



12 September 2007

Home Retail Group plc Second Quarter Trading Statement

Home Retail Group, the UK's leading home and general merchandise retailer, today publishes an update on trading in its second financial quarter and the first half overall.

Terry Duddy, Chief Executive of Home Retail Group, commented:

"We are pleased to report positive like-for-like growth at Argos against strong comparatives last year. At Homebase however, there was a reversal in like-for-like growth as the weather conditions impacted its seasonal categories. For the first half overall, further progress on gross margins and continued cost control is expected to see profits at Homebase ahead of last year and strong growth at Argos. While we therefore expect a good first half profit result across the group, the uncertain consumer outlook means we must remain cautious at this stage in the financial year."

	Q1 13 weeks to 2 June	Q2 13 weeks to 1 September	H1 26 weeks to 1 September
Argos			
Sales	£893m	£942m	£1,835m
Like-for-like change in sales	0.9%	1.8%	1.4%
Net new space contribution to sales change	3.6%	3.0%	3.3%
Total sales change	4.5%	4.8%	4.7%
Gross margin movement	Up c.150bps	Up c.100bps	Up c.125bps
Homebase			
Sales	£463m	£391m	£854m
Like-for-like change in sales	2.7%	(8.0%)	(2.5%)
Net new space contribution to sales change	2.5%	1.8%	2.2%
Total sales change	5.2%	(6.2%)	(0.3%)
Gross margin movement	Up c.300bps	Up c.300bps	Up c.300bps

Argos

Total sales at Argos grew by 4.8% to £942m in the second quarter of the financial year. The contribution to sales growth from net new space was 3.0%; a further five new stores were added, three were closed and one was relocated to reach 685. The like-for-like sales increase of 1.8% was driven by further strong growth in flat panel TVs and video games systems. Good growth in 'satnav' and mobile phones offset continued weakness in landline phones and audio categories, while seasonal-related products declined due to the adverse weather conditions. Check & Reserve grew by 24% to represent 12% of sales, with a further 23% of sales being home delivery orders placed either in-store or remotely.

Gross margin was ahead by approximately 100 basis points, driven by ongoing supply chain initiatives and foreign exchange benefits. There was a higher level of distribution costs as a result of the increase in overseas sourcing. Gross margin gains for the full year are still expected to lessen due to a greater level of investment in lower prices.

The new Argos catalogue, launched on 28 July, includes an overall price reduction on reincluded lines of approximately 5%, greater than the 3% of the previous Spring/Summer edition. It also provides the biggest ever choice with 18,100 lines, nearly 1,500 more than a year before. Virtually all stores stock-in the core range of 10,500 lines for immediate collection, with a further 3,700 being Argos 'Extra' lines and 3,900 representing home delivery-only lines.

Homebase

Total sales at Homebase declined by 6.2% to £391m in the second quarter of the financial year. The contribution to sales from net new space was 1.8%; there were two new store openings, two closures and two relocations during the period, leaving the store portfolio at 311. The adverse weather conditions during most of the quarter led to a 20% decline in seasonal-related categories. These categories normally account for approximately one third of second quarter sales, thereby driving the overall 8.0% like-for-like sales decline. Non-seasonal categories were generally stable, with kitchen sales continuing to see good growth.

Gross margin increased by approximately 300 basis points, driven principally by ongoing supply chain initiatives and foreign exchange benefits. Clearance activity has been less than expected, as seasonal lines where appropriate have been held over to next year.

As stated at the time of the demerger, Homebase would be moving one of its distribution centres. This has now been successfully achieved, resulting in one-off distribution costs being incurred. A one-off benefit in the quarter from store-related property transactions approximately offsets the costs of the distribution centre move.

Enquiries

Analysts and investors (Home Retail Group)

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There will be a conference call for analysts and investors to discuss this statement at 8.30am this morning. The call can be listened to live on the Home Retail Group website www.homeretailgroup.com. An indexed replay will also be available on the website later in the day.

Home Retail Group will announce its half-year results on Wednesday 24 October 2007. An Interim Management Statement covering the 18 weeks of 2 September 2007 to 5 January 2008 will be announced on Thursday 17 January 2008.

Information in this announcement is based upon unaudited management accounts. In addition, certain statements made are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward looking statements.