

We're well positioned

The year being reported has proven to be challenging, and predicting the course of the market over the short to medium term is very difficult. However, our business is fundamentally well positioned, and we will continue to use our strengths to be best placed to meet customer needs when they shop for home and general merchandise goods.

Our Argos and Homebase leading retail brands, the shared infrastructure and sourcing scale that supports them, and the dedication of our colleagues throughout the business all help to drive our competitive advantage. Economic factors mean that sales and profits will still be under pressure in the short to medium term. But our strengths will continue to provide opportunities for out-performance in these conditions.

Terry Duddy
Chief Executive

Who we are and what we do

We are the UK's leading home and general merchandise retailer.



Argos and Homebase are two of the UK's leading retail brands, with large customer bases across the UK and Ireland. Between them, our retail brands have more than 60 years of market heritage and consumer awareness. Argos was founded in 1973 and Homebase in 1981. They have been shaping modern retailing ever since.

Argos, the UK's largest general merchandise retailer, has an unrivalled blend of choice, value and convenience to meet customer needs.

Homebase is the UK's second largest home improvement retailer, and offers a growing range of home enhancement products and services in a differentiated store environment.

53,000

Our **colleagues** are the foundation of our business success.

1,075

The number of **Argos and Homebase stores** in the UK and Ireland.

30,000

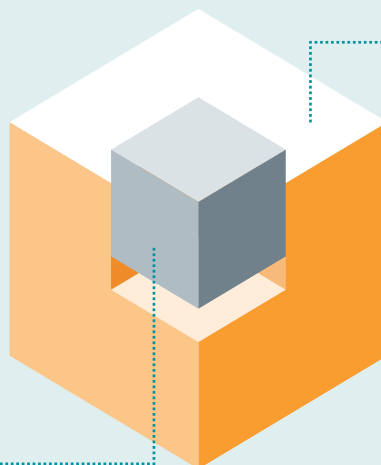
The **product range** available at Homebase.

130 million

The number of **Argos customer transactions** last year.

MARKET POSITION

As the leader in UK home and general merchandise retailing, but with only a 10% share of the market, we still have significant room for growth.



£60bn

UK home and general merchandise market

10%

Our share of this market

WIDE COVERAGE

We have 1,075 stores in the UK and Ireland across the Argos and Homebase formats.

1,075 stores

STORE NUMBERS (YEAR-ON-YEAR CHANGE)



345 Homebase (+14)

730 Argos (+23)

GEOGRAPHICAL BREAKDOWN – ARGOS



- 28 Northern Ireland
- 38 Republic of Ireland
- 43 Wales
- 65 Scotland
- 556 England

GEOGRAPHICAL BREAKDOWN – HOMEBASE



- 9 Northern Ireland
- 11 Wales
- 14 Republic of Ireland
- 34 Scotland
- 277 England

SALES MIX



ARGOS

- 19% Toys, jewellery, sports and leisure equipment
- 27% Home enhancement
- 54% Electrical goods



HOMEBASE

- 3% Electrical goods
- 22% Gardening/seasonals
- 35% Home enhancement
- 40% DIY/decorating



GROUP

- 14% Toys, jewellery, sports and leisure equipment
- 40% Electrical goods
- 46% Home enhancement, DIY/decorating and gardening/seasonals

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

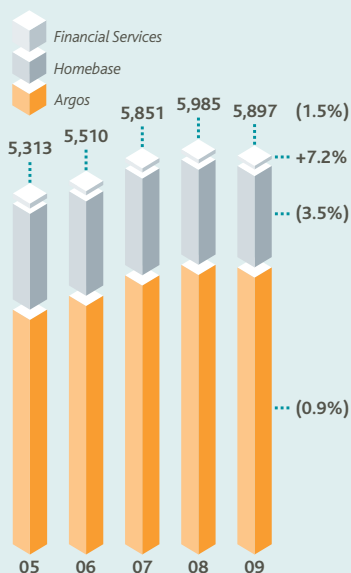
- Strength of the operating model and good cost control helped mitigate the impact of a difficult market environment
- Continued cash management focus throughout the Group led to another strong cash performance
- Group sourcing scale and supply chain initiatives continued to support competitive customer 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

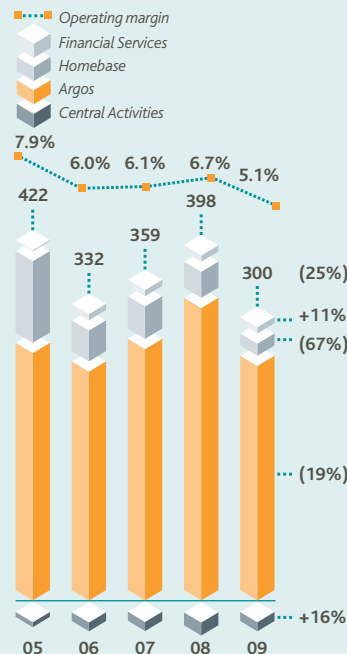


SALES (£M)

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.

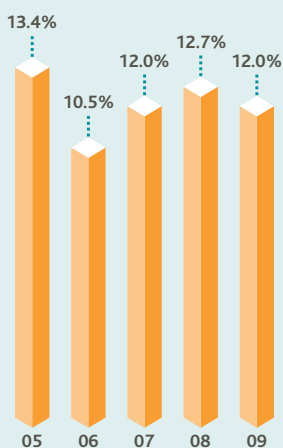


BENCHMARK OPERATING PROFIT (£M) AND BENCHMARK OPERATING PROFIT MARGIN (%)

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.

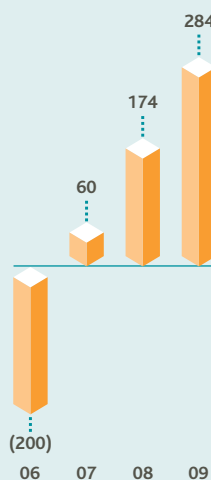


BENCHMARK PRE-TAX RETURN ON INVESTED CAPITAL

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

Our product markets

Home Retail Group operates in the home and general merchandise market, worth approximately £60 billion in terms of UK retail sales.

We are the market leader in this market, with an approximate 10% share. The overall market can be analysed into various product categories. A summary of these, including where products are sold at Argos, Homebase or both, the Group's overall share position and the market size of each product category, is as follows:

Housewares

The housewares market is relatively fragmented, according to analysis by Verdict Research, with the ten largest retailers accounting for around 40% of the market. Argos is market leader, with Homebase adding further Group scale. The competition base is very broad across the department stores (John Lewis, Marks & Spencer, Debenhams and Bhs, as well as fashion and home retailer Next), some national specialists (IKEA, Dunelm), the supermarkets (Tesco, Asda, Sainsbury) and some broader generalists (Wilkinson, Matalan, TK Maxx). Specialist independents are estimated to account for around one-third of the market.

The housewares market in calendar year 2008 was estimated to have experienced broadly flat total retail sales.

Furniture

The structure of the furniture market shows fairly close resemblance to the housewares market according to analysis by Verdict Research, with the ten largest retailers accounting for approaching 40% of the market. Argos is market leader, with Homebase again adding further Group scale. The competition base has a greater proportion of national specialists (DFS, IKEA, the former MFI business, Homestyle Group, Magnet, ScS, Land of Leather, Furniture Village), with other significant players being B&Q, John Lewis and Next.

The furniture market in calendar year 2008 was estimated to have experienced a mid-to-high single-digit decline in total retail sales, with capacity withdrawal also noticeable.

PRODUCT MARKETS

	Argos	Homebase	Group position	Market size (£bn)
Home enhancement				
Housewares	✓	✓	1	9.2
Furniture	✓	✓	1	8.1
Home improvement (DIY/fitted kitchens/bathrooms)	✓	✓	2	11.2
Horticulture, garden furniture and outdoor living	✓	✓	2	3.0
Sub total				31.5
General merchandise				
Small domestic appliances	✓	✓	1	1.4
Consumer electronics	✓	✓	2	16.4
Large domestic appliances	✓	✓	3	3.6
Toys	✓		1	1.8
Jewellery	✓		1	3.4
Sports and leisure equipment	✓		1	1.4
Sub total				28.0
Total				59.5

Note: All market positions are for calendar year 2008 and by retail sales except for jewellery, which is measured by volume.

Home improvement

The largest part of the home improvement market is the DIY category (excluding furniture and homewares). There are four national specialists (B&Q, Homebase, Wickes and Focus) accounting for over 40% of the market according to Verdict Research, with other national operators selling products in this category being Argos, Wilkinson, Robert Dyas, Topps and Wyevale. Approximately 50% of the DIY market is estimated to be accounted for by specialist independents. The home improvement market also includes the kitchens, bathrooms and floorcoverings (excluding carpets) categories, with additional national competitors in these areas including Magnet, Howden, the former MFI business and HomeForm.

The home improvement market in calendar year 2008 was estimated to have experienced a mid single-digit decline in total retail sales. >>

1st, 2nd, 3rd
The Group's market position
for each of its categories.

Our product markets continued

Horticulture, garden furniture and outdoor living

This market according to Verdict Research, is mainly dominated by the four national DIY specialists, with Argos and the two garden centre specialists Wyevale and Dobbies also being significant retailers of products in this category. Approximately 50% of this market is also estimated to be accounted for by specialist independents.

The horticulture, garden furniture and outdoor living market in calendar year 2008 was estimated to have experienced a mid single-digit decline in total retail sales.

Small domestic appliances

This market is relatively concentrated according to GfK, with Argos being the clear market leader with a substantial market share. Competition is mainly in the form of the electrical specialists (Currys and Comet), Boots in terms of personal care appliances, the supermarkets, and the department stores. Approximately one-third of the small domestic appliances market would be accounted for by specialist independents.

The small domestic appliances market in calendar year 2008 was estimated to have experienced a marginal decline in total retail sales, according to Verdict Research.

Consumer electronics

This market is also relatively concentrated, according to GfK, with Currys being the market leader, followed by Argos and then Comet. Other competition is mainly in the form of John Lewis and other department stores, the supermarkets, and national specialists in certain sub-categories such as Game in video gaming and Jessops in photography. Around one-quarter of the consumer electronics market would be accounted for by specialist independents, while other online retailers represent a small but growing share of this market.

The consumer electronics market in calendar year 2008 was estimated to have experienced a mid-to-high single-digit growth in total retail sales, according to Verdict Research. This was almost entirely driven by the video gaming category, with marginal growth or decline in the other major areas of consumer electronics.

Large domestic appliances

This market is again relatively concentrated, according to GfK, with the two major electrical specialists being then followed by Argos. Department stores such as John Lewis, DIY and kitchen specialists (including Homebase), and to a lesser extent the supermarkets and home shopping businesses, represent other significant retailers in this category. Approximately one-third of the large domestic appliances market would be accounted for by specialist independents.

The large domestic appliances market in calendar year 2008 was estimated to have experienced a high single-digit decline in total retail sales, according to Verdict Research.

Toys

The toy market is relatively concentrated, according to analysis by NPD, with the ten largest retailers accounting for over 60% of the market. Argos is the market leader, with Toys 'R' Us and the former Woolworths business the two major national specialists. The Early Learning Centre, Toymaster, The Entertainer and the Disney Store are other significant specialists, with the supermarkets also being significant toy retailers.

The toy market in calendar year 2008 was estimated to have experienced a mid single-digit decline in total retail sales.

Jewellery

Market competitor analysis on the jewellery market is based on volume sold rather than total retail sales value. This indicates a highly concentrated market, according to Mintel, with Argos being the market leader by volume, followed by H. Samuel. Other major retailers of jewellery volumes include Next and other fashion jewellery shops, Marks & Spencer and other department stores, and specialist jewellers selling a greater proportion of precious metal jewellery such as Ernest Jones/Leslie Davis and Goldsmiths.

The jewellery market in calendar year 2008 was forecasted to have marginal growth in total retail sales value terms, according to Mintel.

10%

The Group's market-leading share of the UK general merchandise and home enhancement market.

Sports and leisure equipment

This market is relatively fragmented according to analysis by Verdict Research, with Argos being the market leader. Other sellers of equipment include the predominantly sports clothing retailers (Sports World International, JJB Sports, John David Group), the department stores, and retailers such as Halfords in sub-categories such as cycles and camping. The majority of the market is estimated to be made up of specialist independents.

The sports and leisure equipment market in calendar year 2008 was estimated to have experienced a mid single-digit growth in total retail sales.

Expected future development of the competitive landscape

We expect our product markets to remain highly competitive in the future. Supermarkets have been growing share in certain parts of the non-food, non-clothing market, building on their regular footfall and the increased space given to these ranges. Online retailers, such as amazon.co.uk, currently represent a small but growing share of certain product categories. However, in categories undergoing a sharper slowdown in consumer spending, many specialist retailers, often with some significant market shares, are experiencing financial difficulties. In most categories, the independent specialists will face even greater pressures on the ability to weather the challenging economic environment.

Although retail conditions are likely to remain tough in the near term, the longer-term outlook for market growth remains positive. A return to long-term growth in the general merchandise and home enhancement markets would be

expected on account of population growth and an increasing number of households, a reversion to the general trend of rising overall household disposable income, technology changes and other new product developments, as well as the need to replace many existing household items.

Home Retail Group's key strengths mean we are well equipped for the future. Our strong retail brands, multi-channel offering, extensive product choice and competitive pricing, together with a strong financial position, mean we are relatively well placed to trade through the downturn and benefit from renewed consumer confidence later in the cycle. While we have leading positions in multiple product markets, there remains substantial headroom for growth in many categories. The more fragmented markets provide growth opportunities, and we expect to take market share from weaker competitors and to benefit from any capacity withdrawal that ensues.

Our businesses are well established but continue to evolve to meet changing customer preferences. Our product range is constantly expanding. Our supply chain is highly efficient and cost effective. With all the key determinants for success in place, we expect to emerge in the long run as a stronger competitor in a more consolidated market.



Home Retail Group's distribution infrastructure handles around 400 million individual products per year. Its sourcing operation in Hong Kong, Shanghai and Shenzhen employs over 150 people. 