

Corporate governance report continued

Monitoring

- a range of procedures was used to monitor the effective application of internal control in the Group, including management assurance through confirmation of compliance with standards, and independent assurance through internal audit reviews and review by specialist third parties;
- the internal audit department's responsibilities include reporting to the audit committee on the effectiveness of internal control systems, with a particular focus on those areas identified as being the greatest risk to the Group;
- follow-up processes were used to ensure there was an appropriate response to changes and developments in risks and the control environment.

Relations with institutional shareholders

The Company recognises the importance of communicating with its shareholders and does so through a variety of channels, including the annual report, the Annual General Meeting and the processes described below.

Although the majority of shareholder contact is with the chief executive and the finance director (supported by management specialising in investor relations), it is the responsibility of the Board as a whole, led by the chairman, to ensure that a satisfactory dialogue with shareholders takes place.

Meetings with investors have been held following the preliminary and half-yearly results announcements. A monthly summary of all important or relevant issues raised by shareholders during the course of meetings and discussions is circulated to the Board and reviewed as appropriate at scheduled Board meetings.

Additionally the Board (and, in particular, the non-executive directors) has obtained an independent insight into the views of major shareholders by commissioning research from a third-party adviser across a balanced sample of the Company's investors. These investors controlled some 20% to 30% of the Company's issued share capital. The findings of the research were presented to the Board and the Operating Board by the third-party adviser.

Through these processes the Board is kept abreast of key issues. Shareholders also have a direct line of communication to the chairman, particularly if there are areas for concern, whether it be about performance, strategy or governance. The senior independent director is also available should shareholders have concerns which contact through the normal channels of the chairman, chief executive and the finance director has failed to resolve or for which such contact is inappropriate.

All directors, including the chairmen of the audit, nomination and remuneration committees, intend to be present at the Annual General Meeting and be available to answer shareholders questions. Voting at the Annual General Meeting will be by way of a poll by members present at the meeting and following each vote the level of proxies lodged on each resolution, the balance for and against the resolution and the number of votes withheld will be displayed. The results of voting at the Annual General Meeting will also be available on the Company's website at www.homeretailgroup.com as soon as possible after the meeting.

Directors' remuneration report

This report has been prepared by the remuneration committee on behalf of the Board. In writing it, the committee has adopted the governance principles relating to directors' remuneration as set out in the Combined Code. This report complies with the Companies Act 1985, as amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority.

Chairman's statement

I am pleased to present the report on directors' remuneration. In our first full year as an independent plc, we have considered a wide range of issues to maintain the most appropriate and competitive remuneration arrangements for our executive directors and the members of the Operating Board.

A company's remuneration should enable it to recruit, retain and motivate its employees. We have therefore identified a number of underlying principles to ensure that our remuneration policy promotes the continued success of Home Retail Group:

- The remuneration strategy should help to support corporate objectives
- Remuneration arrangements should support the alignment of interests of shareholders and employees
- Remuneration packages should be competitive and contain performance-related elements which increase with seniority
- All employees should be encouraged to participate in Home Retail Group as shareholders via our share plans.

During the past year, we have taken the following steps to apply these principles in relation to each of the executive directors and members of the Operating Board:

- Ensured that we have a balance of stretching performance conditions in incentive plans that are appropriate, support corporate objectives and are aligned with shareholder interests
- Agreed the performance conditions which are aligned to our three-year business plan for the co-investment plan that will operate for the first time in respect of bonuses earned in 2007/08
- Reviewed base salaries in the context of our performance, the external market and the general economic environment
- Granted awards under the performance share plan
- Agreed the bonus range for 2008/09
- Commissioned a comprehensive benchmarking review of reward for these roles
- Conducted a review of the remuneration committee's performance and terms of reference.

In addition, in relation to all employees, we launched our first Save as You Earn (SAYE) plan in 2007 and approved the operation of a subsequent SAYE plan in 2008.

We are confident that Home Retail Group has in place the right remuneration structure and balance of measures to incentivise and reward both long-term and short-term performance.

In this report reference is made to share plans that are legacy rollover arrangements from the time prior to the demerger from GUS plc in October 2006. Whilst these plans do not form part of our ongoing remuneration policy or strategy, until all of the plans have reached vesting, we will continue, for completeness, to report on these arrangements in the relevant tables.

Our remuneration policy

Home Retail Group's corporate objective is to perform consistently in the upper quartile of the general retail sector and our incentive structure is designed to support this goal. The policy is summarised in this report and it will continue to apply during the current financial year. We review our policy on an ongoing basis to ensure that it continues to be effective and appropriate.

The current incentive structure for the executive directors and members of the Operating Board comprises:

- Median level base salary
- Annual bonus, subject to achievement of financial targets
- Opportunity to participate in a co-investment plan through the deferral of annual bonus
- Annual participation in the performance share plan.

Notice periods for executive directors provide for six months' notice from the director and 12 months from the Company. Service contracts do not provide for additional payments in the event of termination or change of control.

Directors' remuneration report continued

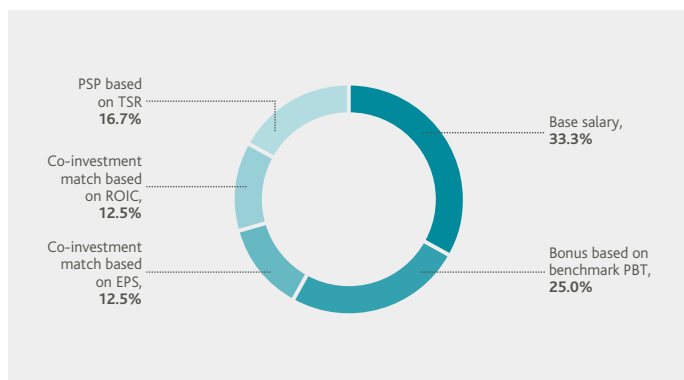
Executive remuneration

The elements of remuneration for executive directors are detailed below. More than 50% of total potential remuneration (excluding pensions and benefits) is performance-related. There is no payment of bonus or long-term incentives if performance targets are not achieved.

Element	Purpose	Performance measure
Base pay	Reflect competitive market level, the economic environment and individual performance	Performance against agreed objectives for annual pay award
Annual bonus	Achievement of annual financial targets	Benchmark profit before tax over a one-year period
Co-investment plan	Encourage re-investment of bonus in shares	50% based on earnings per share and 50% based on return on invested capital over a three-year period
Performance share plan	Reward outperformance relative to peer group	Relative total shareholder return over a three-year period and satisfactory financial performance

This set of measures achieves an appropriate balance between competitive fixed elements, set in line with Home Retail Group's peers, and short-term and long-term incentives that motivate and reward sustained levels of performance. Where appropriate, independent consultants confirm and calculate the extent to which performance conditions have been met.

The chart below shows the percentage split of total remuneration (excluding pensions and benefits) based on the achievement of 50% of all performance measures.



To assess the competitiveness of Home Retail Group's remuneration, the remuneration committee completed a comprehensive benchmarking exercise, comparing the reward profiles of executive director and Operating Board roles to those of UK peers.

As outlined in the directors' report on page 62, the executive directors have significant interests in Home Retail Group with both having a shareholding, including those held in trust from share plans, in excess of one times their salary.

Share awards granted by Home Retail Group may be satisfied with newly issued shares, treasury shares or shares purchased in the market. Currently, share awards are satisfied with shares held in an employee benefits trust. We will keep our policy for funding share awards under review.

Base salary and benefits

We review salaries annually and make adjustments to reflect movements in the employment market, the general economic environment and individual performance. In line with competitive practice, executive directors receive additional benefits that include a car or cash alternative, private health cover, pension and life insurance. Only their base salary is pensionable.

Annual bonus

Executive directors are eligible for an annual bonus. The remuneration committee sets targets by reference to Board-approved budgets. Bonuses for 2008/09 will comprise a payment of 25% of bonus opportunity for achieving an agreed benchmark profit before tax (PBT) figure for the relevant year, equating to 37.5% of base salary and a maximum of 100% of bonus opportunity, equating to 150% of base salary, for substantially exceeding targets.

In the period under review, 2007/08, the bonus achieved was 77% of opportunity for executive directors.

Directors' remuneration report continued

Co-investment plan

Executive directors can choose to defer receipt of part or all of their annual bonus and invest it instead in shares ('invested shares') under the terms of the co-investment plan, which is designed to reward sustained business performance. Additional shares ('matching shares') are granted (on a maximum 2:1 basis) subject to the satisfaction of performance measures (detailed below). In addition, the matching shares are subject to the retention of the invested shares and continued employment.

During the period under review, performance measures were set which were aligned to our three-year business plan. The two performance measures are earnings per share (EPS) as to 50% of the matching shares and return on invested capital (ROIC) as to the other 50%, both of which are calculated over a three-year period. If total EPS growth of 10% or above is achieved, matching shares vest as to one half of the 50% that is subject to EPS, which increases to full vesting of that 50% when EPS growth reaches 25% or more for the period. The ROIC measure is based on an increase over the performance period which, if achieved, matching shares vest as to one half of the 50% that is subject to ROIC, increasing to full vesting of that 50% at the maximum.

Performance share plan

The performance share plan gives executive directors the right to receive shares in the Company subject to the satisfaction of certain conditions and their continued employment. This plan underpins our longer-term incentive structure by providing a share-based reward which vests only when we outperform our peer group.

We use the measure of total shareholder return (TSR) to assess our performance against the following peer group of companies over a three-year period. The peer group is weighted to attach greater importance to companies that are closer comparators to Home Retail Group.

Carphone Warehouse	Kesa Electricals	Signet Group
Debenhams	Kingfisher	Tesco
DSG International	Next	Topps Tiles
Halfords Group	Marks & Spencer Group	WH Smith
J Sainsbury	Morrisons	Woolworths Group

No awards vest if TSR is below the median return for the peer group. Once median performance is achieved, 25% of the award will vest, with 100% of the award vesting for performance at the 80th percentile, subject to rounding to take account of the weighting.

The maximum grant normally available to executive directors is 100% of base salary, converted to shares at the price prevailing at the time the awards are made. Grants were made at this level in 2007. In exceptional circumstances, the remuneration committee may choose to grant a higher amount.

The awards vest to the extent that the performance test is achieved over a three-year period. TSR calculations are made by external advisers using the average share price over the three months before the start and end of the performance period.

All-employee share plans

We encourage employees to become shareholders through the operation of all-employee share plans. In 2007 we invited all employees to participate in an SAYE plan approved by HM Revenue & Customs (HMRC). This gave our employees the opportunity to apply for options to acquire shares in the future. The option price was 80% of the market value of a Home Retail Group share, calculated as the average price over the three business days before the date of invitation, this being 379p. The number of shares over which the option was granted was determined by the amount committed by the employee under their savings contract.

Employees could elect for their savings contract to run over a period of three or five years, with a maximum saving of £250 per month. Options will be exercisable during the six months following the end of the contract. We intend to run a second invitation for employees in 2008.

Non-executive directors

Our policy on non-executive director remuneration is as follows:

- Remuneration should be in line with recognised best practice and sufficient to attract and retain high-calibre non-executives
- Remuneration should be set by reference to the responsibilities undertaken by the non-executive, taking into account that each non-executive director is expected to be a member of the audit, remuneration and nomination committees
- Remuneration should be a combination of cash fees paid monthly and shares, bought twice each year
- Non-executive directors are obliged to retain shares awarded until their retirement from the Board of Directors. Any tax liability connected to these arrangements is the responsibility of the individual director
- Non-executive directors should not participate in share plans operated by the Group
- Non-executive directors should not receive any benefits in kind.

We review our fees for non-executive directors every two years. The next review will take place in 2009. Fees are reviewed in the light of market practice of FTSE 100 companies, the anticipated number of days worked and individual responsibilities. Non-executive remuneration from 1 April 2007 is as follows:

	Fees £000s	Shares Number
Chairman	175	23,000
Non-executive base fee	40	6,000
Senior independent director	10	—
Chair of audit/remuneration committee	10	4,500

Directors' remuneration report continued

Committee details

Role and membership

The remuneration committee is a committee of the Board. The members of the committee are:

Andy Hornby (chairman)
John Coombe
Penny Hughes
Oliver Stocken

The remuneration committee is responsible for making recommendations to the Board on the Group's policy on the remuneration of the Operating Board as well as the specific remuneration packages for each of the executive directors and other members of the Operating Board, including pension rights and any compensation payments.

The remuneration of the non-executive directors and the chairman is reserved for consideration by the Board of Directors as a whole. No director is involved in any discussions about his or her own remuneration.

The committee met five times during the period under review. Attendance at these meetings is set out in the corporate governance statement on page 65. All members of the committee attended each of the meetings.

Advisers

At the invitation of the chairman of the committee, the chief executive attended meetings to give background information on remuneration matters.

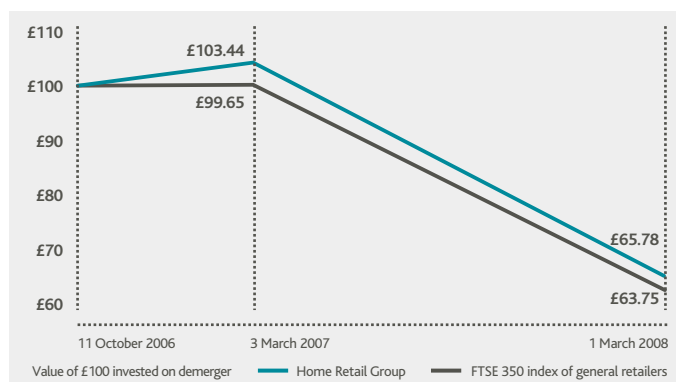
During the period under review, Towers Perrin advised the committee on matters relating to performance conditions for long-term incentive plans and executive remuneration issues and provided the committee with salary survey data. Towers Perrin did not provide Home Retail Group with any other services. Linklaters LLP provided legal advice on share scheme rules.

The committee was also advised by David Guise, Group HR Director and Paula Hayes, Director of Employment Policy & Reward. The secretary to the committee was Gordon Bentley, Company Secretary.

The terms of reference of the committee can be found on the Company's website at www.homeretailgroup.com.

Performance graph

The graph below compares the TSR for Home Retail Group against the FTSE 350 index of general retailers for the period from demerger to the end of the period under review. The directors feel that the FTSE 350 index of general retailers is the most appropriate choice of index as it is a relevant comparator group for a retail business. The graph has been prepared in accordance with the assumptions contained in the relevant legislation.



Directors' remuneration report continued

The following sections are audited

As Home Retail Group demerged from GUS plc in October 2006, some legacy rollover arrangements are still in place in relation to GUS plc share plans. Where this is the case, reference is made to the previous GUS plc plan in the sections below.

Directors' emoluments

The value of the base salary, annual bonus and benefits (excluding awards of options and restricted shares) of each director is set out in the following table. For the non-executive directors, this includes fees and shares as part payment for fees. At the end of the period under review the base salary for Terry Duddy was £800,000 pa and for Richard Ashton was £410,000 pa.

£000	Period ended 1 March 2008				Shortened period ended 3 March 2007 ¹ Total
	Base salary/fees	Annual bonus	Taxable benefits ²	Total	
Terry Duddy	800	920	48	1,768	1,793
Richard Ashton	408	472	27	907	793
Oliver Stocken	256	–	–	256	161
John Coombe	95	–	–	95	85
Andy Hornby	85	–	–	85	67
Penny Hughes	60	–	–	60	13

In accordance with the review of fees that applied from 1 April 2007, the following table provides details of shares purchased for non-executive directors on 17 October 2007 and shares that will be purchased after the preliminary announcement of Home Retail Group's results. The values reported below are included within the remuneration reported in the directors' emoluments table.

	Number of shares purchased on 17 October 2007	Value £000	Number of shares to be purchased after the preliminary announcement of Home Retail Group's results	Value £000 ³
Oliver Stocken	9,583	38	11,500	31
John Coombe	4,375	18	5,250	14
Andy Hornby	4,375	18	5,250	14
Penny Hughes	2,500	10	3,000	8

Notes:

1. The period ended 3 March 2007 was an 11-month period (1 April 2006 to 3 March 2007) and included the period before Home Retail Group was listed on 11 October 2006.
2. Included in this figure is a payment made by Home Retail Group to HMRC on behalf of each of the executive directors. This was due to a technicality in the way the exercise of share options was applied following the demerger from GUS plc which resulted in certain approved options being treated as unapproved for tax purposes. The additional income tax liability for all employees affected by this was met by Home Retail Group. As the payment was made directly to HMRC the amount included in the table above was grossed up in the payment made to HMRC.
3. This is an indicative value based on the average share price over the last three dealing days of the period under review, 269.33p.

Directors' remuneration report continued

Share options

Home Retail Group share options

The Company granted the following rolled over options over its shares following demerger. The options are governed by the rules of the GUS plc executive share option scheme. No new options have been granted during the period under review and no options have been exercised.

Original grant date	Number of options at 4 March 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Total number of options at 1 March 2008	Exercise price	Date from which exercisable ¹	Expiry date
Terry Duddy								
31/05/05	197,277	–	–	–	197,277	359.9p	31/05/08	30/05/15
02/06/06	193,201	–	–	–	193,201	388.2p	02/06/09	02/06/16
Richard Ashton								
31/05/05	80,576	–	–	–	80,576	359.9p	31/05/08	30/05/15
02/06/06	90,159	–	–	–	90,159	388.2p	02/06/09	02/06/16

Note:

1. There is a performance test based on adjusted EPS. This requires EPS compound annual growth to exceed compound annual retail price inflation by 4% per annum over a continuous three-year period.

Home Retail Group SAYE scheme

Terry Duddy and Richard Ashton have joined the Home Retail Group SAYE scheme launched in 2007.

Original grant date	Number of options at 4 March 2007	Options granted during the period	Options exercised during the period	Options lapsed during the period	Total number of options at 1 March 2008	Exercise price	Date from which exercisable	Expiry date
Terry Duddy								
03/07/07	–	4,320	–	–	4,320	379.0p	01/09/12	01/03/13
Richard Ashton								
03/07/07	–	2,493	–	–	2,493	379.0p	01/09/10	01/03/11

Terry Duddy and Richard Ashton were awarded 49 free shares at the time of the demerger under an HMRC approved Share Incentive Plan. They will become fully entitled to these shares after three years, subject to continued employment.

Details of the market price of Home Retail Group shares from the 4 March 2007 to 1 March 2008 are shown in the table below:

At 1 March 2008	259.0p
Highest price during the period	497.5p
Lowest price during the period	259.0p

Directors' remuneration report continued

Long-term incentive plans

Home Retail Group performance share plan

A conditional award of shares was granted to executive directors in 2007 under the Home Retail Group performance share plan. These awards, along with unvested and rolled over awards granted under the GUS plc performance share plan are included in the table below. No shares were released during the period.

Original grant date	Number of shares at 4 March 2007 ¹	Plan shares awarded during the period	Plan shares released during the period	Total plan shares held at 1 March 2008	Share price on date of award	Vesting date ²
Terry Duddy						
31/05/05	197,277	–	–	197,277	–	31/05/08
02/06/06	193,201	–	–	193,201	–	02/06/09
16/10/06	57,483	–	–	57,483	–	16/10/09
09/05/07	–	170,648	–	170,648	468.8p	09/05/10
Richard Ashton						
31/05/05	40,287	–	–	40,287	–	31/05/08
02/06/06	90,159	–	–	90,159	–	02/06/09
16/10/06	27,998	–	–	27,998	–	16/10/09
09/05/07	–	87,457	–	87,457	468.8p	09/05/10

Notes:

- The shares awarded under the GUS plc performance share plan in 2005 and June 2006 were subject to compulsory rollover at the time of demerger and will vest in accordance with the plan's rules.
- All awards granted in 2007 are subject to the performance conditions outlined on page 71. The performance condition for the rolled over awards is based on the TSR of Home Retail Group against its comparator group from the date of demerger to the normal vesting date.

Co-investment plan and re-investment plan

Invested Home Retail Group shares held under the GUS plc co-investment plan and re-invested shares held on behalf of participants under the Home Retail Group re-investment plan are included in the tables below and in the table of directors' interests on page 62.

GUS plc co-investment plan

Awards made in 2006 and 2007 were made under the GUS plc co-investment plan in accordance with the plan rules. No awards vested during the period under review.

Original grant date	Plan shares at 4 March 2007	Invested shares granted during period	Matching shares granted during period	Invested and matching shares released during period	Total plan shares held at 1 March 2008	Share price on date of award	Vesting date ¹
Terry Duddy							
12/06/06 ²	90,123	–	–	–	90,123	–	12/06/09
27/06/07	–	97,151	329,325	–	426,476	451.8p	27/06/10
Richard Ashton							
27/06/07	–	47,361	160,546	–	207,907	451.8p	27/06/10

Notes:

- The matching share option becomes exercisable after three years, subject to continued employment and retention of the related invested shares. The matching share options for the 2006 award remain exercisable until 12 June 2011 and for the 2007 award remain exercisable until 27 June 2012.
- Matching share options granted in 2006 were subject to compulsory rollover at the time of the demerger. The rolled over awards are governed by the rules of the GUS plc plan.

Directors' remuneration report continued

Home Retail Group re-investment plan

At the time of the demerger, executive directors were offered the opportunity to re-invest shares acquired in 2004 and 2005 under the terms of the GUS plc co-investment plan into a one-off re-investment plan.

	Plan shares as at 4 March 2007	Invested and matching shares released during period to 1 March 2008	Total plan shares held at 1 March 2008	Vesting date
Terry Duddy	1,598,850	–	1,598,850	16/10/09
	399,713	–	399,713	16/10/10
	399,712	–	399,712	16/10/11
Richard Ashton	511,228	–	511,228	16/10/09
	127,807	–	127,807	16/10/10
	127,807	–	127,807	16/10/11

This one-off plan granted a matching award of Home Retail Group shares if participants agreed to re-invest the invested shares and/or matching awards from the 2004 and 2005 operation of the GUS plc co-investment plan. The receipt of the matching award is subject to satisfaction of performance conditions, the retention of re-invested awards and continued employment. The matching award is calculated on the basis of two Home Retail Group shares for each Home Retail Group share re-invested by the participant.

The matching award is made in two equal portions. The first 50% of the award is time-based and will vest on the third anniversary of the grant. The remaining 50% of the award will vest subject to satisfaction of performance conditions, in two equal tranches on the fourth and fifth anniversaries of the grant.

Retirement benefits

Terry Duddy

Prior to 1 April 2006, Terry Duddy was a member of the pension scheme which will provide him on retirement at age 60 with a pension in line with pre-6 April 2006 HMRC limits, with pensionable salary limited to the pension earnings cap. Since April 2006, Terry Duddy has been a member of the Home Retail Group secured unfunded retirement benefits scheme and will receive on retirement at age 60 a pension of one-thirtieth of full pensionable salary for each year of service from 1 April 2006.

Richard Ashton

Richard Ashton is a member of the pension scheme which will provide him on retirement at age 60 with a pension of up to two-thirds of the pension earnings cap subject to HMRC limits. Since April 2006, for benefits in excess of the pensions earnings cap, he has been a member of the Home Retail Group secured unfunded retirement benefit scheme.

The table set out below provides the disclosure of directors' pension entitlements from tax-exempt schemes and unfunded arrangements.

	Accrued pension at 1 March 2008 per annum £000	Accrued pension at 3 March 2007 per annum £000	Transfer value at 1 March 2008 £000	Transfer value at 3 March 2007 £000	Changes in transfer values (less director's contributions) £000	Additional pension earned to 1 March 2008 (net of inflation per annum) £000	Transfer value of the increase (less director's contributions) £000
Terry Duddy	65	35	977	418	560	29	439
Richard Ashton	34	22	301	150	142	11	89

Directors' remuneration report continued

Service contracts

Both Terry Duddy and Richard Ashton were appointed as executive directors on 5 July 2006. Neither contract provides for extended notice periods or compensation in the event of termination or a change of control.

Terry Duddy

Terry Duddy has a service contract dated 27 July 1999, under which the Group is required to provide 12 months' notice and he is required to provide six months' notice. Under the terms of the contract, the Group reserves the option to terminate Terry Duddy's employment by paying him in lieu of notice. The contract ends when he reaches the normal retirement age of 60.

Richard Ashton

Richard Ashton has a service contract dated 1 March 2005, under which the Group is required to provide 12 months' notice and he is required to provide six months' notice. The contract ends when Richard Ashton reaches the normal retirement age of 60.

Chairman and non-executive directors

The agreements for the non-executive directors can be terminated without compensation and with one month's notice, other than the chairman, who has a notice period of three months. Non-executive directors are appointed for a fixed term of three years and appointments are reviewed at the end of the term.

By order of the Board

Andy Hornby

Chairman – remuneration committee