

Group performance

Profits have reduced from the excellent level achieved in the previous year. Cash generation, cost control and further strengthening of our operations are the fundamental successes achieved in this challenging market.

Operating highlights

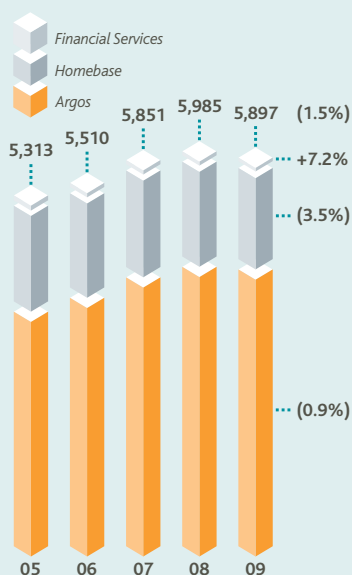
- Strength of the operating model and good cost control helped mitigate the impact of a difficult market environment
- Continued cash management focus throughout the Group led to another strong cash performance
- Group sourcing scale and supply chain initiatives continued to support competitive customer pricing
- Ongoing developments to the customer offer, adapting to their changing needs in challenging times
- The internet now generates more than a quarter of Argos' sales, with continued transfer of skills to support the rapidly growing Homebase online offer
- A net 23 Argos stores opened in the year, with Homebase opening a net 14 including the remaining nine stores previously acquired from Focus

Financial highlights

- Total sales down 1% to £5,897m (2008: £5,985m), with like-for-like sales down 4.8% at Argos and down 10.2% at Homebase
- Group gross margin down 81 basis points, with an approximate 100 basis point reduction at Argos and an approximate 25 basis point increase at Homebase
- Total operating costs and distribution costs total increase of 1%, with underlying inflation of approximately 3% being largely offset by cost reduction actions
- Benchmark operating profit¹ down 25% to £300m (2008: £398m), with a decline of £73m or 19% at Argos and a decline of £30m or 67% at Homebase
- Benchmark profit before tax² down 24% to £328m (2008: £433m)
- Basic benchmark earnings per share³ down 24% to 25.9p (2008: 33.9p)
- Reported operating loss of £402m after exceptional charges of £694m, the majority being Homebase non-cash asset write-downs and onerous lease charges
- Reported loss before tax of £394m; reported basic loss per share of 47.7p
- Cash generation of £110m; closing financing net cash position of £284m
- Benchmark pre-tax return on invested capital⁴ of 12.0%
- Final dividend of 10.0p recommended; full-year dividend held at 14.7p

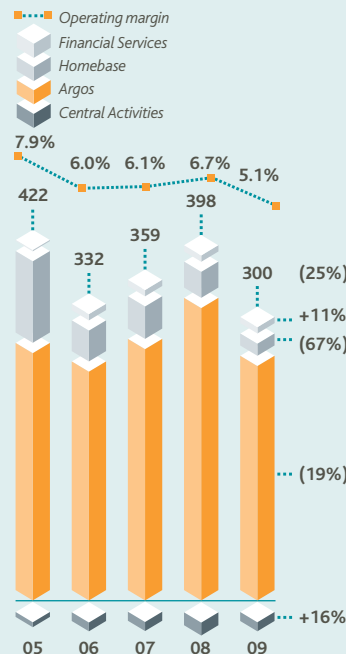
NOTES: REFER TO PAGE 34 FOR FINANCIAL DEFINITIONS

Group key performance indicators



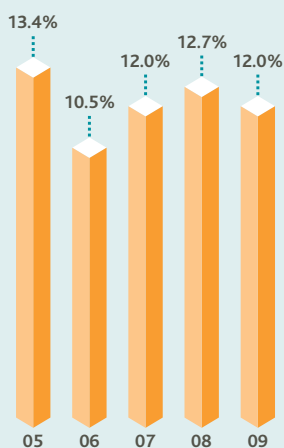
SALES (£M)
Group sales decreased by 1.5% to £5,897m. Argos accounts for 73% of Group sales, and declined by 0.9% or £39m in the year. Homebase accounts for 25% of Group sales, and declined by 3.5% or £55m in the year. Financial Services accounts for the remaining 2% of Group sales, and grew by 7% in the year. The combined purchasing scale of Argos and Homebase enables the continuation of ongoing supply chain benefits as well as the ability to gain central overhead cost efficiencies.

Definition:
Income received for goods and services.
Source:
Audited financial statements.



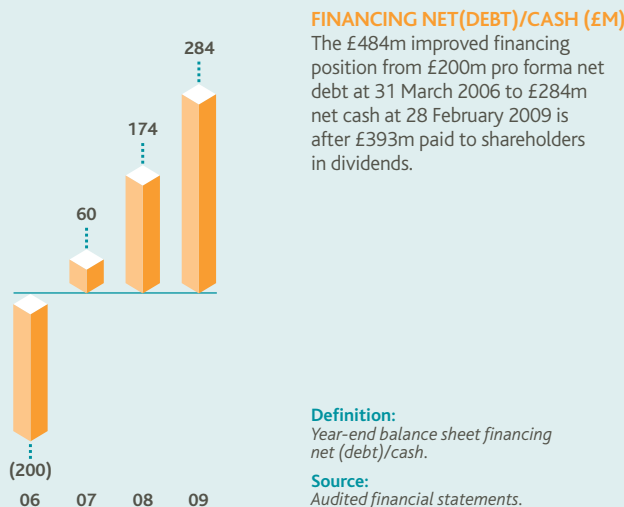
BENCHMARK OPERATING PROFIT (£M) AND BENCHMARK OPERATING PROFIT MARGIN (%)
Group benchmark operating profit decreased 25% to £300m. Argos profit decreased by £73m and Homebase by £30m. Financial Services profit was maintained at £6m. Costs of Central Activities decreased by £5m. Group benchmark operating margin reduced to 5.1% in the year.

Definition:
Operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items and costs related to demerger incentive schemes.
Source:
Audited financial statements.



BENCHMARK PRE-TAX RETURN ON INVESTED CAPITAL
Benchmark operating profit plus share of post-tax results of joint ventures and associates was £298.0m, down £101.6m or 25%, while year-end invested capital reduced by 21%. This results in a pre-tax ROIC of 12.0%.

Definition:
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.
Source:
Audited financial statements.



FINANCING NET (DEBT)/CASH (£M)
The £484m improved financing position from £200m pro forma net debt at 31 March 2006 to £284m net cash at 28 February 2009 is after £393m paid to shareholders in dividends.

Definition:
Year-end balance sheet financing net (debt)/cash.
Source:
Audited financial statements.

HOME RETAIL GROUP SHARE PRICE PERFORMANCE



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