

Financial summary

Total sales down 1% to £5,897m, reflecting declines of 0.9% at Argos and 3.5% at Homebase. Like-for-like sales were down 4.8% at Argos and 10.2% at Homebase, while the net new space contribution was 3.9% at Argos and 6.7% at Homebase.

Group gross margin down 81 basis points, with Argos' gross margin being down approximately 100 basis points largely reflecting the change in sales mix, while Homebase achieved an approximate 25 basis point increase led by further sourcing and supply chain gains net of increased promotional and clearance activity.

Operating and distribution cost growth contained to a £14m (1%) increase in total, with the approximate £60m (3%) of underlying cost inflation largely offset by further strong cost management in all other areas.

Benchmark operating profit down 25% to £300m, with the £98m reduction from the prior year comprising a £73m (19%) decline at Argos and a £30m (67%) decline at Homebase, less a £5m reduction in the costs of Central Activities.

Benchmark PBT down 24% to £328m, including a £4m reduction in net interest income as lower interest rates more than offset the further strong cash generation.

An effective tax rate based on benchmark PBT of 31.4%, reduced from 32.1% last year reflecting the lower standard UK corporation tax rate, partially offset by a similar absolute amount of disallowable expenditure on a declining level of profits.

Basic benchmark EPS down 24% to 25.9p.

Total dividend for the year maintained at 14.7p, with a final dividend of 10.0p (2008: 10.0p) recommended by the Board.

Net cash increase of £110m to £284m at 28 February 2009, benefiting from further good working capital management and a reduced level of capital expenditure.

Benchmark pre-tax ROIC reduction to 12.0%, reflecting the reduction in profits, partially offset by good management of working capital.

Financial definitions

1. Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items and costs related to demerger incentive schemes.

2. Benchmark profit before tax (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.

3. Basic benchmark earnings per share (benchmark EPS) is defined as benchmark PBT less taxation attributable to benchmark PBT, divided by the weighted average number of shares in issue (excluding Home Retail Group shares held in its Employee Share Trust (EST)).

4. Benchmark pre-tax return on invested capital (benchmark pre-tax ROIC) is defined as benchmark operating profit plus share of post-tax results of joint ventures and associates, divided by year-end net assets excluding retirement benefit balances, tax balances and financing net cash/debt.

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52 WEEKS TO	28 FEBRUARY 2009	1 MARCH 2008
£m		
Argos	4,281.9	4,320.9
Homebase	1,513.2	1,568.5
Financial Services	102.3	95.4
Sales	5,897.4	5,984.8
Cost of goods	(3,547.4)	(3,551.2)
Gross margin	2,350.0	2,433.6
Distribution costs	(326.4)	(329.8)
Gross profit	2,023.6	2,103.8
Net operating costs before exceptional items and costs related to demerger incentive schemes	(1,723.2)	(1,705.8)
Argos	303.6	376.2
Homebase	14.9	45.1
Financial Services	6.1	5.5
Central Activities	(24.2)	(28.8)
Benchmark operating profit	300.4	398.0
Net interest income (see below)	29.7	33.3
Share of post-tax results of joint ventures and associates	(2.4)	1.6
Benchmark PBT	327.7	432.9
Exceptional items included in operating profit	(694.0)	0.8
Costs related to 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 non-benchmark items	(1.8)	–
(Loss)/profit before tax	(394.2)	426.0
Taxation	(18.9)	(131.4)
<i>of which: taxation attributable to benchmark PBT</i>	(103.5)	(138.5)
(Loss)/profit for the year	(413.1)	294.6
Basic benchmark EPS	25.9p	33.9p
Basic EPS	(47.7p)	34.0p
Number of shares for basic EPS	866.6m	867.7m
Net interest reconciliation:		
Third party net interest income	18.6	15.5
Financing costs charged to Financial Services	13.6	19.6
Discount unwind on benchmark items	(2.5)	(1.8)
Net interest income	29.7	33.3
Financing fair value remeasurements	(28.9)	(9.0)
Financing impact on retirement benefit balances	11.2	13.0
Discount unwind on non-benchmark items	(1.8)	–
Income statement net financing income	10.2	37.3

The above table has been prepared in accordance with note 2 to the consolidated financial statements on page 74.