



30 April 2008

## Home Retail Group plc Full-Year Results

Home Retail Group, the UK's leading home and general merchandise retailer, today announces its results for the 52 weeks to 1 March 2008. The results for the prior year are a non-comparable financial period due to the change in year-end and because they also include certain financial impacts of GUS plc's ownership of Home Retail Group up to the point of demerger<sup>1</sup>. To assist with analysis and comparison, certain pro forma information for the prior period has therefore been provided to eliminate the distortions of these two impacts on the performance of the Group.

### Operating highlights

- Leading position in multi-channel retailing further strengthened
- Substantial benefit from group-wide sourcing scale and supply chain initiatives
- Further improvements to product ranges and choice as well as the customer shopping experience at both Argos and Homebase
- Store networks expanded and further long-term growth opportunity remains
- Strong operating cost control achieved

### Financial highlights

- Sales<sup>2</sup> up 2.3% in total to £5,985m (2007 pro forma: £5,851m), with like-for-like sales up 0.7% at Argos and down 4.1% at Homebase
- Gross margin ahead by approximately 50 basis points at Argos and approximately 250 basis points at Homebase
- Operating expenses up 4%, of which underlying inflation is approximately 3%
- Benchmark operating profit<sup>3</sup> up 11% to £398m (2007 pro forma: £359m), with growth of 16% to a record level at Argos and a decline of 16% at Homebase; reported operating profit of £387m
- Benchmark profit before tax<sup>4</sup> up 15% to £433m (2007 pro forma: £377m); reported profit before tax of £426m
- Basic benchmark earnings per share<sup>5</sup> up 16% to 33.9p (2007 pro forma: 29.3p); reported basic earnings per share of 34.0p
- Net cash increase of £114m; closing net cash of £174m
- Benchmark pre-tax return on invested capital<sup>6</sup> up 70 basis points to 12.7%
- Final dividend of 10.0p recommended; full-year dividend up 13% to 14.7p (2007: 13.0p)

Oliver Stocken, Chairman of Home Retail Group, commented:

"We are pleased to report another year of double-digit earnings growth. This is an excellent performance and is testament to the underlying strength of the Group and the hard work of all our colleagues across the businesses."

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

"Record profits have been achieved at Argos, and Homebase has traded relatively well in more difficult market conditions. As we head into a weakening consumer environment, we believe that the Group is well positioned both operationally and financially, and has a clear strategy to deliver long-term growth."

1. **The change in both the year-end and the Group's capital structure on demerger resulted in prior year statutory reported results that are non-comparable.** The statutory reported results for the financial year being reported represent the 52 weeks to 1 March 2008. The statutory reported results for the prior financial year represented the results for Homebase for an approximate 12 calendar months of March to February inclusive, and the results for the rest of the Group for an approximate 11 calendar months of April to February inclusive. The results for the prior financial year also reflected certain financial impacts that were a result of the fact that Home Retail Group was wholly owned by its former parent company, GUS plc, until the demerger became effective on 10 October 2006. The prior period results are not therefore representative of a financial period length comparable to this year, nor do they reflect the capital structure that Home Retail Group operated under from the date the demerger occurred.
2. **Sales** are calculated on a 52-week basis. This represents the statutory reported 52 weeks to 1 March 2008 and the comparable pro forma 52 weeks to 3 March 2007.
3. **Benchmark operating profit** is defined as operating profit before amortisation of acquisition intangibles, store impairment charges, exceptional items and costs related to demerger incentive schemes. It is calculated on a pro forma 52-week basis for the comparable period.
4. **Benchmark profit before tax (benchmark PBT)** is defined as profit before amortisation of acquisition intangibles, store impairment charges, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit balances and taxation. Net interest income within pro forma benchmark PBT is calculated to illustrate the Group's financial performance as if the demerger capital structure had existed at 31 March 2006 and had been achieved based on underlying cash flows prior to 31 March 2006. Benchmark PBT also includes Home Retail Group's share of post-tax results of joint ventures and associates. It is calculated on a pro forma 52-week basis for the comparable period.
5. **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 Ownership Trust (ESOT)). It is calculated on a pro forma 52-week basis for the comparable period and uses the weighted average number of shares in issue from the date of demerger to the period end.
6. **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 net cash/debt. It is calculated on a pro forma 52-week basis for the comparable period.

## Enquiries

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There will be a presentation today at 9.30am to analysts and investors at King Edward Hall, Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ. The presentation can be viewed live on the Home Retail Group website [www.homeretailgroup.com](http://www.homeretailgroup.com). The supporting slides and an indexed replay will also be available on the website later in the day.

An Interim Management Statement, covering the first quarter's 13 weeks of 2 March 2008 to 31 May 2008, will be published on 12 June 2008.

Certain statements made in this announcement 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.

## FINANCIAL SUMMARY

£m	Statutory 52 weeks to 1 March 2008	Pro forma 52 weeks to 3 March 2007	Statutory period to 3 March 2007 <i>(short period)</i>
Argos	4,320.9	4,164.0	3,912.8
Homebase	1,568.5	1,594.2	1,606.3
Financial Services	95.4	93.2	87.6
<b>Sales</b>	<b>5,984.8</b>	<b>5,851.4</b>	<b>5,606.7</b>
Cost of sales	(3,881.0)	(3,852.2)	(3,680.5)
<b>Gross profit</b>	<b>2,103.8</b>	<b>1,999.2</b>	<b>1,926.2</b>
Net operating expenses before exceptional items and costs related to demerger incentive schemes	(1,705.8)	(1,639.8)	(1,592.5)
Argos	376.2	325.0	300.9
Homebase	45.1	53.4	51.2
Financial Services	5.5	5.0	4.5
Central Activities	(28.8)	(24.0)	(22.9)
<b>Benchmark operating profit</b>	<b>398.0</b>	<b>359.4</b>	<b>333.7</b>
Net interest income (see below)	33.3	16.6	n/a
Share of post-tax results of joint ventures and associates	1.6	0.7	0.7
<b>Benchmark PBT</b>	<b>432.9</b>	<b>376.7</b>	<b>n/a</b>
Net interest costs attributable to GUS capital structure (see below)	-	(39.2)	(21.0)
Exceptional items included in operating profit	0.8	(22.7)	(22.7)
Costs related to demerger incentive schemes	(11.7)	(5.8)	(5.8)
Financing fair value remeasurements	(9.0)	(0.1)	(0.1)
Financing impact on retirement benefit balances	13.0	12.3	12.1
<b>Profit before tax</b>	<b>426.0</b>	<b>321.2</b>	<b>296.9</b>
Taxation	(131.4)	(117.5)	(109.5)
<i>of which: taxation attributable to benchmark PBT</i>	<i>(138.5)</i>	<i>(122.1)</i>	<i>n/a</i>
<b>Profit for the period</b>	<b>294.6</b>	<b>203.7</b>	<b>187.4</b>
<b>Basic benchmark EPS</b>	<b>33.9p</b>	<b>29.3p</b>	<b>n/a</b>
<b>Basic EPS</b>	<b>34.0p</b>	<b>n/a</b>	<b>21.6p</b>
Number of shares for basic EPS	867.7m	869.6m	869.6m

### **Net interest reconciliation:**

Third party net interest income/(expense)	13.7	(1.2)	n/a
Financing costs charged to Financial Services	19.6	17.8	n/a
<b>Net interest income</b>	<b>33.3</b>	<b>16.6</b>	<b>n/a</b>
Interest costs attributable to GUS capital structure	-	(46.1)	(44.3)
Exceptional finance income	-	6.9	6.9
Financing costs charged to Financial Services	-	-	16.4
<b>Net interest costs attributable to GUS capital structure</b>	<b>-</b>	<b>(39.2)</b>	<b>(21.0)</b>
Financing fair value remeasurements	(9.0)	(0.1)	(0.1)
Financing impact on retirement benefit balances	13.0	12.3	12.1
<b>Income statement net financing income/(costs)</b>	<b>37.3</b>	<b>(10.4)</b>	<b>(9.0)</b>

The above tables and those throughout this announcement have been prepared in accordance with Note 1 to the Financial Information on page 30. The basis of preparation for pro forma restatements is set out as Appendix 1 on page 22, with reconciliations between pro forma and statutory reported periods provided as Appendix 2 on page 23.

## FINANCIAL SUMMARY (continued)

**Sales up 2.3% to £5,985m**, reflecting total growth of 3.8% at Argos and a decline of 1.6% at Homebase. Like-for-like sales were up 0.7% at Argos and down 4.1% at Homebase, while the net new space contribution added 3.1% at Argos and 2.5% at Homebase.

**Benchmark operating profit up 11% to £398m**, with the £39m improvement comprising a £51m or 16% increase to a record level at Argos and an £8m or 16% decline at Homebase; Financial Services increased £1m and costs of Central Activities were £5m higher.

**Benchmark PBT up 15% to £433m**, with the £56m increase additionally reflecting the £17m improvement in net interest income as a result of further strong cash generation and a higher effective rate of interest earned.

**An effective tax rate based on benchmark PBT of 32.1%**, with the reduction from 32.5% last year principally reflecting the growth in profits while the absolute level of disallowable expenditure remained broadly stable.

**Basic benchmark EPS up 16% to 33.9p**, reflecting the growth in profits and a small reduction in the effective tax rate, on a broadly flat number of shares outstanding.

**Net cash increase of £114m to £174m at 1 March 2008**, attributable to the strong profit performance and after funding working capital requirements, capital expenditure and acquisition investment activity.

**Benchmark pre-tax ROIC improvement of 70 basis points to 12.7%**, reflecting the combination of an increase in profits and a well-managed balance sheet position.

**Total dividend for the year up 13% to 14.7p**, with a final dividend of 10.0p recommended by the Board.

## OUTLOOK

The Group has demonstrated a strong performance in the financial year just completed. However, the outlook for consumer spending looks weaker for the new financial year. A more difficult consumer environment is likely to result in a negative like-for-like sales performance in both businesses in the short term.

We face this challenging backdrop from a position of operational and financial strength. There are also areas of resilience which benefit the Group such as its broad product offerings and its low overall transaction values. Appropriate trading strategies are in place, along with continued emphasis on cost management and scale leverage. The Group therefore expects to demonstrate further good relative performances in its markets, and emerge even better positioned from any slowdown resulting from the prevailing macro-economic conditions.

Details of the trading performance for the first thirteen weeks of the new financial year will be announced on 12 June 2008. Against the backdrop of the weakening consumer environment, Argos has begun the year trading in line with our expectations overall, notwithstanding a continued adverse product mix impact. However, Homebase has started the year weaker than anticipated, as poor weather conditions this March and April contrast with very good weather conditions in the comparable months last year. At this very early stage, it is too soon to evaluate the impact of these weather conditions on the outcome for the financial year as a whole as further key trading periods remain.

## **GROUP GROWTH STRATEGY**

Home Retail Group is the UK's leading home and general merchandise retailer, with a 10% share in combined product markets worth £60bn a year. Argos and Homebase are strong retail brands and household names, each offering their customers a differentiated shopping experience from their competitors and capitalising on leading multi-channel capabilities. Supporting the retail businesses is a well invested and increasingly shared infrastructure. The Group has a clear agenda to deliver long-term growth.

### **Growth through leveraging purchasing scale**

Purchasing scale continues to be leveraged with particular benefit from the Group-wide overseas buying operations. Buying directly from overseas has grown to 31% of Group sales, of which 18%, or over £1bn, is directly sourced from manufacturers, with the balance being purchased via overseas agents. Over 7,500 product lines are sourced directly via our overseas buying offices, and these are spread across the majority of the Group's product categories. While cost pressures may build, such as from raw material prices or from foreign exchange rates, this will impact the market generally and Home Retail Group will utilise its substantial scale, skills and direct control over its supply chain to continue to extend advantage over its competitors and provide further benefit to its customers.

A continuing programme is driving wider cost synergies across the combined Group. Areas of focus include corporate procurement, media buying, IT services and property management. There has also been increased focus on the distribution infrastructure across the Group. Examples of benefits include combined fleet purchasing, shared backhaul (vehicles returning from store deliveries with collections from nearby suppliers) and relocating certain Argos Direct outbases to other Group facilities.

### **Growth through increasing market share in targeted large product markets**

The Group has become the number two in the growth market of consumer electronics, with Argos clearly demonstrating the strength of its customer offer with excellent sales in areas such as video games systems, LCD TVs and 'satnav'. 'Big ticket' categories such as furniture and white goods are likely to exhibit more difficult conditions due to the weakening in the housing market and general consumer confidence; however, the Group will capitalise on the combined buying scale, a market-leading home delivery infrastructure, new product presentations and its in-house financial services operation to continue to drive market share growth. Homebase also expects to continue its market share progress in kitchens, and Argos in the sports and leisure market.

At the same time as targeting share growth in 'big ticket' categories, emphasis will still be placed on maintaining strong positions in 'smaller ticket' categories. Such categories remain key to the overall performance of the Group, given that in both businesses average basket values are approximately £20 to £30.

### **Growth through extending and exploiting multi-channel leadership**

The leadership of Argos in fully integrated multi-channel convenience continues to build, demonstrated by 37% of its sales now being transacted across more than one channel. In particular, Argos Check & Reserve is unique in its functionality, scale and efficiency. With its online presence being well established, well invested and generating £900m of sales in the last year, Argos sees the internet as a further key growth opportunity and one that is significantly enhanced by its physical store presence for additional customer convenience.

Homebase has embarked on further multi-channel opportunities and continues to benefit from the scale and expertise of Argos. Homebase utilises the in-house cost advantage of Argos Direct, the UK's largest home deliverer of bulky products. Its recently relaunched website will also provide customers with expanded choice and improved information and functionality, while the 'Furniture and Home' catalogue, which brings together many of the key elements of the Homebase customer proposition, was rolled out to all stores in January 2008.

### **Growth through expanding the store networks**

Both Argos and Homebase regularly review their 'extent of chain' across the UK and Irish markets and will continue their new store opening programmes of around 30 Argos stores and 10 Homebase stores a year. Confidence in the Argos opening programme comes, in particular, because of its increased product choice that captures a wider share of customer spend in a catchment and its success in both high street and out-of-town locations. Confidence in the Homebase opening programme comes from its now broader home enhancement offer and its successful smaller store format which allows it to enter smaller catchments and frequently be the leading customer offer in categories including core DIY, garden and showroom. Growth is also expected to be achieved from continuing to develop formats and store presentations to meet the changing needs of customers.

### **BUSINESS REVIEWS**

The following business reviews incorporate pro forma information for the prior year; this represents the 52 weeks to 3 March 2007 and is therefore a comparable financial period. The basis of preparation for pro forma restatements is set out as Appendix 1 on page 22, with reconciliations between pro forma and statutory reported results provided as Appendix 2 on page 23. These pro forma restatements are unchanged from those previously provided on 2 May 2007.

## Argos

52 weeks to	1 March 2008	3 March 2007
<b>Sales (£m)</b>	<b>4,320.9</b>	<b>4,164.0</b>
<b>Benchmark operating profit (£m)</b>	<b>376.2</b>	<b>325.0</b>
<b>Benchmark operating margin</b>	<b>8.7%</b>	<b>7.8%</b>
Like-for-like change in sales	0.7%	2.4%
Net new space contribution to sales change	3.1%	5.5%
Total sales change	3.8%	7.9%
Gross margin movement	Up c.50bps	c.0bps
Benchmark operating profit change	16%	9%
Number of stores at year-end	707	680
Of which Argos Extra stocked-in	278	238

As the UK's leading general merchandise retailer, Argos provides a unique offer of choice, value and convenience that continues to grow in popularity with consumers.

### *Operational review*

#### **The UK's leading general merchandise retailer**

Argos has further strengthened its position of market leadership with sales growth of nearly 4% to £4.3bn in the year. Sales benefited in particular from an excellent performance in one of the market's fastest growing product categories, video games systems, and Argos extended market share in other fast-growing technology areas of LCD TVs and 'satnav'. Share was also gained in other more subdued or declining markets, notably pre-pay mobile phones, digital cameras, white goods and toys. Markets were difficult in older technology areas such as audio and VCR/DVD, while the jewellery market also remained difficult for Argos albeit on an improving trend to recent years.

#### **Choice further expanded**

The current Spring/Summer catalogue has been expanded to a record 18,500 lines. This is around 1,800 more lines than the equivalent edition last year, following a similar 1,500 line step-change in the preceding Autumn/Winter 2007 catalogue. Today's customer offer includes 10,400 catalogue lines available for immediate collection in virtually all 707 stores, an additional 3,700 lines available in the Argos Extra stores and 4,400 lines of large products that are for home delivery only.

Growth in customer choice has been driven by range extensions in over 50 categories and around 20 new product areas. Significant areas of range expansion include children's bedroom furniture, eco-friendly products, fitness and outdoor pursuits clothing and accessories, and many areas of technology. The latest catalogue has also seen further expansion of the Argos Guide pages, particularly within technology and furniture. Choice from leading premium third-party brands is further supported by 'brand shops' within the catalogue for manufacturers including Apple, Dyson and Sony.

### **Value further extended**

Argos has continued to demonstrate its ability to lower prices for its customers. In the Autumn/Winter catalogue, prices on reincluded lines were down by approximately 5%, one of the highest ever levels of reduction and partly driven by the favourable dollar exchange rate environment. In the current catalogue, the average price reduction across some 8,000 reincluded lines is approximately 4%. The ongoing move to more direct buying of overseas product has been a key driver of lower prices; around 32% of sales are on this basis, of which more than half is now directly sourced from the manufacturer.

As the market leader in many categories and often with as wide a choice as a specialist, Argos presents ranges that offer entry price point products through to premium products and brands. To strengthen further its position in markets such as small domestic appliances, consumer electronics and housewares, Argos has introduced its own Argos Value range of products, with prices starting as low as £2.

### **Convenience further enhanced**

Superior customer convenience continues to be driven by Argos' fully-integrated multi-channel leadership position. A combined 37% of all Argos' sales are now ordered or fulfilled across more than one channel. Within this, total internet orders grew nearly one-third to around £900m and now represent 21% of all sales. Sales of over £500m were from internet orders for pick-up in store, an increase of 50% in the year. The popularity of this market-leading Check & Reserve service - either online, by phone or by text - is such that, on average, over 40,000 reservations are collected daily. Check & Reserve accounted for 15% of Argos' sales overall, and reached as high as 25% during the Christmas weeks.

Argos also continues to enhance its website functionality. As part of a three-year e-commerce programme to consolidate on its market-leading position, [www.argos.co.uk](http://www.argos.co.uk) was relaunched in September 2007 with a complete upgrade to both design and operation. The major changes included greatly enhanced site navigation, search functionality and better product and service information. The upgrade also saw increased transaction security and the implementation of promotional voucher capability ahead of Christmas.

The success of Argos' multi-channel model has also led to developments in the marketing mix. Email campaigns have become more sophisticated, and now include customer segmentation, dynamic product content to further meet specific customer needs, as well as special offers targeting active but low frequency customers. Argos has built an email database of over five million customers, one of the largest in the UK.

Kiosk technology brings together store format and multi-channel developments. Over the year, the number of stores with kiosks doubled; there are now 1,800 in place across all UK stores. The physical positioning of kiosks, in-store staff on-hand at peak times to assist customer awareness, together with the growth in Check & Reserve, have led kiosk participation of in-store sales to rise from an average of 12% to 17%.

### **Store portfolio expansion and development**

The total number of stores increased by a net 27 to reach 707 at the end of the year. Of the 31 gross openings, 13 were stores in new catchments while 18 were openings in an existing catchment. Four stores closed in the year; in each case these were Call & Collect stores where there are now stocked-in stores open in the catchment; only six Call & Collect stores remain. Three store relocations were also completed in the year.

The proportion of Argos Extra stores also continues to increase. There are now 278 fully stocked-in Extra stores representing 39% of the portfolio; virtually all new stores were opened as Extras and an additional 10 conversions were completed in the year. There are also a further 71 stores that now carry an edited selection of the Argos Extra range; these 'partial Extra' stores provide customers with a choice of even more products to take home immediately and generate sales from better-utilised space. The sales penetration of Extra ranges is low single-digit in ordered-in stores, while fully stocked-in stores achieve a low double-digit level on average, demonstrating the benefit of Argos' immediate fulfilment model.

There are additional store format trials in place. In densely urbanised areas, the lack of suitable locations for standard-sized Argos stores has led to under-representation in these areas. Over the last year, Argos has trialled a smaller format store and is now refining the model to reduce the customer area further and edit the stocked-in range while still meeting customer requirements for wide choice and immediate fulfilment. Other format trials include displaying furniture room sets in some larger stores in order to drive the quality perception and an improved awareness of the breadth of the furniture offer, and a series of store presentation and service trials to test opportunities to increase the jewellery and watch participation in relevant store locations by achieving a customer re-appraisal of the overall offer.

Analysis of the 'extent of chain' supports multiple years of new store growth. Argos has opened nearly 250 stores or an average of approximately 30 stores a year since 2000. In assessing future potential, analysis takes into account the substantially expanded range, the fact that Argos trades successfully from both traditional high street and out-of-town retail park formats and the potential opportunities in specific areas such as London and the Republic of Ireland. Taking all this into account, Argos currently sees an extent of chain that supports continuing to open around 30 stores a year.

### **Cost efficiency**

A key feature of the successful profit outcome for the year has been exceptional cost management throughout the business. Initiatives have included carrying increased numbers of product lines in store for immediate collection, booking delivery slots at the point of order, new processes for handling deliveries of multiple products, achieving production efficiencies in flyer publications and improving the transport methods for deliveries to stores. Each of these contributed towards cost productivity, while dealing effectively with the late Christmas sales pattern also provided an additional productivity benefit.

There have also been distribution network efficiency improvements. The opening of the new purpose-built direct importing facility at Kettering allowed the Argos Direct imported lines previously managed at the Corby facility to be transferred for greater scale benefit. In turn, this facilitated further consolidation of product ranges into Corby, allowing a rented facility at Wolverhampton to be closed.

In the new financial year, continued optimisation will see the least efficient regional distribution centre (RDC) at Castleford relocate the majority of its operations to the five remaining RDCs. The centralised jewellery warehousing operation that also runs from Castleford will be transferred to a new, smaller, dedicated facility.

## ***Financial review***

Sales in the 52 weeks to 1 March 2008 increased by 3.8% in total; like-for-like sales grew by 0.7%. There was exceptional growth in video games systems throughout the year, while further strong growth in flat panel TV sales had moderated by the end of the year. Good growth was achieved in 'satnav', mobile phones, digital cameras and accessories. Older technology areas of audio, VCR/DVD and landline phones were weaker. Furniture and homewares categories showed signs of more difficult market conditions towards the end of the year.

The contribution to sales from net new space was 3.1%. Next year's store opening programme is expected to produce a contribution of between 3% and 4%.

Gross margin was ahead by approximately 50 basis points for the year. In the first half some foreign exchange benefits were retained within the business; in the second half these benefits, together with ongoing supply chain gains, were fully passed on to the customer with a greater level of investment in lower prices over the peak trading period.

Operating costs grew in total by approximately 2%, of which underlying inflation was approximately 3%. Non-inflationary costs therefore declined by approximately 1%, representing an exceptional five percentage points of productivity when compared to the level of total sales growth. This was achieved by continued cost control programmes and leverage from the ongoing new space programme. While further cost control and efficiency measures are planned, a significantly lower level of productivity gains is anticipated in the new financial year.

Benchmark operating profit for the 52 weeks to 1 March 2008 grew 16% to a record £376.2m as a combined result of sales growth, gross margin expansion led by short-term external factors, and exceptional cost management.

## Homebase

52 weeks to	1 March 2008	3 March 2007
<b>Sales (£m)</b>	<b>1,568.5</b>	<b>1,594.2</b>
<b>Benchmark operating profit (£m)</b>	<b>45.1</b>	<b>53.4</b>
<b>Benchmark operating margin</b>	<b>2.9%</b>	<b>3.4%</b>
Like-for-like change in sales	(4.1%)	(1.4%)
Net new space contribution to sales change	2.5%	3.6%
Total sales change	(1.6%)	2.2%
Gross margin movement	Up c.250bps	Up c.300bps
Benchmark operating profit change	(16%)	4%
Number of stores at year-end	331	310
Of which contain a mezzanine floor	181	165
Store selling space at year-end ('000 sq ft)	15,398	14,560
Of which - garden centre area	3,505	3,304
- mezzanine floor area	1,909	1,776

Homebase is positioning itself as the UK's leading home enhancement retailer.

### *Operational review*

#### **Trading strategy**

The DIY 'sheds' market has seen flat sales over the year, with a further decline in sales excluding net new space. Homebase's like-for-like performance has this year lagged the wider market, driven by its greater exposure to the seasonals market which suffered on adverse weather conditions during the first half of the year. Over the latter stages of the year, Homebase's markets in general began to show evidence of the onset of the consumer slowdown. In these volatile and increasingly challenging trading conditions, Homebase has performed well operationally; most importantly, its trading strategy through the year has been to continue gross margin progress.

Sourcing and supply chain gains have driven the gross margin progress. By leveraging the scale and expertise of the Group, Homebase has made further excellent progress with more product being directly bought from overseas. Some 28% of sales are now on this basis and over half of this is being sourced directly from the manufacturer. A continuation of this strategy is expected to deliver further gross margin benefits with the aim of increasing the gross margin by approximately 100 basis points in each of the next two years, although this is clearly dependent on the trading and foreign exchange environments.

## **Customer offer development**

Homebase has produced a resilient performance in the 'big ticket' category with excellent growth in a broadly flat kitchen market, as well as share being held in a weakening furniture market. The national roll-out of the installation service has been the key driver of the performance in kitchens. The service has driven both incremental product sales and supported sales of higher value ranges. Customer satisfaction and recommendation levels continue to be very high. Some 600 kitchen displays in around 100 stores will be refreshed in the new financial year.

Ongoing range reviews also continue to drive category performances. Key range developments that supported a good performance in homewares included textiles, cookshop and home accessory areas, while wider ranges of tiling, flooring and lighting have also recently been developed. Around 40% of the garden power range is new for 2008, and the Homebase 'Powerbase' tools range has been relaunched with new-look products and packaging. The rolling programme of range reviews will continue through the new financial year.

Supporting the broader home enhancement offer, a single 'Furniture and Home' catalogue has been made available in all stores, replacing the smaller 'Furniture Extra' brochure that was in around two-thirds of the portfolio. Its increased 232 pages present over 1,500 furniture lines and a further 800 home-related accessories. The coordinated ranges and 'create the look' features in the catalogue are also presented through in-store displays in two-thirds of the store portfolio.

Homebase has begun a partnership with Cornwall's 'Eden Project' in a year-long study into sustainable living. This will analyse in detail consumers' energy, recycling, waste and water usage, in order to direct practical lifestyle changes. Homebase's Spend & Save database was used to canvas families and ask for volunteers for the project. Data from the study will be used to develop future ranges as part of Homebase's ongoing 'Ecohome' environmental campaign to help customers make informed purchasing decisions.

## **Store portfolio expansion and development**

Excluding stores acquired from Focus DIY, 14 new stores were opened, five were closed and a further four were relocated. Of the newly opened stores, the majority were in the successful smaller format consisting of less than 25,000 square feet internal ground floor area (compared to a portfolio average of 36,000), and typically feature an 8,000 to 10,000 square foot mezzanine floor and a similar sized garden centre. These smaller stores are significantly differentiated, remain authoritative across the broader home enhancement market, and are designed to provide an unrivalled customer offer in smaller catchments. 'Extent of chain' analysis supports multiple years of new store growth, with a programme in place of continuing to open around 10 new stores a year.

The acquired Focus DIY stores will add further new space leverage. By the year-end, Homebase had already relaunched 12 of the acquired stores; the remaining nine of the net 21 stores to be integrated have either opened since the year-end or will do so in the coming weeks.

Further store portfolio investment opportunities exist. In approximately 70 stores that have received minimal or no investment for a number of years, trials to test a low-cost refurbishment continue to produce the required sales uplifts. As previously indicated, plans will be further developed once the Focus DIY conversion programme and the 2008 peak trading season are completed.

## **Multi-channel development**

A relaunch of [www.homebase.co.uk](http://www.homebase.co.uk) was completed in March 2008. Significant improvements include enhanced navigation and search, better promotional capabilities, improved 'how to' and buyer guides, and the launch of an online 3D kitchen planner to further support the success of kitchen sales and installations. There are now over 10,000 Homebase products to research from home, with around a third of these available for home delivery. The site also continues to embed relevant products from the Argos product pool. The new site supports the Homebase store card and Spend & Save loyalty card offerings. Additional transactional ranges and further developments are planned in the new financial year.

## **Operational improvements**

There is a continued emphasis on operational improvements throughout the Homebase business, and as part of Home Retail Group, there has been a series of step-changes in improving the retail basics. The ongoing '300 to 1' programme is driving consistency of store operations, leading to reduced costs while benefiting customer service. This and other programmes have continued to improve fundamental operational measures around customer experience, employee engagement and on-shelf availability.

Homebase has also made distribution network improvements. It completed the relocation of its national distribution centre for small items and high-value products to a new 350,000 square foot site at Wellingborough. The four-month migration programme required the relocation of around 10,000 product lines from approximately 300 suppliers.

## ***Financial review***

Sales in the 52 weeks to 1 March 2008 declined by 1.6% in total; like-for-like sales declined by 4.1%. Weakness in the first half of the year was driven by adverse weather conditions over the May to August period, with non-seasonal categories generally stable. A more difficult overall environment through the second half saw like-for-likes worsen, with the impact broadly similar across the business. One exception was kitchens, which has been a consistently strong category throughout the year; there were also good performances within areas of homewares and decorating.

The contribution to sales from net new space was 2.5%. Next year's store opening programme is expected to produce a contribution of between 3% and 4%, with an approximate 5% contribution to come from the acquired Focus DIY stores.

Gross margin was ahead by approximately 250 basis points for the year. Ongoing supply chain initiatives together with foreign exchange benefits were the principal drivers of this improvement over the year, with an additional benefit in the first half from the improvements in stock management procedures.

Operating costs grew in total by approximately 5%, of which underlying inflation was approximately 3%. Non-inflationary cost growth was therefore approximately 2%, principally reflecting the additional investment in new space that was back-end weighted in the year. One-off increases in distribution costs as a result of the warehouse relocation, together with onerous lease costs on its underperforming stores, were broadly offset by one-off benefits principally from store-related property transactions in the year. There will be continued cost control and containment programmes throughout the business in the new financial year.

Benchmark operating profit for the 52 weeks to 1 March 2008 declined 16% to £45.1m as a result of the decline in underlying sales, which was partially offset by further gross margin progress.

## Financial Services

52 weeks to	1 March 2008	3 March 2007
<b>Sales (£m)</b>	<b>95.4</b>	<b>93.2</b>
Benchmark operating profit before financing costs	25.1	22.8
Financing costs	(19.6)	(17.8)
<b>Benchmark operating profit (£m)</b>	<b>5.5</b>	<b>5.0</b>
	<b>1 March 2008</b>	<b>3 March 2007</b>
Store card gross receivables	482	448
Personal loans gross receivables	9	24
Total gross receivables	491	472
Provision	(59)	(55)
Total net receivables	432	417
Provision % of gross receivables	12.0%	11.7%

Financial Services works in conjunction with Argos and Homebase to provide their customers with the most appropriate credit offers to drive product sales, and to maximise profit from the transaction for Home Retail Group.

### *Operational review*

The store card operations continue to drive retail sales. £566m of Group retail sales were funded by the store cards, with the penetration rate increasing to 8.5%.

Promotional credit is a key enabler of driving gains in 'big ticket' categories. Approximately 75% of all credit sales were on promotional credit terms; the cards offer a range of three, six, nine and 12 month 'buy now, pay later' plans. The offer is also fully multi-channel, with the availability of credit being a feature on both [www.argos.co.uk](http://www.argos.co.uk) and [www.homebase.co.uk](http://www.homebase.co.uk).

There has been successful expansion of ancillary businesses. The joint venture with Barclays Bank PLC has seen good take-up of the Argos credit card launched in May 2007. Direct insurance arrangements have also seen good progress, with significant growth in pet insurance in particular.

### *Financial review*

Financial Services' financial objective is to achieve a return in line with financial services industry norms on the revolving (i.e. interest-bearing) element of receivables; the provision of promotional credit products is recharged at cost to the Argos and Homebase businesses. The benchmark operating result of £5.5m for the year therefore reflects this arrangement, with the cost advantage versus third-party promotional credit provision being recognised in Argos and Homebase benchmark operating profits.

Total gross receivables grew by £19m, with a £34m increase in store card operations partially funded by the £15m reduction in the planned run-off of the on-balance sheet personal loans operation.

There was a small increase in provision levels over last year, driven by the run-off of personal loans; delinquency rates for the store card operations were marginally lower than the prior year. The increase in financing costs reflects the growth in receivables as well as a higher internal rate being charged to reflect the movement in funding costs. A corresponding benefit is recognised in Group net interest income.

### **New development opportunities**

Home Retail Group is developing the Argos retail format in India in a strategic partnership arrangement with leading Indian department store retailer Shoppers' Stop and hypermarket format HyperCITY. Argos is providing its brand, catalogue and multi-channel expertise and IT support. The development is approximately half-way through an initial trial phase and, if successful, would see any future development continue under a franchise arrangement.

The business, trading under the 'HyperCITY-Argos' brand name, is based largely on the existing Argos multi-channel proposition. To date, six stores have opened in the Mumbai region to support the October 2007 launch of the first edition of the catalogue which contained 4,700 lines. A number of store formats are being tested, including catalogue stores similar to those of Argos in the UK, a display store showcasing a greater amount of the product range, and small stores where stock can be ordered for later customer collection. The stores are currently supported by a non-transactional website, [www.hypercityargos.com](http://www.hypercityargos.com), a call centre operation and a home delivery operation. The second edition of the catalogue has recently launched, and the next stages of the trial include further stores being added and the website becoming fully transactional.

A second opportunity being developed is the HomeStore&More out-of-town homewares format. The Group paid £6.8m to acquire a 33% stake in the Irish operator of this format, with the investment being used to expand the business throughout Ireland; three stores were opened in the year taking the chain to five, with further openings expected in the next 12 months. In terms of mainland UK, Home Retail Group is developing its own wholly-owned version of the format. The first store opened in October 2007 in Aylesbury, Buckinghamshire, and a second store opened in March 2008 in Cambridge. Further UK stores are expected to be added over the next 12 months and there are ongoing reviews of potential adaptations to the product mix and format.

The success of both these ventures will continue to be monitored over their initial trial phases.

### **Central Activities**

<b>52 weeks to</b>	<b>1 March 2008</b>	<b>3 March 2007</b>
<b>Central Activities (£m)</b>	<b>(28.8)</b>	<b>(24.0)</b>

Central Activities represents the cost of central corporate functions and the investment costs of new development opportunities. Corporate functions costs were held broadly flat; the overall cost growth of £4.8m in the year reflected the first year of the India and HomeStore&More trials. As previously announced, during the second year of the trials a similar cost of approximately £5m is expected.

## **GROUP FINANCIAL REVIEW**

### **Sales and operating profit**

Sales for the Group grew 2.3% to £5,984.8m (2007 pro forma: £5,851.4m) and benchmark operating profit grew 11% to £398.0m (2007 pro forma: £359.4m). Group benchmark operating margin was 6.7% (2007 pro forma: 6.1%). The drivers of this performance have been analysed as part of the preceding business reviews.

### **Net interest income**

Net interest income was £33.3m (2007 pro forma: £16.6m). Third party net interest income of £13.7m (2007 pro forma: expense of £1.2m) was earned on the Group's improved average net cash position. A particularly favourable environment for deposit rates was also a driver. A further credit of £19.6m (2007 pro forma: £17.8m) reflects the financing costs charged within Financial Services' benchmark operating profit.

In the prior year, interest costs attributable to the GUS capital structure prior to the demerger were £46.1m and have been excluded from 2007 pro forma benchmark PBT.

### **Share of post-tax results of joint ventures and associates**

These amounted to an income of £1.6m (2007: £0.7m). Within this, there was a £2.8m gain on disposal of the Group's 33% holding in AAGUS, a consumer finance company in The Netherlands. The residual loss reflects the Group's share of the initial start-up costs incurred by the financial services joint venture with Barclays Bank PLC.

### **Exceptional items**

An exceptional pre-tax income of £0.8m was recorded for the year. This represents the release of a £20.2m accrual in respect of previous GUS-related long-term incentive schemes that were settled in June 2007, offset by Homebase store impairment charges of £10.3m (2007: £4.1m) and costs relating to the post-acquisition integration of certain Focus DIY stores of £9.1m.

In the prior year, exceptional pre-tax items also included demerger-related costs of £11.3m and a charge in relation to the waiver of a loan note due from Experian of £7.3m. Within the prior year's net financing costs, £6.9m of exceptional income related to the gain made on transfer of an interest swap associated with a financing facility novated from GUS plc on demerger.

### **Costs related to demerger incentive schemes**

These amounted to £11.7m (2007: £5.8m). As previously announced, these costs are expected to amount to a maximum of £40m, to be charged to the income statement over the three-year period commencing from the date of the demerger in October 2006, and are excluded from benchmark PBT.

### **Financing fair value remeasurements**

Changes in the fair value of certain financial instruments are recognised in the income statement within net financing costs. These amounted to charges of £9.0m (2007: £0.1m). The increase is principally the result of currency translation differences on overseas subsidiary balances, with an equal and opposite adjustment being recognised as a movement in reserves.

## **Financing impact on retirement benefit balances**

The credit through net financing costs in respect of the excess of expected return on retirement benefit assets over the interest expense on retirement benefit liabilities amounted to £13.0m (2007 pro forma: £12.3m). The current service cost, which Home Retail Group believes to be a fairer reflection of the cost of providing retirement benefits, is already reflected in benchmark operating profit.

## **Profit before tax**

Benchmark profit before tax grew 15% to £432.9m (2007 pro forma: £376.7m). Reported profit before tax was £426.0m (2007: £296.9m).

## **Taxation**

Taxation attributable to benchmark PBT was £138.5m (2007 pro forma: £122.1m), representing an effective tax rate (excluding joint ventures and associates) of 32.1% (2007 pro forma: 32.5%). The improvement in the effective rate largely reflects a growth in profits while the absolute level of disallowable expenditure for tax purposes has remained broadly level.

Taxation attributable to exceptional items amounted to a charge of £1.0m (2007: £5.3m). In the year being reported there was also an exceptional corporation tax credit of £12.6m arising from the settlement of a number of historic tax computations, together with an exceptional deferred tax charge of £5.9m relating to the re-estimation of qualifying assets. Total exceptional tax in the year therefore amounted to a credit of £5.7m.

The reported effective tax rate was 30.8% (2007: 36.9%), representing a total tax expense for the period of £131.4m (2007: £109.5m).

## **Number of shares and earnings per share**

The number of shares for the purpose of calculating basic earnings per share (EPS) is 867.7m (2007: 869.6m), representing the weighted average number of issued ordinary shares of 877.4m (2007: 877.4m), less the weighted average ordinary shares held in Home Retail Group's Employee Share Ownership Trust (ESOT) of 9.7m (2007: 7.8m).

The calculation of diluted EPS reflects the potential dilutive effect of employee share incentive schemes in place post demerger. This increases the number of shares for diluted EPS purposes by 9.6m (2007: 7.6m) to 877.3m (2007: 877.2m).

Basic benchmark EPS is 33.9p (2007 pro forma: 29.3p), with diluted benchmark EPS of 33.6p (2007 pro forma: 29.0p). Reported basic EPS is 34.0p (2007: 21.6p), with reported diluted EPS of 33.6p (2007: 21.4p).

## **Dividends**

Home Retail Group's dividend policy remains to target dividend cover over the medium term of around two times, based on full-year basic benchmark EPS.

A final dividend of 10.0p (2007: 9.0p) is being recommended by the Board, making 14.7p for the year (2007: 13.0p). Based on basic benchmark EPS of 33.9p (2007 pro forma: 29.3p), this represents cover of 2.31 times (2007 pro forma: 2.25 times). Based on reported basic EPS of 34.0p (2007: 21.6p), it represents cover of 2.31 times (2007: 1.66 times).

The final dividend, subject to approval by shareholders at the AGM, will be paid on 23 July 2008 to shareholders on the register at the close of business on 23 May 2008.

### Cash flow and closing net cash position

Period to	<b>1 March 2008</b> <i>(52 weeks)</i>	<b>3 March 2007</b> <i>(Short period)</i>
Benchmark operating profit	398.0	359.4
Change of year-end pro forma adjustments	-	(25.7)
Exceptional items within operating profit	0.8	(22.7)
Demerger incentive scheme costs	(11.7)	(5.8)
Statutory operating profit after exceptional items	387.1	305.2
Depreciation and amortisation	151.6	146.4
Statutory EBITDA	538.7	451.6
Movement in working capital	(48.1)	127.2
Finance expense charged to FS cost of sales	19.6	16.4
Adjustments for other non-cash operating items	54.0	25.7
<b>Cash flows from operating activities</b>	<b>564.2</b>	<b>620.9</b>
Net interest	15.1	(37.8)
Taxation	(95.1)	(101.6)
Net capital expenditure	(207.9)	(158.6)
Acquisitions and disposals	(46.2)	(3.8)
Loan to joint venture	-	(8.1)
<b>Cash inflow before financing activities</b>	<b>230.1</b>	<b>311.0</b>
Dividends paid	(118.9)	(34.6)
Share of GUS plc final dividend	-	(62.0)
Repayment of amounts to GUS plc	-	(50.3)
Repayment of borrowings	(225.1)	(1.2)
Other financing activities	2.3	(6.1)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(111.6)</b>	<b>156.8</b>
Opening cash and cash equivalents	283.8	130.0
Net cash (outflow)/inflow	(111.6)	156.8
Effect of foreign exchange rate changes	1.8	(3.0)
Closing cash and cash equivalents	174.0	283.8
Closing borrowings	-	(223.6)
<b>Closing net cash</b>	<b>174.0</b>	<b>60.2</b>

Cash flows from operating activities were £564.2m (2007: £620.9m). As the prior year was a short period of approximately 11 months due to the change in year-end, there was a benefit in the prior year from the exclusion of March, which is typically a significant cash outflow month in terms of working capital. Excluding this, underlying growth in operating cash flow was therefore driven principally by the growth in profits.

A net interest inflow of £15.1m (2007: outflow of £37.8m) reflects improved cash generation and higher rates of interest earned, together with the removal of the impact from the previous GUS capital structure up to the point of demerger.

Net capital expenditure was £207.9m (2007: £158.6m), with the increase principally driven by a full 52-week period together with an additional £19m in relation to the expected £30m programme to refit the acquired Focus DIY stores. Overall, a broadly similar level of Group capital expenditure is expected in the next financial year.

Cash outflows in relation to acquisitions and disposals reflects £39.6m to purchase 27 store properties from Focus DIY, £6.8m to acquire a 33% holding in the Irish homewares business 'Home Store + More', proceeds of £3.9m from the disposal of the Group's 33% holding in AAGUS, and associated costs related to these transactions.

Cash flows in relation to financing activities in the year principally reflect dividend payments to shareholders, together with the use of cash balances to repay in full a £225m borrowing arrangement inherited from GUS plc on demerger.

The Group's net cash position at 1 March 2008 was therefore £174.0m, an increase of £113.8m on the opening net cash position at 3 March 2007 of £60.2m.

### Balance sheet and return on capital

<b>As at</b>	<b>1 March 2008</b>	<b>3 March 2007</b>
Goodwill	1,922.7	1,878.9
Other intangible assets	83.7	73.4
Property, plant and equipment	731.8	691.6
Inventories	1,004.8	906.4
Instalment receivables	432.0	416.8
Other trading assets	196.8	188.3
	4,371.8	4,155.4
Trade and other payables	(1,130.8)	(1,059.1)
Other trading liabilities	(101.5)	(84.5)
	(1,232.3)	(1,143.6)
<b>Invested capital</b>	<b>3,139.5</b>	<b>3,011.8</b>
Retirement benefit assets	83.7	9.3
Net tax liabilities	(52.0)	(2.6)
Net cash	174.0	60.2
<b>Reported net assets</b>	<b>3,345.2</b>	<b>3,078.7</b>

Invested capital amounted to £3,139.5m, an increase of £127.7m on the year-end balance sheet at 3 March 2007. Higher goodwill reflects the Focus DIY stores acquisition, while growth in property, plant and equipment is driven by the increase in stores. Inventory levels were higher principally due to the growth in operations, increased overseas sourcing and the earlier timing of Easter; this higher inventory was largely offset by the increase in payables.

Reported net assets amounted to £3,345.2m, an increase of £266.5m. The further two key drivers of this movement were the £113.8m increase in net cash and the £74.4m improvement in the retirement benefit assets valuation. Total reported net assets are equivalent to 386p per share, excluding shares held in the ESOT (2007: 354p).

Benchmark pre-tax return on invested capital is a key performance measure for the Group. Benchmark operating profit plus share of post-tax results of joint ventures and associates was £399.6m, up £39.5m or 11%, while year-end invested capital grew by 4%. This led to pre-tax ROIC increasing to 12.7%, representing a 70 basis point improvement on the previous balance sheet date.

### **Capital structure**

The Group finances its operations through a combination of retained profits, property leases and bank borrowings where necessary. The Group's net cash has varied throughout the year due to trading seasonality.

The Group has significant liabilities through its obligations to pay rents under operating leases. The capitalised value of these liabilities is £2,758m based upon a simple eight-times multiple of last year's operating lease charge, or £3,057m based upon discounted cash flows of the expected future operating lease charges. In common with the credit rating agencies, the Group treats its lease liabilities as debt when evaluating financial risk.

As an independent company, Home Retail Group has demonstrated two years of strong profit growth and cash generation. However, since the outlook for consumer spending looks weaker, the Board is mindful of maintaining flexibility through a prudent balance sheet approach. This will offer further resilience during any shorter-term macro-driven slowdown, while not constraining continued investment in value-enhancing longer-term growth opportunities. The Board will continue to review its capital structure to ensure that it remains appropriate.

### **Retirement benefit assets**

The Group provides a number of post-employment benefit arrangements covering both funded defined benefit and defined contribution schemes. Pension arrangements are operated principally through the Home Retail Group Pension Scheme, a defined benefit scheme, together with the Home Retail Group Stake Holder Pension Scheme, a defined contribution scheme. The IAS 19 surplus as at 1 March 2008 for the UK defined benefit scheme was £83.7m (2007: £9.3m).

### **Liquidity and funding**

The Group maintains liquidity by arranging funding ahead of requirements and maintaining sufficient un-drawn committed facilities to meet short-term needs. At 1 March 2008, the Group had un-drawn committed borrowing facilities available of £700m, which expire in 2012. These facilities are in place to enable the Group to finance its working capital requirements and for general corporate purposes.

### **Treasury policy and risk management**

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. Its policies and procedures are subject to review and approval by the Board.

### **Counterparty credit risk management**

The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with strong credit ratings and within limits set for each organisation. Dealing activity is closely controlled and counterparty positions are monitored daily.

## **Interest rate risk management**

The Group's principal objective is to manage the trade-off between the effective rate of interest and the impact of interest rate volatility. Exposure would be managed by the use of fixed and floating rate facilities and by the use of interest rate swaps to adjust the balance of fixed and floating rates.

## **Currency risk management**

The Group's key objective is to reduce the effect of exchange rate volatility on profits. Transactional currency exposures that could significantly impact the income statement are hedged using forward purchases of foreign currencies.

## **Share price and total shareholder return**

The Group's share price ranged from a low of 259.0p to a high of 497.5p during the financial year. On 29 February 2008, the closing mid market price was 259.0p, giving a market capitalisation of £2.3bn at the year-end.

Total shareholder return (the change in the value of a share including reinvested dividends) has been a decline of 36.4% over the year. This compares to a decline of 36.0% in the total shareholder return for the FTSE 350 General Retail sector. The wider FTSE 100 saw a more limited decline of 0.4% over the same period.

## **Accounting standards and use of non-GAAP measures**

The Group has prepared its consolidated financial statements under International Financial Reporting Standards for the 52 weeks ended 1 March 2008. The basis of preparation is outlined in Note 1 to the Financial Information on page 30.

The Group has identified certain measures that it believes provide additional useful information on the underlying performance of the Group. These measures are applied consistently but as they are not defined under GAAP they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are outlined in Note 2 to the Financial Information on page 30.

## **Appendix 1. Basis of preparation for prior year pro forma restatement**

### **Reporting periods**

Home Retail Group previously reported as part of GUS plc on a calendar year-end to 31 March, with half-year results reported as the six months to 30 September. Within this, to avoid distortion in the financial results relating to the timing of Easter, Homebase was consolidated on a non-coterminous 12 months to 28 February basis. For half-year results, Homebase was therefore consolidated on a seven months to 30 September basis, with the second half of its financial year comprising only a five-month period.

As a result of the change in year-end during the previous financial year, Home Retail Group reported on a statutory basis the financial period ended 3 March 2007. This included the results for Homebase from 1 March 2006 (approximately 12 months) and the results for the rest of the Group from 1 April 2006 (approximately 11 months). The latest financial year, as reported today, is a 52-week period commencing 4 March 2007 and ending on 1 March 2008.

For comparative purposes, the financial year 2006/07 restated on a pro forma basis is the 52-week period commencing 5 March 2006 and ending on 3 March 2007. A reconciliation between this pro forma and statutory reported period is shown as Appendix 2.

### **Central Activities**

Central Activities represents the cost of central corporate functions. As part of GUS, Home Retail Group was not recharged for these types of costs. However, for the purposes of preparing demerger financial information, an approximation was made of the amount of GUS corporate head office costs to apportion to Home Retail Group. These apportioned costs were not representative of either the historical costs Home Retail Group would have incurred or the costs it will incur going forward.

As part of the pro forma restatements, Home Retail Group has therefore approximated the additional costs of central corporate functions it would have incurred over and above that apportioned to it by GUS. This has been done on the basis that it had operated as a standalone plc through the periods being restated.

### **Capital structure and net interest**

As part of the demerger, Home Retail Group was allocated pro forma net debt as at 31 March 2006 of £200m. For the purposes of preparing pro forma results, net interest income has been calculated to illustrate the impact on the Group's financial performance as if this capital structure had existed at 31 March 2006 and had been achieved based on the underlying cash flows prior to 31 March 2006. The additional net interest costs attributable to the actual GUS capital structure that was in place over the periods are shown separately.

### **Other income statement items**

Other non-trading income statement items have not been restated as they are not impacted by the change of year-end. These are principally exceptional items, costs related to demerger incentive schemes and financing fair value remeasurements.

## **Appendix 2. Reconciliation between pro forma and statutory reported period**

<b>£m</b>	<b>Short period to 3 March 2007</b>	<b>Pro forma restatement</b>	<b>52 weeks to 3 March 2007</b>
Argos	3,912.8	251.2	4,164.0
Homebase	1,606.3	(12.1)	1,594.2
Financial Services	87.6	5.6	93.2
<b>Sales</b>	<b>5,606.7</b>	<b>244.7</b>	<b>5,851.4</b>
Cost of sales	(3,680.5)	(171.7)	(3,852.2)
<b>Gross profit</b>	<b>1,926.2</b>	<b>73.0</b>	<b>1,999.2</b>
Net operating expenses before exceptional items and costs related to demerger incentive schemes	(1,592.5)	(47.3)	(1,639.8)
Argos	300.9	24.1	325.0
Homebase	51.2	2.2	53.4
Financial Services	4.5	0.5	5.0
Central Activities	(22.9)	(1.1)	(24.0)
<b>Benchmark operating profit</b>	<b>333.7</b>	<b>25.7</b>	<b>359.4</b>
Pro forma net interest income (see below)	n/a	16.6	16.6
Share of post-tax results of joint ventures and associates	0.7	-	0.7
<b>Benchmark PBT</b>	<b>n/a</b>	<b>42.3</b>	<b>376.7</b>
Net interest costs attributable to GUS capital structure (see below)	(21.0)	(18.2)	(39.2)
Exceptional items included in operating profit	(22.7)	-	(22.7)
Costs related to demerger incentive schemes	(5.8)	-	(5.8)
Financing fair value remeasurements	(0.1)	-	(0.1)
Financing impact on retirement benefit balances	12.1	0.2	12.3
<b>Profit before tax</b>	<b>296.9</b>	<b>24.3</b>	<b>321.2</b>
Taxation	(109.5)	(8.0)	(117.5)
of which: <i>taxation attributable to pro forma benchmark PBT</i>	<i>n/a</i>	<i>n/a</i>	<i>(122.1)</i>
<b>Profit for the period</b>	<b>187.4</b>	<b>16.3</b>	<b>203.7</b>
<b>Pro forma basic benchmark EPS</b>	<b>n/a</b>	<b>n/a</b>	<b>29.3p</b>
<b>Basic EPS</b>	<b>21.6p</b>	<b>1.8p</b>	<b>23.4p</b>
Number of shares for basic EPS	869.6m	-	869.6m

### ***Net interest reconciliation:***

Pro forma net interest expense	n/a	(1.2)	(1.2)
Financing costs charged to Financial Services	n/a	17.8	17.8
<b>Pro forma net interest income</b>	<b>n/a</b>	<b>16.6</b>	<b>16.6</b>
Interest costs attributable to GUS capital structure	(44.3)	(1.8)	(46.1)
Exceptional finance income	6.9	-	6.9
Financing costs charged to Financial Services	16.4	(16.4)	-
<b>Net interest costs attributable to GUS capital structure</b>	<b>(21.0)</b>	<b>(18.2)</b>	<b>(39.2)</b>
Financing fair value remeasurements	(0.1)	-	(0.1)
Financing impact on retirement benefit balances	12.1	0.2	12.3
<b>Income statement net financing costs</b>	<b>(9.0)</b>	<b>(1.4)</b>	<b>(10.4)</b>

### **Appendix 3. Future trading statement comparables**

	<b>Q1</b>		
	<b>13 weeks to</b>		
	<b>2 June 2007</b>		
<b>Argos</b>			
Sales	£893m		
Like-for-like change in sales	0.9%		
Net new space contribution to sales change	3.6%		
Total sales change	4.5%		
Guidance on gross margin movement	Up c.150bps		
<b>Homebase</b>			
Sales	£463m		
Like-for-like change in sales	2.7%		
Net new space contribution to sales change	2.5%		
Total sales change	5.2%		
Guidance on gross margin movement	Up c.300bps		
	<b>Q2</b>	<b>H1</b>	
	<b>13 weeks to</b>	<b>26 weeks to</b>	
	<b>1 Sept 2007</b>	<b>1 Sept 2007</b>	
<b>Argos</b>			
Sales	£942m	£1,835m	
Like-for-like change in sales	1.8%	1.4%	
Net new space contribution to sales change	3.0%	3.3%	
Total sales change	4.8%	4.7%	
Guidance on gross margin movement	Up c.100bps	Up c.125bps	
<b>Homebase</b>			
Sales	£391m	£854m	
Like-for-like change in sales	(8.0%)	(2.5%)	
Net new space contribution to sales change	1.8%	2.2%	
Total sales change	(6.2%)	(0.3%)	
Guidance on gross margin movement	Up c.300bps	Up c.300bps	
	<b>Q3</b>	<b>YTD</b>	
	<b>18 weeks to</b>	<b>44 weeks to</b>	
	<b>5 Jan 2008</b>	<b>5 Jan 2008</b>	
<b>Argos</b>			
Sales	£1,919m	£3,755m	
Like-for-like change in sales	(0.2%)	0.6%	
Net new space contribution to sales change	2.7%	2.9%	
Total sales change	2.5%	3.5%	
Guidance on gross margin movement	c.0bps	Up c.50bps	
<b>Homebase</b>			
Sales	£498m	£1,352m	
Like-for-like change in sales	(6.3%)	(3.9%)	
Net new space contribution to sales change	2.2%	2.2%	
Total sales change	(4.1%)	(1.7%)	
Guidance on gross margin movement	Up c.200bps	Up c.250bps	
	<b>Q4</b>	<b>H2</b>	<b>FY</b>
	<b>8 weeks to</b>	<b>26 weeks to</b>	<b>52 weeks to</b>
	<b>1 Mar 2008</b>	<b>1 Mar 2008</b>	<b>1 Mar 2008</b>
<b>Argos</b>			
Sales	£566m	£2,486m	£4,321m
Like-for-like change in sales	1.9%	0.3%	0.7%
Net new space contribution to sales change	3.5%	2.8%	3.1%
Total sales change	5.4%	3.1%	3.8%
Guidance on gross margin movement	Down c.50bps	Down c.25bps	Up c.50bps
<b>Homebase</b>			
Sales	£217m	£715m	£1,569m
Like-for-like change in sales	(5.3%)	(6.0%)	(4.1%)
Net new space contribution to sales change	4.6%	3.0%	2.5%
Total sales change	(0.7%)	(3.0%)	(1.6%)
Guidance on gross margin movement	Up c.150bps	Up c.200bps	Up c.250bps