0)
– Finance income	10					63.7
– Finance expense	10					(53.5)
Net financing income	10					10.2
Share of post-tax results of joint ventures and associates	17					(2.4)
Loss before tax						(394.2)
Taxation	11					(18.9)
Loss for the year						(413.1)

The result for Financial Services is after deducting funding costs of £13.6m (note 10).

As at 28 February 2009

<i>Balance sheet</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Segment assets		1,258.9	526.0	455.7	297.0	2,537.6
Investment in joint ventures and associates	17	–	–	–	8.4	8.4
Taxation		–	–	–	102.5	102.5
Goodwill	14	1,152.3	388.7	–	–	1,541.0
Total assets		2,411.2	914.7	455.7	407.9	4,189.5
Segment liabilities		(714.2)	(507.1)	(61.2)	(78.8)	(1,361.3)
Taxation		–	–	–	(69.8)	(69.8)
Total liabilities		(714.2)	(507.1)	(61.2)	(148.6)	(1,431.1)
Net assets		1,697.0	407.6	394.5	259.3	2,758.4
Less: goodwill		(1,152.3)	(388.7)	–	–	(1,541.0)
Net operating assets		544.7	18.9	394.5	259.3	1,217.4

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

5. SEGMENTAL INFORMATION CONTINUED

52 weeks ended 28 February 2009

<i>Other segment items</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	16	(81.7)	(53.0)	–	–	(134.7)
Impairment of fixed assets	16	–	(152.2)	–	–	(152.2)
Impairment of goodwill	14	–	(381.7)	–	–	(381.7)
Amortisation of intangible assets	15	(22.7)	(1.4)	(0.6)	–	(24.7)
Capital expenditure on property, plant and equipment	16	(61.9)	(49.0)	–	–	(110.9)
Capital expenditure on intangible assets	15	(39.6)	(1.2)	(3.9)	–	(44.7)

52 weeks ended 1 March 2008

<i>Income statement</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Revenue	6	4,320.9	1,568.5	95.4	–	5,984.8
Profit						
Operating profit/(loss) before exceptional items		376.2	45.1	5.5	(40.5)	386.3
Exceptional items	9	–	(19.4)	–	20.2	0.8
Segment result		376.2	25.7	5.5	(20.3)	387.1
– Finance income	10					62.3
– Finance expense	10					(25.0)
Net financing income	10					37.3
Share of post-tax results of joint ventures and associates	17					1.6
Profit before tax						426.0
Taxation	11					(131.4)
Profit for the year						294.6

The result for Financial Services is after deducting funding costs of £19.6m (note 10).

As at 1 March 2008

<i>Balance sheet</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Segment assets		1,280.1	686.7	459.1	273.2	2,699.1
Investment in joint ventures and associates	17	–	–	–	7.7	7.7
Taxation		–	–	–	63.5	63.5
Goodwill	14	1,152.3	770.4	–	–	1,922.7
Total assets		2,432.4	1,457.1	459.1	344.4	4,693.0
Segment liabilities		(743.8)	(432.1)	(56.1)	(0.3)	(1,232.3)
Taxation		–	–	–	(115.5)	(115.5)
Total liabilities		(743.8)	(432.1)	(56.1)	(115.8)	(1,347.8)
Net assets		1,688.6	1,025.0	403.0	228.6	3,345.2
Less: goodwill		(1,152.3)	(770.4)	–	–	(1,922.7)
Net operating assets		536.3	254.6	403.0	228.6	1,422.5

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

52 weeks ended 1 March 2008

<i>Other segment items</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	16	(71.3)	(55.6)	–	–	(126.9)
Impairment of fixed assets	16	–	(10.3)	–	–	(10.3)
Amortisation of intangible assets	15	(21.1)	(3.0)	(0.6)	–	(24.7)
Capital expenditure on property, plant and equipment	16	(80.9)	(95.4)	–	–	(176.3)
Capital expenditure on intangible assets	15	(29.8)	(4.5)	(0.7)	–	(35.0)

Geographical segments

The Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment assets arise there.

6. ANALYSIS OF REVENUE BY CATEGORY

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Sale of goods	5,795.1	5,889.4
Provision of services by Financial Services	102.3	95.4
Total	5,897.4	5,984.8

7. NET OPERATING EXPENSES

	52 weeks ended 28 February 2009			52 weeks ended 1 March 2008		
	Before exceptional items £m	Exceptional items (note 9) £m	After exceptional items £m	Before exceptional items £m	Exceptional items (note 9) £m	After exceptional items £m
Expenses by function						
Net operating expenses comprise:						
Selling costs	(1,444.4)	(301.7)	(1,746.1)	(1,405.8)	(19.4)	(1,425.2)
Administrative costs	(287.2)	(392.3)	(679.5)	(311.7)	20.2	(291.5)
Total net operating expenses	(1,731.6)	(694.0)	(2,425.6)	(1,717.5)	0.8	(1,716.7)

Expenses by nature

	Notes	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
(Loss)/profit before tax is stated after (charging)/crediting:			
Operating lease rental expense			
– Plant and equipment		(9.8)	(9.8)
– Property		(363.0)	(335.0)
Cost of inventories recognised as an expense in cost of sales		(3,742.8)	(3,758.0)
Write down of inventories		(131.0)	(123.0)
Profit/(loss) on sale of property, plant and equipment		0.2	(0.4)
Depreciation of property, plant and equipment	16	(134.7)	(126.9)
Amortisation of intangible assets	15	(24.7)	(24.7)
Employee benefit costs	8	(776.9)	(768.1)

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

7. NET OPERATING EXPENSES CONTINUED

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Auditors' remuneration		
Audit services:		
Fees payable for the audit of the Company and the consolidated financial statements	(0.8)	(0.8)
Other services:		
Fees payable to the Company's auditors and its associates for other services		
– the audit of the Company's subsidiaries pursuant to legislation	(0.1)	(0.1)
– services relating to taxation	(0.1)	(0.2)
– all other services	(0.2)	(0.1)
Total fees payable to PricewaterhouseCoopers LLP	(1.2)	(1.2)

The above disclosure is presented in accordance with SI 2005/2417, where audit fees in respect of the audit of the Company's subsidiaries pursuant to legislation are included within other services.

8. EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS

	Notes	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Employee costs			
Wages and salaries (a)		(686.7)	(670.6)
Social security costs		(42.3)	(42.9)
Post-employment benefits	24	(26.6)	(33.0)
Share-based payments	29	(21.3)	(21.6)
		(776.9)	(768.1)

(a) Includes exceptional reorganisation costs.

	52 weeks ended 28 February 2009		52 weeks ended 1 March 2008	
	Number of employees	Full time equivalent	Number of employees	Full time equivalent
Average numbers of employees				
Argos	33,199	17,811	32,976	17,749
Homebase	19,951	11,455	19,678	11,618
Financial Services	553	487	498	435
Central Activities	42	41	45	44
	53,745	29,794	53,197	29,846

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Key management compensation		
Short-term employee benefits	(2.8)	(5.2)
Post-employment benefits	(1.4)	(1.5)
Share-based payments	(3.7)	(6.3)
	(7.9)	(13.0)

Key management consists of the members of the Home Retail Group plc Board and the managing directors of both retail businesses.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

9. EXCEPTIONAL ITEMS

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Goodwill impairment (a)	(381.7)	–
Store impairment charges (b)	(152.2)	(10.3)
Onerous lease provisions (c)	(117.3)	–
Costs relating to the post-acquisition integration of the Focus DIY stores (d)	(7.6)	(9.1)
Reorganisation and restructuring charges (e)	(35.2)	–
Accrual release relating to incentive schemes (f)	–	20.2
Exceptional items in operating (loss)/profit	(694.0)	0.8
Tax on exceptional items in (loss)/profit before tax	58.8	(1.0)
Exceptional corporation tax credit (g)	27.4	12.6
Exceptional deferred tax charge (h)	(3.9)	(5.9)
Exceptional tax	82.3	5.7
Exceptional (loss)/profit for the year	(611.7)	6.5

(a) Management has interpreted the economic environment and resulting retail downturn as an external indicator of impairment. As a result, and as required by IAS 36, the assets of the business have been subject to an impairment review. Details of the goodwill value-in-use calculations can be found in note 14. As a result of the value-in-use calculations an impairment charge of £381.7m has been booked against the carrying value of the Homebase goodwill.

(b) As a result of the impairment review, certain assets have been written down to their recoverable amount, being the higher of fair value less costs to sell and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. The growth rates and discount rates used are consistent with those used in the goodwill calculations, as disclosed in note 14. For the 52 weeks to 28 February 2009, this resulted in a net impairment charge in respect of the Homebase store portfolio of £152.2m.

(c) The onerous lease provisions cover potential liabilities for onerous lease contracts for stores that have either closed, or where projected future trading income is insufficient to cover the lower of exit cost or value-in-use. Where the value-in-use calculation is lower the provisions are based on the present value of expected future cash flows, discounted at a pre-tax rate of 5.8%, relating to rents, rates and other property costs to the end of the lease terms net of expected sublet income. For the 52 weeks to 28 February 2009, this resulted in an onerous lease charge in respect of the Homebase store portfolio of £117.3m.

(d) Represents costs relating to the post-acquisition integration of certain of the Focus DIY stores acquired in the 52 weeks to 1 March 2008.

(e) Represents costs relating to the reorganisation and restructuring programme during the 52 weeks to 28 February 2009. Actions taken include a streamlining of head office functions across all parts of the Group, restructuring of store-based staff and a consolidation of home delivery warehouses.

(f) Represents the release of an accrual in respect of previous GUS-related long-term incentive schemes which were settled in June 2007.

(g) Represents the recognition of a corporation tax credit arising from the revision and agreement of prior year tax computations and the completion of a periodic review of the tax risks associated with the Group's overseas trading operations.

(h) The deferred tax charge of £3.9m represents the reversal of a deferred tax asset created on IFRS transition. The prior year charge of £5.9m represents an additional deferred tax charge arising from the re-estimation of qualifying assets in respect of accelerated tax depreciation, following the agreement of prior year tax computations.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

10. NET FINANCING INCOME/(COSTS)

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Finance income:		
Bank deposits and other interest	18.6	18.8
Expected return on retirement benefit assets	45.1	43.5
Total finance income	63.7	62.3
Finance expense:		
Interest cost of perpetual securities	–	(3.3)
Unwinding of discounts (a)	(4.3)	(1.8)
Financing fair value remeasurements:		
– net losses on financial instruments	–	(0.9)
– net exchange losses	(28.9)	(8.1)
Interest expense on retirement benefit liabilities	(33.9)	(30.5)
Total finance expense	(67.1)	(44.6)
Less: finance expense charged to Financial Services cost of sales	13.6	19.6
Total net finance expense	(53.5)	(25.0)
Net financing income	10.2	37.3

(a) Included within unwinding of discounts is a £1.8m charge (2008: £nil) relating to the discount unwind on exceptional onerous lease provisions.

11. TAXATION

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Analysis of charge in year		
Current tax:		
UK corporation tax	(94.5)	(119.4)
Double tax relief	1.6	1.7
Adjustments in respect of prior years	27.7	17.8
Total current UK tax charge	(65.2)	(99.9)
Overseas tax	(3.1)	(3.9)
Total current tax charge	(68.3)	(103.8)
Deferred tax:		
Origination and reversal of temporary differences	53.6	(17.4)
Adjustments in respect of prior years	(4.2)	(11.2)
Rate change impact	–	1.0
Total tax expense in income statement	(18.9)	(131.4)

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

Factors affecting the tax charge

The effective tax rate for the year of (4.8%) (2008: 30.8%), is lower than the standard rate of corporation tax in the UK of 28.0% (2008: 30.0%).

The differences are explained below:

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
(Loss)/profit before tax	(394.2)	426.0
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK	110.4	(127.8)
Effects of:		
Expenses not deductible for tax purposes	(153.3)	(14.2)
Differences in effective tax rates on overseas earnings	0.2	3.0
Adjustments to tax charge in respect of prior years	23.5	6.6
Rate change impact	0.3	1.0
Total tax expense in income statement	(18.9)	(131.4)

Factors that may affect future tax charges

In the foreseeable future, the Group's tax charge will continue to be influenced by the profile of profits earned in the different tax jurisdictions within the United Kingdom and the Republic of Ireland.

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Exceptional tax (see note 9)		
Exceptional (loss)/profit before tax	(694.0)	0.8
Exceptional (loss)/profit before tax multiplied by the standard rate of corporation tax in the UK	194.3	(0.2)
Effects of:		
Expenses not deductible for tax purposes	(135.5)	(0.8)
Net exceptional tax credit in respect of prior years	23.5	6.7
Exceptional tax credit	82.3	5.7

12. DIVIDENDS

Amounts recognised as distributions to equity holders

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Final dividend of 10.0p per share (2008: 9.0p) for the prior year	86.8	78.1
Interim dividend of 4.7p per share (2008: 4.7p) for the current year	40.4	40.8
Ordinary dividends on equity shares	127.2	118.9

A final dividend in respect of the year ended 28 February 2009 of 10.0p per share, amounting to a total final dividend of £85.6m, has been recommended by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the year of 14.7p per share, amounting to £126.0m. The recommended dividend has not been included as a liability at 28 February 2009 in accordance with IAS 10 'Events after the Balance Sheet Date'. It will be paid on 22 July 2009 to shareholders who are on the register of members at close of business on 22 May 2009. The Home Retail Group Employee Share Trust ('EST') has waived its entitlement to dividends in the amount of £1.8m (2008: £1.3m).

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

13. BASIC AND DILUTED EARNINGS PER SHARE ('EPS')

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held in Home Retail Group's share trusts, net of vested but unexercised options and share awards. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares.

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Earnings		
(Loss)/profit after tax for the financial year	(413.1)	294.6
Adjusted for:		
Exceptional items	694.0	(0.8)
Demerger incentive schemes	8.4	11.7
Financing fair value remeasurements	28.9	9.0
Financing impact on retirement benefit balances	(11.2)	(13.0)
Discount unwind on exceptional onerous lease provisions	1.8	–
Attributable taxation	(61.1)	(0.4)
Net exceptional tax credit in respect of prior years	(23.5)	(6.7)
Benchmark profit after tax for the financial year	224.2	294.4
Weighted average number of shares	millions	millions
Number of ordinary shares for the purpose of basic EPS	866.6	867.7
Dilutive effect of share incentive awards	10.4	9.6
Number of ordinary shares for the purpose of diluted EPS	877.0	877.3
EPS	pence	pence
Basic EPS	(47.7)	34.0
Diluted EPS (a)	(47.7)	33.6
Basic benchmark EPS	25.9	33.9
Diluted benchmark EPS	25.6	33.6

(a) In accordance with IAS 33, as the Group made a loss after tax for the 52 weeks ended 28 February 2009, the effect of share incentive awards is anti-dilutive and as such diluted EPS equals basic EPS.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

14. GOODWILL

	Argos £m	Homebase £m	Total £m
Cost			
At 2 March 2008 and 28 February 2009	1,152.3	770.4	1,922.7
Impairment			
At 2 March 2008	–	–	–
Charge for the year	–	(381.7)	(381.7)
At 28 February 2009	–	(381.7)	(381.7)
Net book value at 28 February 2009	1,152.3	388.7	1,541.0
	Argos £m	Homebase £m	Total £m
Cost			
At 4 March 2007	1,152.3	726.6	1,878.9
Additions	–	43.8	43.8
At 1 March 2008	1,152.3	770.4	1,922.7
Impairment			
At 4 March 2007 and 1 March 2008	–	–	–
Net book value at 1 March 2008	1,152.3	770.4	1,922.7

Goodwill is allocated to cash-generating units (CGUs) at the level of each business segment. The recoverable amount of each of the business segments is determined as being the higher of its fair value less costs to sell and its value-in-use. These calculations use cash flow projections based on financial plans approved by management looking forward five years. Cash flows are extrapolated using a long-term growth rate beyond the five-year plan period. There are a significant number of inter-connected assumptions that underpin the value-in-use calculations, however the key assumptions, which management believes are appropriate for both retail businesses, are:

- a long-term growth rate of 2.5% (2008: 2.25%), which has been used to extrapolate cash flows beyond the five-year plan period;
- a post-tax discount rate of 8.5% (2008: 7.0%), which equates to a pre-tax rate of approximately 11.8% (2008: 10.0%), has been estimated taking account of the specific risks inherent within the Group's retail businesses and has been applied to the cash flow projections; and
- operating profits for the current year, of £303.6m for Argos (2008: £376.2m) and £14.9m for Homebase (2008: £45.1m), have been adjusted into the plan period, incorporating assumptions in respect of sales growth, gross margin and cost savings following the Group's cost reduction programme. In establishing the value of operating profits during the plan period, the Board has approved a set of projections which it considers to be prudent and which provides a sensible basis upon which to make business planning decisions. These projections reflect management's continued expectation of a difficult trading environment for the product markets in which each business segment operates. For the Homebase business in particular, these forecasts assume a continued deterioration in the trading environment in the early years of the plan period, followed by a gradual improvement in the latter years of the plan period. Management will continue to pursue a range of options designed to achieve profits in excess of these prudent forecasts.

As a result of the value-in-use calculations an impairment charge of £381.7m was booked at the half year against the carrying value of the Homebase goodwill. As at 28 February 2009 the value-in-use calculations were updated. No additional impairment was required.

Management believes that no reasonably possible change in any of the key assumptions detailed above would cause the carrying value of the Argos business segment to exceed its recoverable amount. With regards to the Homebase business segment however, the value-in-use calculation remains sensitive to reasonably possible changes in key assumptions used and the table below sets out the sensitivities for changes to these key assumptions:

Key assumption	Sensitivity	Impact on value-in-use £m
Value-in-use headroom as at 28 February 2009		46
Post-tax discount rate	+/- 1%	(49)/69
Long-term growth rate	+/- 1%	56/(40)
Operating profit change in each and every year	+/- £1m	11/(11)

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

15. OTHER INTANGIBLE ASSETS

	Computer software £m	Brands £m	Total £m
Cost			
At 2 March 2008	186.7	–	186.7
Additions	24.1	20.6	44.7
Disposals	(0.3)	–	(0.3)
At 28 February 2009	210.5	20.6	231.1
Amortisation			
At 2 March 2008	(103.0)	–	(103.0)
Charge for the year	(24.5)	(0.2)	(24.7)
Disposals	0.2	–	0.2
At 28 February 2009	(127.3)	(0.2)	(127.5)
Net book value at 28 February 2009	83.2	20.4	103.6
Assets in the course of construction included above at 28 February 2009	27.8	–	27.8
Cost			
At 4 March 2007	152.0	–	152.0
Additions	35.0	–	35.0
Disposals	(0.3)	–	(0.3)
At 1 March 2008	186.7	–	186.7
Amortisation			
At 4 March 2007	(78.6)	–	(78.6)
Charge for the year	(24.7)	–	(24.7)
Disposals	0.3	–	0.3
At 1 March 2008	(103.0)	–	(103.0)
Net book value at 1 March 2008	83.7	–	83.7
Assets in the course of construction included above at 1 March 2008	19.4	–	19.4

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold properties £m	Leasehold properties		Plant & equipment £m	Total £m
		Long leasehold £m	Short leasehold £m		
Cost					
At 2 March 2008	102.3	1.7	382.4	1,158.0	1,644.4
Exchange differences	–	–	3.0	7.4	10.4
Additions	7.0	–	22.0	81.9	110.9
Disposals	(1.1)	–	(70.7)	(188.9)	(260.7)
Transfers between categories	–	(0.1)	0.1	–	–
At 28 February 2009	108.2	1.6	336.8	1,058.4	1,505.0
Depreciation and impairment losses					
At 2 March 2008	(10.4)	(0.4)	(200.7)	(701.1)	(912.6)
Exchange differences	–	–	(0.6)	(4.0)	(4.6)
Charge for the year	(1.3)	–	(18.1)	(115.3)	(134.7)
Impairment losses	(7.6)	–	(81.0)	(63.6)	(152.2)
Disposals	1.1	–	70.3	187.0	258.4
Transfers between categories	–	0.1	(0.1)	–	–
At 28 February 2009	(18.2)	(0.3)	(230.2)	(697.0)	(945.7)
Net book value at 28 February 2009	90.0	1.3	106.6	361.4	559.3
Assets in the course of construction included above at 28 February 2009	–	–	4.8	44.1	48.9
	Freehold properties £m	Leasehold properties		Plant & equipment £m	Total £m
		Long leasehold £m	Short leasehold £m		
Cost					
At 4 March 2007	91.6	5.1	335.7	1,055.0	1,487.4
Exchange differences	–	0.2	1.4	4.4	6.0
Additions	10.7	–	42.4	123.2	176.3
Acquired through business combination	–	–	1.0	0.5	1.5
Disposals	–	–	(1.7)	(25.1)	(26.8)
Transfers between categories	–	(3.6)	3.6	–	–
At 1 March 2008	102.3	1.7	382.4	1,158.0	1,644.4
Depreciation and impairment losses					
At 4 March 2007	(9.1)	(0.7)	(180.8)	(605.2)	(795.8)
Exchange differences	–	(0.1)	(0.3)	(2.2)	(2.6)
Charge for the year	(1.3)	–	(18.2)	(107.4)	(126.9)
Impairment losses	–	–	(2.5)	(7.8)	(10.3)
Disposals	–	–	1.5	21.5	23.0
Transfers between categories	–	0.4	(0.4)	–	–
At 1 March 2008	(10.4)	(0.4)	(200.7)	(701.1)	(912.6)
Net book value at 1 March 2008	91.9	1.3	181.7	456.9	731.8
Assets in the course of construction included above at 1 March 2008	4.0	–	7.0	71.0	82.0

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

16. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Store assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Store assets are written down to the higher of fair value less costs to sell and value-in-use. The key assumptions for the value-in-use calculations are the same as those detailed for the goodwill impairment model in note 14. As a consequence of this review, an exceptional impairment charge of £152.2m has been recognised in respect of the Homebase store portfolio. Management does not believe that the sensitivities as set out in note 14 would result in a significant further impairment.

17. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2009 £m	2008 £m
Opening	7.7	9.2
Reclassification to financial assets	–	(8.1)
Exchange differences	1.1	0.9
Share of (loss)/profit after tax	(0.4)	2.8
Additions	–	6.8
Disposals	–	(3.9)
Closing	8.4	7.7

The Group's interest in joint ventures consists of a 50% holding in Home Retail Group Personal Finance Limited, a company incorporated in England, and its interest in associates consists of a 33% shareholding in Ogalas Limited (which trades as 'home store + more'), a company incorporated in the Republic of Ireland, which was acquired during the prior year for £6.8m. In addition, on 14 November 2007 the Group disposed of its 33% holding of AAGUS Financial Services Group NV, a company incorporated in The Netherlands, which was previously reported as an associate.

The Group's share of the revenue of its joint venture for the 52 weeks ended 28 February 2009 is £2.9m (2008: £0.8m) and its share of the loss after tax is £2.0m (2008: £1.2m). At 28 February 2009, the Group's share of the net liabilities of its joint venture amounted to £9.3m (2008: £4.4m), consisting of assets of £25.7m (2008: £16.3m) and liabilities of £35.0m (2008: £20.7m). No liability has been recognised in the Group's balance sheet in respect of the joint venture, but the Group's share of the accumulated losses has been taken against the carrying value of a loan made by the Group to the joint venture, which is reported within other financial assets in note 25.

The Group's share of the revenue of its associates for the 52 weeks ended 28 February 2009 is £5.9m (2008: £4.4m) and its share of loss after tax is £0.4m (2008: £2.8m profit). At 28 February 2009, the Group's share of the net assets of its associates amounted to £8.4m (2008: £7.7m), consisting of assets of £9.5m (2008: £8.2m), which includes goodwill of £4.9m (2008: £4.2m), and liabilities of £1.1m (2008: £0.5m).

18. INVENTORIES

	2009 £m	2008 £m
Goods for resale	930.3	1,004.8

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

19. TRADE AND OTHER RECEIVABLES

	Current 2009 £m	Non-current 2009 £m	Current 2008 £m	Non-current 2008 £m
Trade receivables:				
– Instalment receivables	491.1	0.2	488.9	1.7
– Other trade receivables	59.3	–	51.6	–
	550.4	0.2	540.5	1.7
Less: provision for impairment of receivables	(70.1)	(0.2)	(60.8)	(0.6)
	480.3	–	479.7	1.1
Other receivables	56.4	3.4	59.7	3.7
Prepayments and accrued income	57.0	–	58.4	–
	593.7	3.4	597.8	4.8

The carrying values of current trade and other receivables are a reasonable approximation of their fair values. Long-term receivables have been discounted where the time value of money is material. All receivables due after more than one year are due within five years from the balance sheet date. There is no concentration of credit risk with respect to trade receivables, as the Group has a broad customer base. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

As at 28 February 2009, trade receivables of £86.0m (2008: £76.4m) were impaired. The amount of the provision was £70.3m as at 28 February 2009 (2008: £61.4m). The individually impaired receivables mainly relate to store card holder balances on customer accounts on which indications of possible default have been identified.

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 3 March 2007	58.8
Charge for the year	36.6
Utilised	(34.0)
At 1 March 2008	61.4
Charge for the year	42.1
Utilised	(33.2)
At 28 February 2009	70.3

As at 28 February 2009, trade receivables of £28.7m (2008: £24.2m) were past due but not impaired. These relate to store card holders and corporate customer receivable balances. The ageing analysis of these trade receivables is as follows:

	2009 £m	2008 £m
Less than 3 months	26.5	22.2
3 to 6 months	1.7	1.5
6 to 9 months	0.2	0.3
9 to 12 months	0.3	0.2
	28.7	24.2

The other classes within trade and other receivables do not contain impaired assets.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

20. CURRENT ASSET INVESTMENTS

	2009 £m	2008 £m
Term cash deposit	75.0	–

The current asset investment comprises a term cash deposit invested for a period of nine months which matured after the balance sheet date on 15 April 2009. The interest rate on this deposit was 6.1%.

21. CASH AND CASH EQUIVALENTS

	2009 £m	2008 £m
Cash at bank and in hand	209.4	174.0

The effective interest rate during the year ended 28 February 2009 for cash and cash equivalents was 4.8% (2008: 5.5%). Under the terms of a re-insurance agreement, bank balances totalling £2.9m (2008: £3.4m) are the subject of custodial agreements and may not be withdrawn without the consent of the re-insured. The Group has provided letters of credit totalling £12.5m (2008: £12.5m) to AIG Europe (UK) Limited as part of their re-insurance agreement. These letters are secured by cash deposits.

22. TRADE AND OTHER PAYABLES

	Current 2009 £m	Non-current 2009 £m	Current 2008 £m	Non-current 2008 £m
Trade payables	(486.0)	–	(501.3)	–
Social security costs and other taxes	(45.0)	–	(48.1)	–
Accruals and deferred income	(380.1)	(64.0)	(444.8)	(41.3)
Other payables	(88.1)	–	(95.3)	–
	(999.2)	(64.0)	(1,089.5)	(41.3)

Trade and other payables are non-interest bearing and the fair values are not considered to differ materially from the recognised book values. Long-term payables have been discounted where the time value of money is material.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

23. PROVISIONS

	Onerous leases £m	Insurance provisions £m	Restructuring provisions £m	Other £m	Total £m
At 1 March 2008	(51.4)	(31.4)	(5.1)	(10.8)	(98.7)
Charged to the income statement	(122.2)	(8.0)	(35.2)	(6.2)	(171.6)
Utilised during the year	4.7	6.3	6.7	7.0	24.7
Discount unwind	(4.5)	–	–	(0.1)	(4.6)
At 28 February 2009	(173.4)	(33.1)	(33.6)	(10.1)	(250.2)

Analysed as:

	2009 £m	2008 £m
Current	(51.6)	(26.1)
Non-current	(198.6)	(72.6)
	(250.2)	(98.7)

The onerous lease provision covers potential liabilities for onerous lease contracts for stores that have either closed, or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. Where the value-in-use calculation is lower, the provision is based on the present value of expected future cash flows relating to rents, rates and other property costs to the end of the lease terms net of expected sublet income. The majority of this provision is expected to be utilised over the period to 2016.

Provision is made at the year-end for the estimated costs of claims incurred by the Group's captive insurance company but not settled at the balance sheet date, including the costs of claims that have arisen but have not yet been reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims. The majority of this provision is expected to be utilised over the period to 2013.

A number of organisational changes are being undertaken to improve the operational efficiency of the Group and drive further cost productivity. Actions taken include a streamlining of head office functions across all parts of the Group, restructuring of store-based staff and a consolidation of home delivery warehouses. The majority of this provision is expected to be utilised within one year.

Other provisions include legal claims and other sundry provisions. The majority of this provision is expected to be utilised within one year.

24. POST-EMPLOYMENT BENEFITS

The Group operates both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which both the Group and employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the year.

Pension arrangements for UK employees are operated principally through a defined benefit scheme (the Home Retail Group Pension Scheme) and a defined contribution scheme (the Home Retail Group Stakeholder Pension Scheme). In other countries, benefits are determined in accordance with local practice and regulations and funding is provided accordingly.

Defined benefit schemes

The Home Retail Group Pension Scheme

The scheme has rules which specify the benefits to be paid and are financed accordingly with assets being held in independently administered funds. A full actuarial valuation of this scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out as at 31 March 2006 by independent, qualified actuaries, Watson Wyatt LLP, using the projected unit method. The next full actuarial valuation of the scheme will be carried out as at 31 March 2009.

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For the 52 weeks ended 28 February 2009

24. POST-EMPLOYMENT BENEFITS CONTINUED

The movements during the year in the net (liability)/asset recognised in the balance sheet were as follows:

	2009 £m	2008 £m
Opening	83.7	9.3
Total charge recognised in the consolidated income statement	(8.6)	(13.8)
Actuarial (loss)/gain recognised in the consolidated statement of recognised income and expense	(135.4)	73.9
Contributions paid	13.9	14.3
Closing	(46.4)	83.7

The estimated amount of contributions expected to be paid into the Home Retail Group Pension Scheme by the Group during the next financial year is £13m.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2009 £m	2008 £m
Fair value of scheme assets	504.4	646.5
Present value of funded scheme liabilities	(539.8)	(552.1)
(Deficit)/surplus in the funded scheme	(35.4)	94.4
Present value of unfunded pension arrangements	(11.0)	(10.7)
Retirement benefit (liability)/asset recognised in the balance sheet	(46.4)	83.7

The amounts recognised in the consolidated income statement were as follows:

	2009 £m	2008 £m
Current service cost	(20.4)	(26.8)
Curtailment	0.6	–
Discount unwind on scheme liabilities	(33.9)	(30.5)
Expected return on scheme assets	45.1	43.5
Total charge to consolidated income statement	(8.6)	(13.8)

The current service cost includes £1.8m (2008: £2.2m) in respect of unfunded pension arrangements.

The charge is recognised in the following line items in the consolidated income statement:

	2009 £m	2008 £m
Administrative costs	(19.8)	(26.8)
Finance expense (note 10)	(33.9)	(30.5)
Finance income (note 10)	45.1	43.5
Total charge to consolidated income statement	(8.6)	(13.8)

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For the 52 weeks ended 28 February 2009

IAS 19 valuations

The valuations used for IAS 19 have been based on the most recent actuarial funding valuations and have been updated by Watson Wyatt LLP to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at 28 February 2009 and 1 March 2008. The principal actuarial assumptions used to calculate the present value of the defined benefit obligations were as follows:

	2009 %	2008 %
Rate of inflation	3.4	3.5
Rate of increases for salaries	4.7	4.8
Rate of increase for pensions in payment	3.3	3.4
Rate of increase for deferred pensions	3.4	3.5
Discount rate	6.5	6.1

The impact of changing material assumptions is as follows:

	Increase/ decrease in assumptions	2009		2008	
		Indicative effect on scheme liabilities £m	Indicative effect on annual service cost £m	Indicative effect on scheme liabilities £m	Indicative effect on annual service cost £m
Rate of inflation	0.1%	+/- 9.4	+/- 0.6	+/- 12.4	+/- 0.8
Rate of increase for salaries	0.1%	+/- 2.2	+/- 0.2	+/- 3.4	+/- 0.3
Rate of increase for pensions in payment	0.1%	+/- 5.0	+/- 0.2	+/- 7.3	+/- 0.4
Rate of increase for deferred pensions	0.1%	+/- 2.8	+/- 0.1	+/- 3.4	+/- 0.2
Discount rate	0.1%	-/+ 11.0	-/+ 0.5	-/+ 14.6	-/+ 0.8
Life expectancy	1 year	+/- 14.9	+/- 0.7	+/- 14.6	+/- 0.7

The discount rate is based on market yields on high-quality corporate bonds of equivalent currency and term to the defined benefit obligation.

The IAS 19 valuation assumes that mortality will be in line with 'PA92 Series' tables with 'medium cohort' projections for mortality improvements up to the current year. The allowance for mortality improvements beyond the current year is based on medium cohort improvements with a 1% floor. Previously it had been assumed that the probability of death occurring at each age would decrease by approximately 0.25% each year. The effect of this change to the mortality assumption has been to add between 1 to 1.5 years to the average expectation of life on retirement.

Based on these assumptions the average expectation of life on retirement in normal health is assumed to be:

- 22.5 years at age 65 for a male currently aged 65 (2008: 21.4)
- 25.6 years at age 65 for a female currently aged 65 (2008: 24.3)
- 23.9 years at age 65 for a male currently aged 50 (2008: 22.3)
- 27.0 years at age 65 for a female currently aged 50 (2008: 25.1)

The assets of the Home Retail Group Pension Scheme and the expected rates of return are summarised as follows:

	2009			2008		
	Fair value £m	Percentage of scheme assets %	Expected long-term rate of return % pa	Fair value £m	Percentage of scheme assets %	Expected long-term rate of return % pa
Market value of scheme assets:						
Equities	302.3	60	8.4	438.0	68	8.1
Fixed interest securities	190.4	38	5.4	202.7	31	5.0
Other	11.7	2	4.5	5.8	1	5.3
	504.4	100	7.2	646.5	100	7.1

The overall expected rate of return on scheme assets is the weighted average of the best estimate of the individual asset categories and their inherent expected rates of return.

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24. POST-EMPLOYMENT BENEFITS CONTINUED

Changes in the present value of the defined benefit obligation are as follows:

	2009 £m	2008 £m
Opening defined benefit obligation	(562.8)	(628.0)
Current service cost	(20.4)	(26.8)
Curtailment	0.6	–
Interest cost	(33.9)	(30.5)
Contributions paid by employees	(6.8)	(6.9)
Actuarial gain on liabilities recognised in the statement of recognised income and expense	58.9	118.7
Benefits paid	13.6	10.7
Closing defined benefit obligation	(550.8)	(562.8)

Changes in the market value of the scheme assets are as follows:

	2009 £m	2008 £m
Opening market value of scheme assets	646.5	637.3
Expected return	45.1	43.5
Actuarial loss on assets recognised in the statement of recognised income and expense	(194.3)	(44.8)
Contributions paid by the Group	13.9	14.3
Contributions paid by employees	6.8	6.9
Benefits paid	(13.6)	(10.7)
Closing market value of scheme assets	504.4	646.5
Cumulative actuarial (loss)/gain included in the statement of recognised income and expense	(101.4)	34.0

The actual return on scheme assets was a loss of £149.2m (2008: £1.3m loss).

History of experience gains and losses:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	(550.8)	(562.8)	(628.0)	(579.1)	(465.5)
Fair value of scheme assets	504.4	646.5	637.3	604.6	392.5
Net (deficit)/surplus on the scheme	(46.4)	83.7	9.3	25.5	(73.0)
Experience gain/(loss) on scheme liabilities	1.5	(4.3)	20.8	0.2	3.6
Percentage of scheme liabilities	0.3%	(0.8%)	3.3%	0.0%	0.8%
Experience (loss)/gain on scheme assets	(194.3)	(44.8)	(18.0)	70.9	8.1
Percentage of scheme assets	(38.5%)	(6.9%)	(2.8%)	11.7%	2.1%

Defined contribution schemes

The pension cost represents contributions payable by the Group to the defined contribution schemes and amounted to £6.8m (2008: £6.2m). Contributions totalling £0.3m (2008: £0.3m) were payable to the schemes at 28 February 2009 and are included within trade and other payables.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

25. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current 2009 £m	Non-current 2009 £m	Current 2008 £m	Non-current 2008 £m
Other financial assets				
Forward foreign exchange contracts – cash flow hedges	25.5	–	3.8	–
Forward foreign exchange contracts – fair value hedges	28.2	–	0.5	–
Available-for-sale financial assets	–	9.2	–	14.2
Total other financial assets	53.7	9.2	4.3	14.2
Other financial liabilities				
Forward foreign exchange contracts – cash flow hedges	(1.5)	–	(2.8)	–
Total other financial liabilities	(1.5)	–	(2.8)	–

Forward foreign exchange contracts

The forward foreign exchange contracts are intended to hedge the foreign currency exposures of future purchases of inventory. The hedged cash flows are expected to occur up to one year into the future and will be transferred to inventory.

Gains and losses recognised in the hedging reserve in shareholders' equity on forward foreign exchange contracts as at 28 February 2009 and 1 March 2008 will be released to inventory within one year from the balance sheet date. The notional principal amounts of the outstanding forward foreign exchange contracts at 28 February 2009 were £671.9m (2008: £543.6m). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value or, where fair value cannot be reliably measured, at cost less impairment.

26. DEFERRED TAX

	2009 £m	2008 £m
The movements on the net deferred tax account are as follows:		
Opening	(20.8)	29.6
Income statement credit/(charge) (note 11)	49.4	(28.6)
Rate change impact	–	1.0
Tax on pensions and share schemes credited/(charged) to shareholders' equity	32.5	(22.8)
Closing	61.1	(20.8)
The deferred tax amounts recognised are as follows:		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than one year	87.4	46.6
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than one year	(26.3)	(67.4)
Net deferred tax asset/(liability)	61.1	(20.8)

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For the 52 weeks ended 28 February 2009

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Asset provisions £m	Accelerated tax depreciation £m	Other temporary differences £m	Total £m
Deferred tax assets				
At 4 March 2007	43.2	–	31.2	74.4
Income statement charge	(5.6)	–	(1.1)	(6.7)
Rate change impact	(2.4)	–	(0.9)	(3.3)
Tax charged to equity	(1.1)	–	(16.7)	(17.8)
At 1 March 2008	34.1	–	12.5	46.6
At 2 March 2008	34.1	–	12.5	46.6
Income statement credit/(charge)	28.5	–	(12.0)	16.5
Tax charged to equity	1.1	–	37.9	39.0
Transfer from deferred tax liabilities	0.1	0.7	(15.5)	(14.7)
At 28 February 2009	63.8	0.7	22.9	87.4

	Property valuations £m	Accelerated tax depreciation £m	Other £m	Total £m
Deferred tax liabilities				
At 4 March 2007	(25.0)	(20.5)	0.7	(44.8)
Income statement credit/(charge)	1.7	(11.8)	(11.8)	(21.9)
Rate change impact	1.5	2.2	0.6	4.3
Tax charged to equity	–	–	(5.0)	(5.0)
At 1 March 2008	(21.8)	(30.1)	(15.5)	(67.4)
At 2 March 2008	(21.8)	(30.1)	(15.5)	(67.4)
Income statement credit	2.1	30.8	–	32.9
Tax charged to equity	–	–	(6.5)	(6.5)
Transfer to deferred tax assets	–	(0.7)	15.4	14.7
At 28 February 2009	(19.7)	–	(6.6)	(26.3)

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group has not recognised deferred tax assets of £1.1m (2008: £1.4m) in respect of all non-trading losses, which total £3.9m (2008: £5.0m), that can be carried forward against future taxable income. In addition, the Group has not recognised deferred tax assets of £32.2m (2008: £32.2m) in respect of capital losses, which total £114.9m (2008: £114.9m), that can be carried forward against future taxable gains. These losses are available indefinitely.

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

27. SHARE CAPITAL

	2009 Number of shares	2009 £m	2008 Number of shares	2008 £m
Authorised:				
Ordinary share capital of 10p each	2,000,500,000	200.1	2,000,500,000	200.1

	2009 Number of shares m	2009 £m	2008 Number of shares m	2008 £m
Allotted, called-up and fully paid:				
Ordinary share capital of 10p each	877.4	87.7	877.4	87.7

28. RECONCILIATION OF MOVEMENTS IN EQUITY

	Share capital £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 2 March 2008	87.7	(348.4)	3.9	3,602.0	3,345.2
Loss for the financial year	–	–	–	(413.1)	(413.1)
Net income/(expense) recognised in equity for the financial year	–	–	52.6	(98.7)	(46.1)
Movement in share-based compensation reserve (note 29)	–	–	–	21.3	21.3
Net movement in own shares	–	–	(21.1)	(0.4)	(21.5)
Equity dividends paid during the year (note 12)	–	–	–	(127.2)	(127.2)
Other distributions	–	–	–	(0.2)	(0.2)
Total equity at 28 February 2009	87.7	(348.4)	35.4	2,983.7	2,758.4
	Share capital £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 4 March 2007	87.7	(348.4)	(11.4)	3,350.8	3,078.7
Profit for the financial year	–	–	–	294.6	294.6
Net income recognised in equity for the financial year	–	–	15.2	51.6	66.8
Movement in share-based compensation reserve (note 29)	–	–	–	21.6	21.6
Net movement in own shares	–	–	0.1	2.3	2.4
Equity dividends paid during the year (note 12)	–	–	–	(118.9)	(118.9)
Total equity at 1 March 2008	87.7	(348.4)	3.9	3,602.0	3,345.2

Other distributions represents dividend equivalent amounts paid to participants in the Group's share award schemes on exercise of awards under these schemes.

Merger reserve

The merger reserve arose on the demerger of the Group from GUS plc during 2006.

Other reserves

Other reserves principally consist of shares held in trust, the hedging reserve and the translation reserve.

Notes to the financial statements continued

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28. RECONCILIATION OF MOVEMENTS IN EQUITY CONTINUED

Net movement in own shares represents the purchase, and subsequent utilisation or sale, of shares for the purpose of satisfying obligations arising from the Group's share-based compensation schemes. Shares in Home Retail Group plc are held in the following trusts which have been established since demerger:

Home Retail Group Employee Share Trust ('EST')

The EST provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 28 February 2009, the EST held 20,082,708 shares with a market value of £42.7m. The shares in the EST are held within equity of the Group at a cost of £21.5m. During the year 11,398,812 shares were acquired for a cost of £21.6m, with the remaining shares in the EST having been acquired as part of the demerger from GUS plc in 2006 at no cost. Dividends on these shares are waived.

Home Retail Group Share Incentive Scheme Trust

The Home Retail Group Share Incentive Scheme Trust provides for the issue of shares to Group employees under the Share Incentive Plan. At 28 February 2009, the Trust held 1,345,240 shares with a market value of £2.9m. These shares are held within equity of the Group at a cost of £5.6m. No additional shares were purchased during the year.

29. SHARE-BASED PAYMENT ARRANGEMENTS

The Group operates a number of share-based payment schemes. These can be analysed into three categories, being those rolled over from old GUS plc schemes as a result of the demerger from GUS on 11 October 2006, incentive schemes specifically related to the demerger ('Demerger incentive schemes') and new Home Retail Group plc schemes subsequent to the demerger.

Prior to the demerger, a number of Home Retail Group plc employees participated in old GUS plc share-based payment schemes. As part of the demerger, some of these schemes had early vesting with vesting occurring prior to completion of the demerger, while others were modified by rolling them over to become Home Retail Group plc share-based payment schemes. Specifically, all executive share option schemes in operation following the demerger from GUS plc were rolled over from a GUS plc share option arrangement to a Home Retail Group plc arrangement. Furthermore, certain share grant schemes (namely the co-investment plan and the performance share plan) which originally operated as GUS plc share grant schemes, were rolled over as Home Retail Group plc share grant schemes. Under IFRS 2, these changes were treated as modifications to the schemes and hence revalued as at the demerger date.

Summary of the total cost of share-based compensation in respect of ordinary shares in the Company

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Share option awards	(7.4)	(5.3)
Share grant awards	(13.9)	(16.3)
Total expense recognised (all equity-settled)	(21.3)	(21.6)

The total share-based payments charge of £21.3m (2008: £21.6m) includes £8.6m (2008: £10.4m) relating to demerger incentive schemes which, net of a credit relating to national insurance of £0.2m (2008: £1.3m charge), total £8.4m (2008: £11.7m), and are excluded from benchmark profit before tax.

Summary of share option and share award arrangements

During the year ended 28 February 2009, Home Retail Group plc had a number of share option and share award arrangements for its employees, all of which are equity-settled. Details of these arrangements are as follows:

Rolled over from old GUS plc schemes

Share options

The 1998 approved and non-approved executive share option schemes. Under these schemes, the exercise price of granted options is equal to the market price of the shares over the three dealing days preceding grant. Options are conditional on the employee completing three years' service. The options are exercisable starting three years from the grant date, subject to the Group's EPS compound annual growth exceeding compound annual retail price inflation by 4% per annum over a continuous three-year period. This is not a market-based performance condition as defined by IFRS 2. The options have a maximum term of 10 years. No new options have been granted under these schemes since demerger.

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Share awards

The (ex-GUS plc) performance share plan. Awards made under this plan will normally vest three years after the date of grant for nil consideration, with the percentage of the award distributed to participants determined by ranking total shareholder return relative to a comparator group, which is considered a market-based performance condition under IFRS 2. Awards under this plan have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation.

The (ex-GUS plc) co-investment plan permitted the awards of matching shares to participants, conditional on the achievement of specified performance targets related to the benchmark operating profit of the Group. The matching shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same. The grant date is the start of the financial year in which performance is assessed, which is one year before the quantity of shares awarded is determined. Awards made under this plan will normally vest after a four-year period for nil consideration, and participants have a further two years to exercise their awards. The underlying value of the award is known at grant date, subject to the outcome of the performance condition.

Demerger incentive schemes

Share awards

The performance share plan. Awards made under this plan will normally vest three years after the date of grant, at which time shares will be distributed to participants for nil consideration.

The re-investment plan is a three-part scheme running over three, four and five years, under which participants were awarded matching shares. The matching shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same. The percentage of the award distributed to participants is conditional upon continued service, ranking of total shareholder return relative to a comparator group and the achievement of specified performance targets related to the return on invested capital of the Group. The total shareholder return performance condition is considered a market-based performance condition under IFRS 2. Awards under this plan have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation.

The long-term incentive plan. Under the long-term incentive plan a one-off grant of matching shares was made to participants at demerger, based upon the operating profit performance of the Group over the three years prior to demerger. The matching shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same. The quantity of shares was determined at demerger, following assessment of performance, and awarded in June 2007. The awards made under this plan will normally vest two years later, and participants have a further two years to exercise their awards.

The share incentive plan was a one-off free share grant to all employees at the time of the demerger. The shares are being held in a trust on behalf of participants and will normally be forfeited if a participant's employment with the Group ceases within three years of the grant date. Participants can exercise their awards after the three-year period, however awards can be exercised free of tax after a further two years. The shares continue to be held by the trust until the awards are either exercised by participants or lapse.

New Home Retail Group plc schemes

Share options

The Home Retail Group plc Sharesave Plan permits the grant to employees of options over the Company's shares linked to a building society save-as-you-earn contract for a term of three or five years with contributions from employees of between £5 and £250 per month. Options are normally capable of being exercised at the end of the three- or five-year period at an exercise price calculated at a 20% discount to market price over the three dealing days preceding invitation to participants. Options must be exercised within six months of the end of the three- or five-year save-as-you-earn contract.

Share awards

The performance share plan. Awards made under this plan will normally vest three years after the date of grant for nil consideration, with the percentage of the award distributed to participants determined by ranking total shareholder return relative to a comparator group, which is considered a market-based performance condition under IFRS 2. Awards under this plan have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation.

Notes to the financial statements continued

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29. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

The **co-investment plan** permits the awards of matching shares to participants. The matching shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same. Awards made under this plan will normally vest after a four-year period for nil consideration, and participants have a further two years to exercise their awards. Vesting will normally be conditional on the achievement of specified performance targets in two stages. The grant date is the start of the financial year in which the first performance stage (the achievement of specified performance targets related to the benchmark operating profit of the Group) is assessed, which is one year before the quantity of shares awarded is determined. For awards granted during the year, the percentage of the award distributed to participants will be determined by the extent to which the targets for the second performance stage (the achievement of specified performance targets related to the EPS growth and return on invested capital of the Group from the second to fourth years following grant) are met.

Information relating to share option valuation techniques

The Company uses the Black-Scholes option pricing model to determine an appropriate value of the option grants. The estimated fair values and inputs into the option pricing model are as follows:

	52 weeks ended 28 February 2009	52 weeks ended 1 March 2008
Options granted over Home Retail Group plc shares under the Home Retail Group plc Sharesave Plan		
Weighted average:		
Fair value (£)	0.55	1.08
Share price on grant date (£)	2.38	4.70
Exercise price (£)	1.90	3.79
Expected volatility	42.4%	24.3%
Expected dividend yield	6.2%	3.1%
Risk free interest rate	4.4%	5.4%
Expected option life to exercise	3.7 years	3.8 years

Expected volatility is a measure of expected fluctuations in the share price over the expected life of an option. The measure of volatility used by the Company in its pricing model during the year ended 28 February 2009 has been calculated by using implied volatility from market quoted prices of traded options over the Company's shares. For the year ended 1 March 2008, as limited historical volatility existed for the Company's share price, an average of volatilities was calculated from comparator companies.

Reconciliation of movement in the number of share options

	52 weeks ended 28 February 2009		52 weeks ended 1 March 2008	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Outstanding at beginning of year	17,160,056	3.76	9,958,258	3.70
Granted	14,266,007	1.90	9,777,675	3.79
Forfeited	(7,828,759)	3.48	(1,801,009)	3.77
Exercised	(758)	1.90	(679,050)	3.45
Expired	(349,307)	3.73	(95,818)	3.36
Outstanding at year-end	23,247,239	2.71	17,160,056	3.76
Exercisable at year-end	4,733,476	3.57	462,044	3.39

The weighted average share price for share options exercised during the year was £2.14 (2008: £4.44).

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Share options outstanding at the end of the year

Share options at the end of the year had the following exercise prices and remaining contractual lives:

Range of exercise prices £	As at 28 February 2009			
	Number of options	Weighted average exercise price £	Weighted average remaining lives	
			Expected years	Contractual years
1.00 – 1.99	12,984,269	1.90	3.3	3.8
2.00 – 2.99	34,097	2.79	–	3.9
3.00 – 3.99	10,228,873	3.74	1.1	5.8

Range of exercise prices £	As at 1 March 2008			
	Number of options	Weighted average exercise price £	Weighted average remaining lives	
			Expected years	Contractual years
1.00 – 1.99	–	–	–	–
2.00 – 2.99	38,350	2.80	–	4.9
3.00 – 3.99	17,121,706	3.76	2.5	5.8

Information relating to share award valuation techniques

The value of the awards is determined as the observed market closing share price on the date awarded grants are issued to participants. For the co-investment plan, this occurs after the first year of performance is assessed. The performance share plan's and the re-investment plan's market-based performance condition is included in the fair value measurement on grant date and is not revised for actual performance.

All of the share awards are equity-settled. Under the share awards, the participants have an entitlement to either dividend equivalents or dividend distributions from issue date until point of vesting. The observed market share price on the day of valuation is considered inclusive of future dividend distributions.

There were 7,609,354 ordinary share awards (2008: 3,962,197) granted during the year with a weighted average fair value of £1.84 (2008: £3.14).

30. OPERATING LEASES

	2009 £m	2008 £m
Future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Less than one year	(393.0)	(358.9)
Between one and five years	(1,394.3)	(1,359.7)
More than five years	(2,537.0)	(2,611.5)
Total operating leases	(4,324.3)	(4,330.1)

The Group leases various retail stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses, contingent rentals and renewal rights.

31. COMMITMENTS

	2009 £m	2008 £m
Capital expenditure for which contracts have been placed:		
Property, plant and equipment	(17.6)	(25.8)
Intangible assets	(4.0)	–
Total commitments	(21.6)	(25.8)

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For the 52 weeks ended 28 February 2009

32. CONTINGENT LIABILITIES

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Cash generated from operations		
(Loss)/profit before tax	(394.2)	426.0
Adjustments for:		
Share of post-tax losses/(profits) of joint ventures and associates	2.4	(1.6)
Net financing income	(10.2)	(37.3)
Operating (loss)/profit	(402.0)	387.1
(Profit)/loss on sale of property, plant and equipment	(0.2)	0.4
Depreciation and amortisation	159.4	151.6
Impairment losses	533.9	10.3
Finance expense charged to Financial Services cost of sales	13.6	19.6
Decrease/(increase) in inventories	74.5	(98.4)
Decrease/(increase) in receivables	12.6	(21.2)
(Decrease)/increase in payables	(97.3)	71.5
Movement in working capital	(10.2)	(48.1)
Increase in provisions	146.9	9.2
Movement in retirement benefits	5.9	12.5
Share-based payment expense (net of dividend equivalent payments)	21.1	21.6
Cash generated from operations	468.4	564.2

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Reconciliation of net increase in cash and cash equivalents to movement in net debt		
Net cash at beginning of the year	174.0	60.2
Effect of foreign exchange rate changes	4.0	1.8
Net increase/(decrease) in cash and cash equivalents	31.4	(111.6)
Decrease in debt	–	223.6
Net cash at the end of the year	209.4	174.0

Non-GAAP measures	Notes	2009 £m	2008 £m
Financing net cash:			
Cash at bank and in hand	21	209.4	174.0
Current asset investments	20	75.0	–
Total financing net cash		284.4	174.0

Major non-cash transactions

The Group did not enter into any new finance lease arrangements during the year (2008: £nil).

Notes to the financial statements continued

For the 52 weeks ended 28 February 2009

34. RELATED PARTIES

The ultimate parent company of the Group is Home Retail Group plc. The principal subsidiary and associate undertakings at 28 February 2009 are shown in note 36. Transactions between Home Retail Group plc and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Transactions carried out with related parties in the normal course of business are summarised below:

Joint Venture

The Group lent £2.0m (2008: £nil) to a joint venture, Home Retail Group Personal Finance Limited. The total loan of £10.1m (2008: £8.1m) was outstanding as at 28 February 2009.

Key management personnel

Remuneration of key management personnel is disclosed in note 8. During the year, there were no material transactions or balances between the Group and its key management personnel or members of their close families.

Home Retail Group pension plans

Transactions between the Group and the Home Retail Group pension plans are disclosed in note 24.

35. POST BALANCE SHEET EVENTS

There are no material post balance sheet events.

36. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	Description	Country of incorporation	Percentage of ordinary shares held
Home Retail Group (UK) Limited*	Group holding company	England	100
Argos Limited	General merchandise retailing	England	100
Argos Distributors (Ireland) Limited	General merchandise retailing	Republic of Ireland	100
Homebase Limited	Home enhancement retailing	England	100
Homebase House and Garden Centre Limited	Home enhancement retailing	Republic of Ireland	100
Hampden Group Limited	Home enhancement retailing	Northern Ireland	100
Home Retail Group Card Services Limited	Financial services	England	100
ARG Personal Loans Limited	Financial services	England	100
Argos Business Solutions Limited	Financial services	England	100
Home Retail Group Insurance Services Limited	Financial services	England	100
Home Retail Group (Hong Kong) Limited	Product sourcing for the Home Retail Group companies	Hong Kong	100

* Held directly by the Parent Company

Details of interests in joint ventures and associated undertakings are given within note 17.

Independent auditors' report to the members of Home Retail Group plc – Parent

We have audited the Parent Company financial statements of Home Retail Group plc for the 52 weeks ended 28 February 2009 which comprise the Parent Company balance sheet and the related notes. These Parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Home Retail Group plc for the 52 weeks ended 28 February 2009.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Parent Company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Parent Company financial statements. The information given in the directors' report includes that specific information that is cross referred from the principal activities and business review section of the directors' report.

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

We read other information contained in the annual report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the chairman's statement, the business review, the Board of Directors, the directors' report which incorporates the corporate governance statement, the unaudited part of the directors' remuneration report and the Group four-year summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 February 2009;
- the Parent Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Parent Company financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

29 April 2009

Parent Company balance sheet

At 28 February 2009

	Notes	28 February 2009 £m	1 March 2008 £m
Fixed assets			
Investment in subsidiary	5	2,895.6	2,895.6
Current assets			
Debtors – amounts falling due within one year	6	2.5	163.8
Current liabilities			
Creditors – amounts falling due within one year	7	(270.3)	(297.9)
Net current liabilities		(267.8)	(134.1)
Total assets less current liabilities		2,627.8	2,761.5
Net assets		2,627.8	2,761.5
Capital and reserves			
Called up share capital	8	87.7	87.7
Profit and loss account	9	2,540.1	2,673.8
Equity shareholders' funds		2,627.8	2,761.5

The financial statements were approved by the Board of Directors on 29 April 2009 and were signed on its behalf by:

Terry Duddy,
Chief Executive

Richard Ashton,
Finance Director

Notes to the Parent Company financial statements

For the 52 weeks ended 28 February 2009

1. GENERAL INFORMATION

Home Retail Group plc is a public limited company incorporated and domiciled in England under the Companies Act 1985 and listed on the London Stock Exchange. The Company's registered number is 5863533 and the registered office of the Company is Avebury, 489 – 499 Avebury Boulevard, Milton Keynes MK9 2NW.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

These separate financial statements of Home Retail Group plc ('the Company') are presented as required by the Companies Act 1985 ('the Act'), and were approved by the Board on 29 April 2009. They have been prepared on a going concern basis and under the historical cost convention modified for the revaluation of certain financial instruments, and in accordance with the Companies Act 1985 and applicable UK Generally Accepted Accounting Principles ('UK GAAP').

The Company is the ultimate parent entity of Home Retail Group ('the Group'). The Company's financial statements are included in Home Retail Group plc's consolidated financial statements for the 52 weeks ended 28 February 2009. As permitted by section 230 of the Act, the Company has not presented its own profit and loss account. The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996) 'Cash Flow Statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the Home Retail Group.

The Company has applied the provisions for merger relief under section 131 of the Act; as a consequence no share premium was recorded in respect of the shares issued. The investment in Home Retail Group (UK) Limited has also been recorded at the nominal value of shares issued under the provision of section 133 of the Act (provision supplementing section 131 of the Act).

Financial instruments

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this position at every reporting date.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are so designated by management on initial recognition. Derivatives are generally designated as hedges. Items in this category are classified as current assets or current liabilities if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade and other receivables, cash and cash equivalents and current asset investments in the balance sheet.

Investments

Investments are included in the balance sheet at their cost of acquisition. Where appropriate, a provision is made for any impairment in their value.

Dividend distribution

Final dividends proposed by the Board of Directors and unpaid at the year-end are not recognised in the financial statements, until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans for the benefit of employees of its subsidiary companies. The fair value of the shares granted is recognised as an expense after taking into account the best estimate of the number of awards expected to vest. The Company revisits the vesting estimate at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period and are recharged in full to the employing subsidiary companies. Fair value is measured at the date of grant using whichever of the Black-Scholes, Monte Carlo model and closing market price is most appropriate to the award. Market-based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

Notes to the Parent financial statements continued

For the 52 weeks ended 28 February 2009

3. PROFIT AND LOSS ACCOUNT DISCLOSURES

The Company's loss on ordinary activities was £6.2m (2008: £6.6m loss).

The Company has no employees, other than the Company directors. No directors received any remuneration from the Company during either year. Further information on directors' remuneration, which forms part of the audited Group financial statements, can be found in the directors' remuneration report on pages 58 to 66.

There were no non-audit services.

4. DIVIDENDS

	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Amounts recognised as distributions to equity holders		
Final dividend of 10.0p (2008: 9.0p) per share for the prior year	86.8	78.1
Interim dividend of 4.7p per share (2008: 4.7p) for the current year	40.4	40.8
Ordinary dividends on equity shares	127.2	118.9

A final dividend in respect of the year ended 28 February 2009 of 10.0p per share, amounting to a total final dividend of £85.6m, has been recommended by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the year of 14.7p per share, amounting to £126.0m. The recommended dividend has not been included as a liability at 28 February 2009 in accordance with FRS 21 'Events after the Balance Sheet Date'. It will be paid on 22 July 2009 to shareholders who are on the register of members at close of business on 22 May 2009. The Home Retail Group Employee Share Trust ('EST') has waived its entitlement to dividends in the amount of £1.8m (2008: £1.3m).

5. INVESTMENT IN SUBSIDIARY

	2009 £m	2008 £m
Cost		
At beginning and end of the year	2,895.6	2,895.6

The Company's sole investment is in Home Retail Group (UK) Limited, which is a 100% owned subsidiary incorporated within the UK and is a Group holding company.

6. DEBTORS

	2009 £m	2008 £m
Amounts owed by Group companies	–	161.6
Taxation	2.5	2.2
	2.5	163.8

The amounts owed by Group companies were unsecured, repayable on demand and non-interest bearing. The amounts owed by Group companies were repaid in full during the current year.

Notes to the Parent financial statements continued

For the 52 weeks ended 28 February 2009

7. CREDITORS – AMOUNTS FALLING DUE IN ONE YEAR

	2009 £m	2008 £m
Amounts owed to Group companies	(269.8)	(297.9)
Other creditors	(0.5)	–
	(270.3)	(297.9)

All amounts owed to Group companies as at 28 February 2009 are unsecured, non-interest bearing and repayable on demand. The amounts owed to Group companies as at 1 March 2008 included an unsecured loan of £191.5m taken out on 10 October 2006 with Stanhope Finance Limited, a Group company. Interest was fixed and charged at 4.91%.

8. CALLED UP SHARE CAPITAL

	2009 Number of shares	2009 £m	2008 Number of shares	2008 £m
Authorised:				
Ordinary share capital of 10p each	2,000,500,000	200.1	2,000,500,000	200.1
Allotted, called-up and fully paid:				
Ordinary share capital of 10p each	877.4	87.7	877.4	87.7

Notes to the Parent financial statements continued

For the 52 weeks ended 28 February 2009

9. RESERVES

	Treasury and EST shares £m	Profit and loss account £m	Total £m
At 2 March 2008	(6.0)	2,679.8	2,673.8
Loss for the financial year	–	(6.2)	(6.2)
Net movement in own shares	(21.1)	(0.4)	(21.5)
Equity dividends paid during the year	–	(127.2)	(127.2)
Movement in share-based compensation reserve	–	21.3	21.3
Other distributions	–	(0.1)	(0.1)
At 28 February 2009	(27.1)	2,567.2	2,540.1
	Treasury and EST shares £m	Profit and loss account £m	Total £m
At 4 March 2007	(6.1)	2,783.7	2,777.6
Loss for the financial year	–	(6.6)	(6.6)
Net movement in own shares	0.1	–	0.1
Equity dividends paid during the year	–	(118.9)	(118.9)
Movement in share-based compensation reserve	–	21.6	21.6
At 1 March 2008	(6.0)	2,679.8	2,673.8

Other distributions represents dividend equivalent amounts paid to participants in the Group's share award schemes on exercise of awards under these schemes.

Net movement in own shares represents the purchase, and subsequent utilisation or sale, of shares for the purpose of satisfying obligations arising from the Group's share-based compensation schemes. Shares in Home Retail Group plc are held in the following trusts which have been established since demerger:

Home Retail Group Employee Share Trust ('EST')

The EST provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 28 February 2009, the EST held 20,082,708 shares with a market value of £42.7m. The shares in the EST are held within equity of the Group at a cost of £21.5m. During the year 11,398,812 shares were acquired for a cost of £21.6m, with the remaining shares in the EST having been acquired as part of the demerger from GUS plc in 2006 at no cost. Dividends on these shares are waived.

Home Retail Group Share Incentive Scheme Trust

The Home Retail Group Share Incentive Scheme Trust provides for the issue of shares to Group employees under the Share Incentive Plan. At 28 February 2009, the Trust held 1,345,240 shares with a market value of £2.9m. These shares are held within equity of the Group at a cost of £5.6m. No additional shares were purchased during the year.

10. COMMITMENTS

On 12 July 2006, Argos Limited, a subsidiary of the Company, entered into a five-year multi-currency revolving loan facility of £700m with a syndicated group of banks. This facility has since been extended by one year and then subsequently £685m of this facility has been extended a further year. On 27 October 2006 the Company acceded to this facility as a borrower and a guarantor. As at the balance sheet date there were no drawings made under this facility.

There are no capital or operating lease commitments.

Group four-year summary

	52-week period to 28 February 2009 £m	52-week period to 1 March 2008 £m	52-week pro forma to 3 March 2007 £m	52-week pro forma to 4 March 2006 £m
Income statement				
Argos	4,281.9	4,320.9	4,164.0	3,858.8
Homebase	1,513.2	1,568.5	1,594.2	1,559.0
Financial Services	102.3	95.4	93.2	92.5
Sales	5,897.4	5,984.8	5,851.4	5,510.3
Argos	303.6	376.2	325.0	297.0
Homebase	14.9	45.1	53.4	51.4
Financial Services	6.1	5.5	5.0	6.1
Central Activities	(24.2)	(28.8)	(24.0)	(22.7)
Benchmark operating profit	300.4	398.0	359.4	331.8
Net financing income	29.7	33.3	16.6	9.5
Share of post-tax (loss)/profit of joint ventures and associates	(2.4)	1.6	0.7	(4.2)
Benchmark PBT	327.7	432.9	376.7	337.1
Statistics				
Argos				
Like-for-like change in sales	(4.8%)	0.7%	2.4%	(1.4%)
New space contribution to sales change	3.9%	3.1%	5.5%	7.5%
Total sales change	(0.9%)	3.8%	7.9%	6.1%
Number of stores at year-end	730	707	680	655
Of which Argos Extra stocked-in	314	278	238	189
Homebase				
Like-for-like change in sales	(10.2%)	(4.1%)	(1.4%)	(3.1%)
New space contribution to sales change	6.7%	2.5%	3.6%	3.1%
Total sales change	(3.5%)	(1.6%)	2.2%	0.0%
Number of stores at year-end	345	331	310	297
Of which contain a mezzanine floor	188	181	165	144
Financial Services				
Store card gross receivables (£m)	488	482	448	378

Group four-year summary continued

	28 February 2009 £m	1 March 2008 £m	3 March 2007 £m	31 March 2006 £m
Balance sheet				
Invested capital	2,487.7	3,139.5	3,011.8	3,107.2
Retirement benefit (obligations)/assets	(46.4)	83.7	9.3	25.5
Net tax assets/(liabilities)	32.7	(52.0)	(2.6)	(4.8)
Financing net cash/(pro forma net debt)	284.4	174.0	60.2	(200.0)
Pro forma net assets	2,758.4	3,345.2	3,078.7	2,927.9
Net GUS group balances	–	–	–	22.0
Reported net assets	2,758.4	3,345.2	3,078.7	2,949.9
Benchmark pre-tax return on invested capital				
	52-week period to 28 February 2009 £m	52-week period to 1 March 2008 £m	52-week pro forma to 3 March 2007 £m	52-week pro forma to 4 March 2006 £m
Benchmark operating profit	300.4	398.0	359.4	331.8
Share of post-tax (loss)/profit of joint ventures and associates	(2.4)	1.6	0.7	(4.2)
Benchmark pre-tax return	298.0	399.6	360.1	327.6
Benchmark pre-tax return on invested capital	12.0%	12.7%	12.0%	10.5%
Earnings and dividends				
	52-week period to 28 February 2009	52-week period to 1 March 2008	52-week pro forma to 3 March 2007	52-week pro forma to 4 March 2006
Basic benchmark EPS	25.9p	33.9p	29.3p	25.6p
Dividends per share (interim paid and final proposed)	14.7p	14.7p	13.0p	n/a
Dividend cover	1.76x	2.31x	2.25x	n/a

The change in both the year-end and the Group's capital structure on demerger in 2006 resulted in statutory reported results that are non-comparable. To assist with analysis and comparison, certain pro forma information has therefore been provided in respect of the comparative periods to eliminate the distortions of these two impacts on the performance of the Group.