

Independent auditors' report to the members of Home Retail Group plc – Group

We have audited the Group financial statements of Home Retail Group plc for the 52 weeks ended 1 March 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Home Retail Group plc for the 52 weeks ended 1 March 2008 and on the information in the directors' remuneration report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the chairman's statement, the business review, the Board of Directors, the directors' report, the corporate governance statement and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 1 March 2008 and of its profit and cash flows for the period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
30 April 2008

Consolidated income statement

For the 52 weeks ended 1 March 2008

	Notes	52 weeks ended 1 March 2008			Short period ended 3 March 2007		
		Before exceptional items £m	Exceptional items £m	After exceptional items £m	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Revenue	5,6	5,984.8	–	5,984.8	5,606.7	–	5,606.7
Cost of sales		(3,881.0)	–	(3,881.0)	(3,680.5)	–	(3,680.5)
Gross profit		2,103.8	–	2,103.8	1,926.2	–	1,926.2
Net operating expenses	8,10	(1,717.5)	0.8	(1,716.7)	(1,598.3)	(22.7)	(1,621.0)
Operating profit	5	386.3	0.8	387.1	327.9	(22.7)	305.2
– Finance income		62.3	–	62.3	55.5	6.9	62.4
– Finance expense		(25.0)	–	(25.0)	(71.4)	–	(71.4)
Net financing income/(costs)	10,11	37.3	–	37.3	(15.9)	6.9	(9.0)
Share of post-tax profit of joint ventures and associates	18	1.6	–	1.6	0.7	–	0.7
Profit before tax		425.2	0.8	426.0	312.7	(15.8)	296.9
Taxation	10,12	(137.1)	5.7	(131.4)	(104.2)	(5.3)	(109.5)
Profit for the period attributable to equity shareholders		288.1	6.5	294.6	208.5	(21.1)	187.4

Earnings per share

		pence	
– Basic	14	34.0	21.6
– Diluted	14	33.6	21.4

Non-GAAP measures

Reconciliation of profit before tax ('PBT') to benchmark PBT

	Notes	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Profit before tax		426.0	296.9
Effect of exceptional items	10	(0.8)	15.8
Effect of financing fair value remeasurements	11	9.0	0.1
Financing impact on retirement benefit balances	11	(13.0)	(12.1)
Effect of demerger incentive schemes	30	11.7	5.8
Benchmark PBT		432.9	306.5

Benchmark earnings per share

		pence	
– Basic	14	33.9	23.7
– Diluted	14	33.6	23.5

Consolidated statement of recognised income and expense

For the 52 weeks ended 1 March 2008

	Notes	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Net income/(expense) recognised directly in equity			
Net change in fair value of cash flow hedges			
– Foreign currency forward exchange contracts		(17.7)	(27.3)
Net change in fair value of cash flow hedges transferred to inventory			
– Foreign currency forward exchange contracts		19.8	24.6
Actuarial gains/(losses) in respect of defined benefit pension schemes	25	73.9	(18.3)
Fair value movements on available-for-sale financial assets		0.1	–
Currency translation differences		13.5	0.9
Tax (charge)/credit in respect of items taken directly to equity		(22.8)	10.0
Net income/(expense) recognised directly in equity for the period	29	66.8	(10.1)
Profit for the period attributable to equity shareholders		294.6	187.4
Total recognised income for the period attributable to equity shareholders		361.4	177.3

Consolidated balance sheet

At 1 March 2008

	Notes	1 March 2008 £m	3 March 2007 £m
ASSETS			
Non-current assets			
Goodwill	15	1,922.7	1,878.9
Other intangible assets	16	83.7	73.4
Property, plant and equipment	17	731.8	691.6
Investment in joint ventures and associates	18	7.7	9.2
Deferred tax assets	27	46.6	74.4
Trade and other receivables	20	4.8	18.0
Retirement benefit assets	25	83.7	9.3
Other financial assets	26	14.2	8.5
Total non-current assets		2,895.2	2,763.3
Current assets			
Inventories	19	1,004.8	906.4
Trade and other receivables	20	597.8	569.4
Current tax assets		16.9	3.0
Other financial assets	26	4.3	–
Cash and cash equivalents	21	174.0	283.8
Total current assets		1,797.8	1,762.6
Total assets		4,693.0	4,525.9
LIABILITIES			
Non-current liabilities			
Trade and other payables	22	(41.3)	(34.0)
Provisions	24	(72.6)	(57.1)
Deferred tax liabilities	27	(67.4)	(44.8)
Total non-current liabilities		(181.3)	(135.9)
Current liabilities			
Trade and other payables	22	(1,089.5)	(1,025.1)
Loans and borrowings	23	–	(223.6)
Provisions	24	(26.1)	(25.2)
Other financial liabilities	26	(2.8)	(2.2)
Current tax liabilities		(48.1)	(35.2)
Total current liabilities		(1,166.5)	(1,311.3)
Total liabilities		(1,347.8)	(1,447.2)
Net assets		3,345.2	3,078.7
EQUITY			
Share capital	28,29	87.7	87.7
Merger reserve	29	(348.4)	(348.4)
Other reserves	29	3.9	(11.4)
Retained earnings	29	3,602.0	3,350.8
Total equity		3,345.2	3,078.7

The financial statements were approved by the Board of Directors on 30 April 2008 and were signed on its behalf by:

Terry Duddy, Chief Executive

Richard Ashton, Finance Director

Consolidated cash flow statement

For the 52 weeks ended 1 March 2008

	Notes	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Cash flows from operating activities			
Cash generated from operations	34	564.2	620.9
Interest received		18.7	13.6
Interest paid		(3.6)	(51.4)
Tax paid		(95.1)	(101.6)
Net cash inflow from operating activities		484.2	481.5
Cash flows from investing activities			
Purchase of property, plant and equipment		(176.3)	(134.1)
Proceeds from the disposal of property, plant and equipment		3.4	3.8
Purchase of intangible assets		(35.0)	(28.3)
Loan to joint venture		–	(8.1)
Disposal of subsidiary – net of cash disposed		–	(3.8)
Purchase of investments		(8.7)	–
Disposal of investment		3.9	–
Acquisition of businesses	7	(41.4)	–
Net cash used in investing activities		(254.1)	(170.5)
Cash flows from financing activities			
Purchase of own shares	29	–	(6.1)
Proceeds from the exercise of share options	29	2.3	–
Repayment of amounts to GUS plc		–	(50.3)
Repayment of finance leases		(0.1)	(1.2)
Repayment of loans		(225.0)	–
Home Retail Group share of GUS plc final dividend		–	(62.0)
Dividends paid	13	(118.9)	(34.6)
Net cash used in financing activities		(341.7)	(154.2)
Net (decrease)/increase in cash and cash equivalents		(111.6)	156.8
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	21	283.8	130.0
Effect of foreign exchange rate changes		1.8	(3.0)
Net (decrease)/increase in cash and cash equivalents		(111.6)	156.8
Cash and cash equivalents at the end of the period	21	174.0	283.8

Analysis of net cash/(debt)

At 1 March 2008

<i>Non-GAAP measures</i>	<i>Notes</i>	<i>1 March 2008 £m</i>	<i>3 March 2007 £m</i>
Financing net cash:			
<i>Cash at bank and in hand</i>	21	174.0	283.8
<i>Loans and borrowings</i>	23	–	(223.6)
Total financing net cash		174.0	60.2
Operating net (debt):			
<i>Property leases</i>		(3,057.1)	(2,920.1)
Total operating net (debt)		(3,057.1)	(2,920.1)
Total net (debt)		(2,883.1)	(2,859.9)
Deduct:			
<i>Operating leases that are off balance sheet</i>		3,057.1	2,920.1
Total net cash reflected in balance sheet		174.0	60.2

The Group uses the term net cash/(debt) which highlights the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably property leases. The capitalised value of these property leases is £3,057.1m (2007: £2,920.1m) based upon discounting the current rentals at the estimated current long-term cost of borrowing of 5.3% (2007: 5.4%).

Notes to the financial statements

For the 52 weeks ended 1 March 2008

1. GENERAL INFORMATION

Home Retail Group plc ('the Company'), which is the ultimate parent company of Home Retail Group ('the Group'), is a public limited company incorporated and domiciled in England under the Companies Act 1985 and listed on the London Stock Exchange. Home Retail Group is a home and general merchandise retailer. These consolidated financial statements were authorised for issue by the Board of Directors on 30 April 2008.

Statement of compliance

The consolidated financial statements of Home Retail Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the European Union. They also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRSs.

2. BASIS OF PREPARATION

Previously, Home Retail Group (then part of GUS plc) prepared its financial information for the financial year for the 12 months to 31 March except for the results of Homebase which were included for the 12 months to 28 or 29 February each year, with adjustments to reflect the balance sheet movements in cash to the end of March. This was done to facilitate comparability of the income statement by avoiding the distortions that would arise relating to changes in the timing of Easter. In order to align the year-end across the Group, the Board of Directors decided to amend the Group's financial year to a 52-week period ending on the Saturday closest to the end of February. Therefore, following the change of accounting reference date in the prior period, the audited accounts have been prepared for the 52 weeks ended 1 March 2008 with comparatives for the short period ended 3 March 2007. Unless otherwise stated, references to 2007 within the notes to the financial statements are for the short period 1 April 2006 to 3 March 2007.

The Group consolidated financial statements are presented in sterling, rounded to the nearest hundred thousand. They are prepared on the historic cost basis modified for the revaluation of certain financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

Group reorganisation

Home Retail Group demerged from its parent company, GUS plc, with effect from 10 October 2006. Shares in Home Retail Group were admitted to the Official List of the Financial Services Authority and to trading on the London Stock Exchange's main market for listed securities on 11 October 2006. All Home Retail Group companies which were owned by GUS plc prior to demerger were transferred under the new ultimate parent company, Home Retail Group plc, prior to 11 October 2006. The introduction of this new ultimate holding company constituted a group reconstruction and was accounted for using merger accounting principles. Therefore, although the Group reorganisation did not become effective until 10 October 2006, the comparative figures in the consolidated financial statements of Home Retail Group are presented as if the current Group structure had always been in place.

Basis of consolidation

The Group financial statements consist of the financial statements of the ultimate Parent Company (Home Retail Group plc), entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates. The accounting policies of subsidiaries are consistent with the policies adopted by the Group for the purposes of the Group's consolidation.

Subsidiaries

A subsidiary is an entity whose operating and financing policies are controlled by Home Retail Group plc. Subsidiaries are consolidated from the date on which control was transferred to Home Retail Group. Subsidiaries cease to be consolidated from the date that Home Retail Group no longer has control. Intercompany transactions, balances and unrealised gains on transactions between Home Retail Group companies have been eliminated on consolidation.

Joint ventures and associates

Joint ventures are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other interested parties under a contractual agreement. Associates are entities over which Home Retail Group has significant influence but not control. The equity method is used to account for investments in joint ventures and associates and investments are initially recognised at cost.

Home Retail Group's share of net assets of its joint ventures and associates are included on the Group balance sheet. Home Retail Group's share of its joint ventures and associates post-acquisition profits or losses are recognised in its income statement. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. The carrying amount of an investment in a joint venture or associate is tested for impairment by comparing its recoverable amount to its carrying amount whenever there is an indication that the investment may be impaired.

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method. The cost of business acquisitions is the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

2. BASIS OF PREPARATION CONTINUED

Changes in accounting standards

A number of new standards, amendments and interpretations are effective for the 52 weeks ended 1 March 2008, but have had no material impact on the results or the financial position of the Group.

IFRS 7 – 'Financial instruments: Disclosures' and the complementary amendment to IAS 1 – 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group or Company's financial instruments or the disclosures relating to trade and other payables.

IFRIC 8 – 'Scope of IFRS 2' and IFRIC 11 – 'IFRS 2 – Group and Treasury Share Transactions' have not had any impact on the recognition of share-based payments in the Group.

IFRIC 9 – 'Reassessment of embedded derivatives' and IFRIC 10 – 'Interim Financial Reporting and Impairment' have not had any impact on the Group.

At the balance sheet date a number of IFRSs and IFRIC interpretations were in issue but not yet effective.

The Group has not early-adopted IFRS 8 – 'Operating Segments' which is effective for accounting periods beginning on or after 1 January 2009. It is not anticipated that the adoption of this standard will have a material impact on the financial statements of the Group, but this standard will be fully considered in due course.

The Group has not early-adopted the revision to IAS 23 – 'Borrowing Costs' which is effective for accounting periods beginning on or after 1 January 2009. It is not anticipated that the adoption of this standard will have a material impact on the financial statements of the Group, but this standard will be fully considered in due course.

The Group has not early-adopted IFRS 2 Amendment – 'Share-Based Payments' – amendment relating to vesting conditions and cancellations, which is effective for accounting periods beginning on or after 1 January 2009, as the amendment has yet to be endorsed by the EU. Application of this amendment in the current period would not have had a material impact on the financial statements of the Group, but the materiality of its impact in future years is uncertain, as it is dependent on the level of cancellations of options by participants in each period. The amendment to this standard will be fully considered in due course.

Amendments to IFRS 3 – 'Business Combinations' are effective for periods beginning on or after 1 July 2009. It is not anticipated that the adoption of this standard will have a material impact on the financial statements of the Group, but this standard will be fully considered in due course.

A revision to IAS 1 – 'Presentation of Financial Statements' is effective for periods beginning on or after 1 January 2009. It is not anticipated that the adoption of this standard will have a material impact on the financial statements of the Group, but this standard will be fully considered in due course.

IFRIC 12 – 'Service Concession Arrangements' is effective for periods beginning on or after 1 January 2008 but will not have any impact on the Group.

IFRIC 13 – 'Customer Loyalty Programmes' and IFRIC 14 – 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' are effective for periods beginning on or after 1 July 2008 and 1 January 2008 respectively. It is not anticipated that the adoption of these interpretations will have a material impact on the financial statements of the Group, however, these will be fully considered in due course.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's best judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods where appropriate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Taxes

The Group is subject to taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective income tax and deferred tax provisions in the year in which such determination is made.

Pension benefits

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligations and net pension costs include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions may impact the amounts disclosed in the Group's balance sheet and income statement.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

The expected return on plan assets is calculated by reference to the plan investments at the year-end and is a weighted average of the expected returns on each main asset type (based on market yields available on these asset types at the year-end).

The Group determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Group considers the market yields of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability. Other key assumptions for defined benefit obligations and pension costs are based in part on market conditions at the relevant year-ends and additional information is disclosed in note 25.

Goodwill

Goodwill is allocated to cash-generating units (CGUs) at the level of each business segment. The recoverable amount of each of the business segments is determined based on value-in-use calculations. The key assumptions for the value-in-use calculation are those regarding discount rates, growth rates as well as expected changes to costs and selling prices in the period. Management have estimated the discount rate taking account of the specific risks inherent within the Group's retail businesses. Changes in selling prices and direct costs are based on past experience and expectations of future change in the markets. These calculations use cash flow projections based on financial plans approved by management looking forward up to five years. Cash flows are extrapolated using estimated growth rates beyond the plan period. The key assumptions for the value-in-use calculations, which management believes are appropriate for both retail businesses, are:

- a real growth rate of 2.25% (2007: 2.25%) has been used to extrapolate cash flows beyond the plan period; and
- a post-tax discount rate of 7% (2007: 7%) applied to the cash flow projections which equates to a pre-tax rate of approximately 10% (2007: 10%).

Impairment of assets

Assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Assets are written down to the higher of fair value less costs to sell and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. This includes estimates of both the expected cash flows and an appropriate discount rate which use management's assumptions and estimates of the future performance of the asset. Differences between expectations and the actual cash flows will result in differences in the level of impairment required.

Provisions

Provisions have been estimated for onerous leases, self insurance and other liabilities. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular store or the incidence of insurance claims against the Group. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Inventory provisions

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Revenue recognition

Revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised as follows:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods to be delivered is recognised when the customer accepts delivery. The Group operates a variety of sales promotion schemes that give rise to goods being sold at a discount to the standard retail price. Revenue is adjusted to show sales net of all related discounts. Commissions receivable on the sale of services for which the Group acts as agent are included within revenue. A provision for estimated returns is made representing the profit on goods sold during the year which will be returned and refunded after the year-end.

Interest income

Interest income on customer store card accounts and loans is recognised as revenue on a time proportion basis using the effective interest method.

Foreign currency translation

Functional and presentation currency

The consolidated financial information is presented in sterling, which is the Group's functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement with the exception of differences on transactions that are subject to effective cash flow hedges. Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the income statement as appropriate.

Group companies

The results and financial position of overseas Home Retail Group entities are translated into sterling as follows:

- assets and liabilities are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at the average exchange rate for the period; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. Tax charges and credits attributable to those exchange differences are taken directly to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary, associate or joint venture acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment. Goodwill is stated at cost less any provision for impairment. Goodwill is not amortised and is tested annually for impairment. An impairment charge is recognised where the carrying value of goodwill exceeds its recoverable amount, being the higher of the asset's fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Group's retail businesses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, allocated where necessary on the basis of relative fair value.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. Intangible assets acquired separately from the acquisition of a business are capitalised at cost. Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

The cost of other intangible assets with finite useful economic lives is amortised over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired, they are written down to the higher of fair value less costs to sell and value-in-use.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are held at cost and are amortised on a straight-line basis over three to five years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to five years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

Property, plant and equipment

Property, plant and equipment are held at cost being the purchase price and other costs directly attributable to bringing the asset into use less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight-line basis as follows:

- freehold properties are depreciated over 50 years;
- leasehold premises are depreciated over the period of the lease;
- plant, vehicles and equipment are depreciated over two to 10 years according to the estimated life of the asset;
- equipment on hire or lease is depreciated over the period of the lease; and
- land is not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Receivables

Trade

Trade receivables are recognised and carried at original invoice amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade receivables recognised in the income statement immediately.

Financial services

The gross margin from the sale of a retail product on extended credit terms is recognised at the time of the sale of the retail product. The finance charges relating to the sale of financial services are included in the income statement as and when instalments are received. Income under instalment agreements is credited to the income statement using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate, and continues to recognise the unwinding of the discount as interest income.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost bases in use within the Group are general retail goods valued on a standard cost or weighted average basis which approximates to actual cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventory include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to their purchase.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Borrowings and borrowing costs

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value and other borrowing costs is recognised in the income statement over the period of the borrowings using the effective interest method.

Deferred taxation

Deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Provisions are made for onerous lease contracts for stores that have closed or where a decision to close has been announced, and for those stores where the projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use.

Provisions are also made for legal claims, restructuring costs and estimated cost of claims incurred by the Group's captive insurance company but not settled at the balance sheet date.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the life of the lease.

Employee benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected-unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated statement of recognised income and expense. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Catalogue costs

Costs incurred during the production of the Group's catalogues are deferred on the balance sheet net of any associated advertising revenue and marketing support until the catalogue is launched, at which point the net deferred cost is charged to the income statement.

Dividends

Dividends recommended by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised in the financial statements when they are paid. Final dividends are recognised in the financial statements when they are approved by the shareholders.

Insurance

Certain of the Group's insurances are handled by the Group's captive insurance company, Global Guernsey Limited, which accounts for all insurance business on an annual basis and the net consolidated result is dealt with as part of the operating costs in these accounts. Insurance premiums in respect of insurance placed with third parties and reinsurance premiums in respect of risks not retained by the Group's captive insurance company are charged to the income statement in the period to which they relate.

Financial instruments

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this position at every reporting date.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

Financial assets and liabilities at fair value through the income statement

Financial assets and liabilities are those designated at fair value through the income statement. Derivatives are generally designated as hedges. Items in this category are classified as current assets or current liabilities if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Accounting for derivative financial instruments and hedging activities

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents the relationship between hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in equity are shown in the Group statement of recognised income and expense.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

Cash flow hedges

The cash flow hedges are intended to hedge the foreign currency exposures of the future purchases of inventory. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to the ineffective portion would be recognised immediately in the income statement. The hedged cash flow is expected to occur up to one year into the future and will be transferred to the consolidated income statement via inventory carrying value as applicable.

Fair value estimation

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price. The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the shares granted is recognised as an expense after taking into account the best estimate of the number of awards expected to vest. The Group revisits the vesting estimate at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes, Monte Carlo model and closing market price is most appropriate to the award. Market-based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Non-GAAP financial information

Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant income statement line. The separate reporting of exceptional items helps provide a better indication of underlying performance of the Group. Examples of items which may be recorded as exceptional items are impairment charges, restructuring costs and the profits/losses on the disposal of businesses.

Benchmark profit before tax ('PBT')

The Group uses the term benchmark PBT as a measure which is not formally recognised under IFRS. Benchmark PBT is defined as profit before amortisation of acquisition intangibles, store impairment charges, exceptional items, financing fair value remeasurements, financing impact on retirement benefit balances, one-off demerger incentive costs and taxation. This measure is considered useful in that it provides investors with an alternative means to evaluate the underlying performance of the Group's operations.

Net debt

The Group uses the term net debt which is considered useful in that it provides the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably property leases.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

There are a number of financial risks and uncertainties which could impact the performance of the Group: market risk (foreign exchange and interest rate risk), credit risk and liquidity risk. The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties.

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. Policies and procedures are subject to review and approval by the Board of Directors as well as subject to audit review.

Market risk – foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with external banks. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts. The key objective of the Group's foreign exchange transaction exposure management is to minimise potential volatility in profits which could arise as a result of exchange rate fluctuations whilst maintaining an appropriate competitive stance.

To achieve the above objectives, the Group will initially seek to hedge up to 90% of any foreign exchange transaction risks expected to arise as a result of uncertain, but probable, foreign currency cash flows up to one year forward. This subsequently increases to 100% as cash flows become certain. Probable cash flows for this purpose will be considered for hedging once included within rolling 12 month forecasts.

For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The cash flow hedges are intended to hedge the foreign currency exposure of future purchases of inventory. Weekly reports are made to management to demonstrate that this objective is being reached. The hedged cash flows are expected to occur up to one year into the future and will be transferred to the consolidated income statement or inventory carrying value as applicable. The Group has foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is not hedged.

If the UK pound had weakened/strengthened by 5 cents (approximately 2.5%) against the US dollar as at 1 March 2008, with all other variables held constant, post-tax profit would have been unchanged (2007: unchanged). Equity would have been £5.3m (2007: £5.0m) higher/lower, arising mainly from the revaluation of US dollar forward currency contracts.

If the UK pound had weakened/strengthened by 5 cents (approximately 3.8%) against the euro as at 1 March 2008, with all other variables held constant, post-tax profit would have been £2.6m (2007: £0.8m) lower/higher, mainly as a result of foreign exchange losses/gains on translation of sterling-denominated cash balances in subsidiary companies with euro functional currency. Equity would have been £0.3m higher/lower (2007: £3.0m), arising mainly from foreign exchange gains/losses on translation of euro-denominated net assets held by subsidiary companies with euro functional currency.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

Market risk – cash flow and fair value interest rate risk

Whilst the Group's Financial Services business has gross instalment receivable balances on fixed interest rates and floating rates, the Group's income and operating cash flows are still considered to be substantially independent of changes in market interest rates.

The Group maintains a portfolio of cash and borrowings which can result in either a net cash position or a net debt position. The Group currently holds a net cash position with no borrowings.

The Group's interest rate risk arises from any future long-term borrowings that it may incur. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The principal objective of the Group's interest rate risk management is to manage the trade-off between obtaining the most beneficial effective rates of interest whilst minimising the impact of interest rate volatility on profits before tax. The aim will normally be to manage interest rate risks by achieving a ratio of between 30% and 70% of net debt fixed rate.

If the Group were to incur long-term borrowings it would manage its cash flow interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps would have the economic effect of converting borrowings from fixed rates to floating rates. Under the interest rate swaps, the Group would agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

At 1 March 2008 the Group had no borrowings. At 3 March 2007 if interest rates on pound-denominated borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the period would have been £0.2m lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not be affected by such a change in interest rates because gains and losses are not recognised directly in equity, but released directly to the income statement.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of financial services products are made to customers with an appropriate credit history. Sales to retail customers are made in cash, via major credit cards or via in-house operated financial products.

The Group's exposure to credit risk with regard to treasury transactions is managed by dealing only with banks and major financial institutions with credit ratings of at least AA- (Standard & Poor's) or Aa1 (Moody's) and within a limit of £100m set for each organisation. Foreign exchange counterparty limits are set at £20m for each organisation. Dealing activity is closely controlled and counterparty positions are monitored daily.

Liquidity risk

Home Retail Group manages its cash and committed bank borrowing facilities to maintain liquidity and funding flexibility. Liquidity is achieved through arranging funding ahead of requirements and maintaining sufficient undrawn committed facilities to meet short-term needs. At 1 March 2008, the Group had undrawn committed borrowing facilities available of £700m which expire in 2012. This facility attracts fixed charges and includes a covenant that borrowing cannot exceed 1.5 times earnings before interest, tax, dividends, amortisation and rent. These facilities are in place to enable the Group to finance its working capital requirements and for general corporate purposes.

Group policy is that all other cash is invested either in AAA overnight funds or fixed term deposits with banks rated AA- or higher. Unlimited amounts with a maturity of up to one year may be invested with sign off from the finance director but the Board may approve an investment with an unlimited duration.

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
At 1 March 2008					
Unsecured bank loan	–	–	–	–	–
Other borrowings	–	–	–	–	–
Fair value hedge	–	–	–	–	–
Trade and other payables	(596.6)	–	–	–	(596.6)
At 3 March 2007					
Unsecured bank loan	–	(222.6)	–	–	(222.6)
Other borrowings	–	(0.9)	–	–	(0.9)
Fair value hedge	–	(0.5)	–	–	(0.5)
Trade and other payables	(530.5)	–	–	–	(530.5)

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

4. FINANCIAL RISK MANAGEMENT CONTINUED

When a forward foreign exchange contract matures, this requires an outflow of the currency being sold and an inflow of the currency being bought. The table below analyses the Group's outflow and inflow from derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

<i>At 1 March 2008</i>	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Forward foreign exchange contracts – cash flow hedges					
– outflow	(256.6)	(200.9)	(86.1)	–	(543.6)
– inflow	256.7	201.1	83.9	–	541.7

<i>At 3 March 2007</i>	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Forward foreign exchange contracts – cash flow hedges					
– outflow	(294.0)	(143.4)	(118.8)	(22.8)	(579.0)
– inflow	291.0	142.9	120.3	22.9	577.1

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group finances its operations through a combination of retained profits, bank borrowings and property leases. The Group has significant liabilities through its obligations to pay rents under property leases. The Group, in common with the credit rating agencies, treats its lease liabilities as debt when evaluating financial risk and investment returns. The Group's net debt varies significantly throughout the year due to trading seasonality.

Foreign currency

The principal exchange rates used were as follows:

	Average		Closing	
	52 weeks ended 1 March 2008	Short period ended 3 March 2007	52 weeks ended 1 March 2008	Short period ended 3 March 2007
US dollar	2.00	1.90	1.99	1.94
Euro	1.43	1.48	1.31	1.48

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

5. SEGMENTAL INFORMATION

Primary reporting format – business segments

The Group's primary reporting format is by business segment. This is in line with the current management structure, which reflects the different risks associated with the different businesses. The Group is organised into three main business segments: Argos, Homebase and Financial Services together with Central Activities. Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination.

52 weeks ended 1 March 2008

<i>Income statement</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Revenue	6	4,320.9	1,568.5	95.4	–	5,984.8
Profit						
Operating profit/(loss) before exceptional items		376.2	45.1	5.5	(40.5)	386.3
Exceptional items	10	–	(19.4)	–	20.2	0.8
Segment result		376.2	25.7	5.5	(20.3)	387.1
– Finance income	11					62.3
– Finance expense	11					(25.0)
Net financing income	11					37.3
Share of post-tax results of joint ventures and associates	18					1.6
Profit before tax						426.0
Taxation	12					(131.4)
Profit for the period						294.6

The result for Financial Services is after deducting funding costs of £19.6m (note 11).

As at 1 March 2008

<i>Balance sheet</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Segment assets		1,280.1	686.7	459.1	273.2	2,699.1
Investment in associates and joint ventures	18	–	–	–	7.7	7.7
Taxation		–	–	–	63.5	63.5
Goodwill	15	1,152.3	770.4	–	–	1,922.7
Total assets		2,432.4	1,457.1	459.1	344.4	4,693.0
Segment liabilities		(743.8)	(432.1)	(56.1)	(0.3)	(1,232.3)
Taxation		–	–	–	(115.5)	(115.5)
Total liabilities		(743.8)	(432.1)	(56.1)	(115.8)	(1,347.8)
Net assets		1,688.6	1,025.0	403.0	228.6	3,345.2
Less goodwill		(1,152.3)	(770.4)	–	–	(1,922.7)
Net operating assets		536.3	254.6	403.0	228.6	1,422.5

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

5. SEGMENTAL INFORMATION CONTINUED

52 weeks ended 1 March 2008

<i>Other segment item</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	17	(71.3)	(55.6)	–	–	(126.9)
Impairment of fixed assets	17	–	(10.3)	–	–	(10.3)
Amortisation of intangible assets	16	(21.1)	(3.0)	(0.6)	–	(24.7)
Capital expenditure on property, plant and equipment	17	(80.9)	(95.4)	–	–	(176.3)
Capital expenditure on intangible assets	16	(29.8)	(4.5)	(0.7)	–	(35.0)

Short period ended 3 March 2007

<i>Income statement</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Revenue	6	3,912.8	1,606.3	87.6	–	5,606.7
Profit						
Operating profit/(loss) before exceptional items		300.9	51.2	4.5	(28.7)	327.9
Exceptional items	10	–	(4.1)	–	(18.6)	(22.7)
Segment result		300.9	47.1	4.5	(47.3)	305.2
– Finance income	11					55.5
– Finance expense	11					(71.4)
– Exceptional finance income	10					6.9
Net financing costs	11					(9.0)
Share of post-tax results of joint ventures and associates	18					0.7
Profit before tax						296.9
Taxation	12					(109.5)
Profit for the period						187.4

The results for Financial Services are after deducting funding costs of £16.4m (note 11).

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

As at 3 March 2007

<i>Balance sheet</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Segment assets		1,222.8	605.0	439.7	292.9	2,560.4
Investment in associates and joint ventures	18	–	–	–	9.2	9.2
Taxation		–	–	–	77.4	77.4
Goodwill	15	1,152.3	726.6	–	–	1,878.9
Total assets		2,375.1	1,331.6	439.7	379.5	4,525.9
Segment liabilities		(708.8)	(383.7)	(49.3)	(1.8)	(1,143.6)
Borrowings	23	–	–	–	(223.6)	(223.6)
Taxation		–	–	–	(80.0)	(80.0)
Total liabilities		(708.8)	(383.7)	(49.3)	(305.4)	(1,447.2)
Net assets		1,666.3	947.9	390.4	74.1	3,078.7
Less goodwill		(1,152.3)	(726.6)	–	–	(1,878.9)
Net operating assets		514.0	221.3	390.4	74.1	1,199.8

Short period ended 3 March 2007

<i>Other segment items</i>	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	17	(70.2)	(59.8)	–	–	(130.0)
Impairment of fixed assets	17	–	(4.1)	–	–	(4.1)
Amortisation of intangible assets	16	(14.1)	(1.8)	(0.5)	–	(16.4)
Capital expenditure on property, plant and equipment	17	(54.8)	(79.3)	–	–	(134.1)
Capital expenditure on intangible assets	16	(27.6)	–	(0.7)	–	(28.3)

Geographical segments

Home Retail Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment assets arise there.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

6. ANALYSIS OF REVENUE BY CATEGORY

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Sale of goods	5,889.4	5,519.1
Provision of services by Financial Services	95.4	87.6
Total	5,984.8	5,606.7

7. ACQUISITIONS

On 11 October 2007, the Group announced the agreement to acquire a number of leasehold properties, together with an assembled workforce, from Focus DIY for a cash consideration of £39.6m. As at 1 March 2008, 27 stores had been assigned to the Group. Acquisition costs of £1.8m were also incurred. At acquisition, the business had a book value of assets of £nil. The fair value of net liabilities acquired was £2.4m comprising property, plant and equipment of £1.5m, current assets of £1.6m, current liabilities of £0.6m and provisions of £4.9m. In addition, the intangible assets were determined to have negligible value, consequently goodwill of £43.8m was generated on the transaction. This goodwill represents the synergies, assembled workforce and future growth potential of the business acquired.

Details of revenues generated from these stores have not been disclosed as only certain of the stores were re-branded and trading prior to the period end, and consequently the revenue generated is not material in the context of these financial statements. No pro forma information for the 52 weeks ended 1 March 2008 has been included as the acquired stores have been amalgamated within the existing store portfolio, rendering any disclosures impractical.

On 15 April 2008, the Group received notification that this transaction had received clearance from the Office of Fair Trading, subject to undertakings by the Group that one store will now not be traded and is likely to be offered for sale externally. This has not had a material effect on the accounting for the transaction.

There were no acquisitions during the short period to 3 March 2007.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

8. NET OPERATING EXPENSES

Expenses by function	Before exceptional items £m	Exceptional items (note 10) £m	52 weeks ended 1 March 2008 £m	Before exceptional items £m	Exceptional items (note 10) £m	Short period ended 3 March 2007 £m
Net operating expenses comprise:						
Selling costs	(1,405.8)	–	(1,405.8)	(1,321.8)	–	(1,321.8)
Administrative costs	(311.7)	0.8	(310.9)	(276.5)	(22.7)	(299.2)
Total net operating expenses	(1,717.5)	0.8	(1,716.7)	(1,598.3)	(22.7)	(1,621.0)

Expenses by nature

Profit before tax is stated after (charging)/crediting

	Notes	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Operating lease rental expense			
– Plant and equipment		(9.8)	(9.4)
– Property		(335.0)	(310.6)
Cost of inventories recognised as an expense in cost of sales		(3,758.0)	(3,564.0)
Write down of inventories		(123.0)	(116.5)
Exceptional items	10	0.8	(15.8)
Loss on sale of property, plant and equipment		(0.4)	(0.9)
Depreciation of property, plant and equipment	17	(126.9)	(130.0)
Amortisation of intangible assets	16	(24.7)	(16.4)
Employee benefit costs	9	(768.1)	(717.2)

Auditors' remuneration

Audit services:

Fees payable for the audit of the Company and the consolidated financial statements (0.8) (0.8)

Other services:

Fees payable to the Company's auditors and its associates for other services

– the audit of the Company's subsidiaries pursuant to legislation (0.1) (0.1)

– services relating to taxation (0.2) (0.2)

– all other services (0.1) (0.2)

Total fees payable to PricewaterhouseCoopers LLP (1.2) (1.3)

The above disclosure is presented in accordance with SI 2005/2417, where audit fees in respect of the audit of the Company's subsidiaries pursuant to legislation are included within other services.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

9. EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS

Employee costs for the Group were as follows:

	Notes	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Wages and salaries		(670.6)	(631.9)
Social security costs		(42.9)	(39.8)
Post-employment benefits	25	(33.0)	(29.2)
Share-based payments	30	(21.6)	(16.3)
		(768.1)	(717.2)

The average numbers of employees were as follows:

	52 weeks ended 1 March 2008		Short period ended 3 March 2007	
	Number of employees	Full time equivalent	Number of employees	Full time equivalent
Argos	33,205	17,931	33,501	17,861
Homebase	19,531	11,501	18,701	11,210
Financial Services	416	370	394	360
Central Activities	45	44	37	37
	53,197	29,846	52,633	29,468

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
<i>Key management compensation</i>		
Short-term employee benefits	(5.2)	(4.7)
Post-employment benefits	(1.5)	(1.4)
Share-based payments	(6.3)	(5.7)
	(13.0)	(11.8)

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

10. EXCEPTIONAL ITEMS

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Accrual release relating to incentive schemes (a)	20.2	–
Costs relating to the post-acquisition integration of the Focus DIY stores (b)	(9.1)	–
Store impairment charges (c)	(10.3)	(4.1)
Costs relating to the demerger of Home Retail Group and Experian (d)	–	(11.3)
Waiver of loan due from Experian (e)	–	(7.3)
Exceptional items in operating profit	0.8	(22.7)
Exceptional finance income (f)	–	6.9
Exceptional items in profit before tax	0.8	(15.8)
Tax on exceptional items in profit before tax	(1.0)	(5.3)
Exceptional corporation tax credit (g)	12.6	–
Exceptional deferred tax charge (h)	(5.9)	–
Exceptional tax	5.7	(5.3)
Exceptional profit/(loss) for the period	6.5	(21.1)

(a) Represents the release of an accrual in respect of previous GUS-related long-term incentive schemes which were settled in June 2007.

(b) Represents costs relating to the post-acquisition integration of certain of the Focus DIY stores acquired in the period.

(c) IFRS requires individual stores to be designated as cash-generating units for the purposes of testing for impairment. This resulted in a net impairment charge in respect of the Homebase store portfolio of £10.3m (2007: £4.1m).

(d) Demerger-related expenditure including costs in relation to early vesting of share incentive schemes, banking set up fees and other professional fees.

(e) Represents a loan due from Experian which was waived as part of the demerger process.

(f) Fair value gain made on transfer of interest rate swap novated from GUS plc on demerger.

(g) Represents the recognition of a corporation tax credit arising from a reassessment of previous estimates provided for in the Group's tax computations, following the agreement of prior year tax computations.

(h) Represents an additional deferred tax charge arising from the re-estimation of qualifying assets in respect of accelerated tax depreciation, following the agreement of prior year tax computations.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

11. NET FINANCING INCOME/(COSTS)

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Finance income:		
Bank deposits and other interest	18.8	13.8
Expected return on retirement benefit assets	43.5	37.8
Interest receivable from GUS group companies	–	3.9
Total finance income	62.3	55.5
Finance expense:		
Interest cost of perpetual securities	(3.3)	(11.1)
Unwinding of discounts	(1.8)	(1.9)
Financing fair value remeasurements:		
– net losses on financial instruments	(0.9)	(0.1)
– net exchange losses	(8.1)	–
Interest expense on retirement benefit liabilities	(30.5)	(25.7)
Interest expense on OFT fine	–	(1.5)
Interest payable to GUS group companies	–	(47.5)
Total finance expense	(44.6)	(87.8)
Less: finance expense charged to Financial Services cost of sales	19.6	16.4
Total net finance expense	(25.0)	(71.4)
Net financing income/(costs) before exceptional items	37.3	(15.9)
Exceptional finance income	–	6.9
Net financing income/(costs)	37.3	(9.0)

12. TAXATION

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Analysis of charge in period		
Current tax:		
UK corporation tax	(119.4)	(94.0)
Double tax relief	1.7	3.5
Adjustments in respect of prior years	17.8	(0.9)
Total current UK tax charge	(99.9)	(91.4)
Overseas tax	(3.9)	(4.4)
Total current tax charge	(103.8)	(95.8)
Deferred tax:		
Origination and reversal of temporary differences	(17.4)	(16.5)
Adjustments in respect of prior years	(11.2)	2.8
Rate change impact	1.0	–
Total tax expense in income statement	(131.4)	(109.5)

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

Factors affecting the tax charge

The effective tax rate for the year of 30.8% (2007: 36.9%), is higher than the standard rate of corporation tax in the UK of 30.0% (2007: 30.0%).

The differences are explained below:

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Profit before tax	426.0	296.9
Profit before tax multiplied by the standard rate of corporation tax in the UK of 30%	(127.8)	(89.1)
Effects of:		
Expenses not deductible for tax purposes	(14.2)	(25.6)
Differences in effective tax rates on overseas earnings	3.0	3.3
Adjustments to tax charge in respect of prior years	6.6	1.9
Rate change impact	1.0	–
Total tax expense in income statement	(131.4)	(109.5)

Factors that may affect future tax charges

In the foreseeable future, Home Retail Group's tax charge will continue to be influenced by the profile of profits earned in the different tax jurisdictions within the United Kingdom and the Republic of Ireland.

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Exceptional tax (see note 10)		
Exceptional profit/(loss) before tax	0.8	(15.8)
Exceptional profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 30%	(0.2)	4.7
Effects of:		
Expenses not deductible for tax purposes	(0.8)	(2.2)
Adjustments to tax charge in respect of prior years	–	(7.8)
Net exceptional tax credit in respect of prior years	6.7	–
Exceptional tax credit/(charge)	5.7	(5.3)

13. DIVIDENDS

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Amounts recognised as distributions to equity holders		
Final dividend of 9.0p per share for the short period ended 3 March 2007	78.1	–
Interim dividend of 4.7p per share (2007: 4.0p)	40.8	34.6
Ordinary dividends on equity shares	118.9	34.6

A final dividend in respect of the period ended 1 March 2008 of 10.0p per share, amounting to a total final dividend of £86.8m, has been recommended by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the period of 14.7p per share, amounting to £127.6m. The recommended dividend has not been included as a liability at 1 March 2008 in accordance with IAS 10 'Events after the balance sheet date'. It will be paid on 23 July 2008 to shareholders who are on the register of members at close of business on 23 May 2008. The Home Retail Group Employee Share Ownership Trust ('ESOT') has waived its entitlement to dividends in the amount of £1.3m (2007: £0.7m).

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

14. BASIC AND DILUTED EARNINGS PER SHARE ('EPS')

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held in Home Retail Group's ESOT. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares. Basic and diluted EPS for 2007 have been calculated on the basis of the number of shares in issue at the date of demerger for the pre-demerger period together with the weighted average number of shares post-demerger, excluding ordinary shares held in Home Retail Group's ESOT.

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Earnings		
Profit after tax for the financial period	294.6	187.4
Effect of exceptional items	(0.8)	15.8
Effect of financing fair value remeasurements	9.0	0.1
Financing impact on retirement benefit balances	(13.0)	(12.1)
Demerger incentive schemes	11.7	5.8
Attributable taxation	(7.1)	9.2
Benchmark profit after tax for the financial period	294.4	206.2
	millions	millions
Weighted average number of shares		
Number of ordinary shares for the purpose of basic EPS	867.7	869.6
Dilutive effect of share incentive awards	9.6	7.6
Number of ordinary shares for the purpose of diluted EPS	877.3	877.2
	pence	pence
EPS		
Basic EPS	34.0	21.6
Diluted EPS	33.6	21.4
Basic benchmark EPS	33.9	23.7
Diluted benchmark EPS	33.6	23.5

15. GOODWILL

	Argos £m	Homebase £m	Total £m
At 1 April 2006 and 3 March 2007	1,152.3	726.6	1,878.9
Additions	–	43.8	43.8
At 1 March 2008	1,152.3	770.4	1,922.7

Details of goodwill value-in-use calculations on cash-generating units can be found in note 2 'Basis of preparation' in the section entitled 'Critical accounting estimates and assumptions'.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

16. OTHER INTANGIBLE ASSETS

	Total £m
Cost	
At 4 March 2007	152.0
Additions	35.0
Disposals	(0.3)
At 1 March 2008	186.7
Amortisation	
At 4 March 2007	(78.6)
Charge for the year	(24.7)
Disposals	0.3
At 1 March 2008	(103.0)
Net book value at 1 March 2008	83.7
Assets in the course of construction included above at 1 March 2008	19.4
	Total £m
Cost	
At 1 April 2006	128.7
Additions	28.3
Disposals	(5.0)
At 3 March 2007	152.0
Amortisation	
At 1 April 2006	(67.2)
Charge for the year	(16.4)
Disposals	5.0
At 3 March 2007	(78.6)
Net book value at 3 March 2007	73.4
Assets in the course of construction included above at 3 March 2007	14.7

Intangible assets comprise computer software for internal use.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties			Plant & equipment £m	Total £m
	Freehold properties £m	Long leasehold £m	Short leasehold £m		
Cost					
At 4 March 2007	91.6	5.1	335.7	1,055.0	1,487.4
Exchange differences	–	0.2	1.4	4.4	6.0
Additions	10.7	–	42.4	123.2	176.3
Acquired through business combination (note 7)	–	–	1.0	0.5	1.5
Disposals	–	–	(1.7)	(25.1)	(26.8)
Transfers between categories	–	(3.6)	3.6	–	–
At 1 March 2008	102.3	1.7	382.4	1,158.0	1,644.4
Depreciation and impairment losses					
At 4 March 2007	(9.1)	(0.7)	(180.8)	(605.2)	(795.8)
Exchange differences	–	(0.1)	(0.3)	(2.2)	(2.6)
Charge for the year	(1.3)	–	(18.2)	(107.4)	(126.9)
Impairment losses	–	–	(2.5)	(7.8)	(10.3)
Disposals	–	–	1.5	21.5	23.0
Transfers between categories	–	0.4	(0.4)	–	–
At 1 March 2008	(10.4)	(0.4)	(200.7)	(701.1)	(912.6)
Net book value at 1 March 2008	91.9	1.3	181.7	456.9	731.8
Assets in the course of construction included above at 1 March 2008	4.0	–	7.0	71.0	82.0
	Leasehold properties			Plant & equipment £m	Total £m
	Freehold properties £m	Long leasehold £m	Short leasehold £m		
Cost					
At 1 April 2006	81.6	5.1	323.2	976.8	1,386.7
Exchange differences	–	–	(0.1)	(0.7)	(0.8)
Additions	10.0	–	17.9	106.2	134.1
Disposals	–	–	(5.3)	(27.3)	(32.6)
At 3 March 2007	91.6	5.1	335.7	1,055.0	1,487.4
Depreciation and impairment losses					
At 1 April 2006	(8.0)	–	(166.0)	(515.9)	(689.9)
Exchange differences	–	–	–	0.3	0.3
Charge for the year	(1.1)	(0.7)	(17.9)	(110.3)	(130.0)
Impairment losses	–	–	(1.0)	(3.1)	(4.1)
Disposals	–	–	4.1	23.8	27.9
At 3 March 2007	(9.1)	(0.7)	(180.8)	(605.2)	(795.8)
Net book value at 3 March 2007	82.5	4.4	154.9	449.8	691.6
Assets in the course of construction included above at 3 March 2007	9.4	–	10.6	39.0	59.0

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

18. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2008 £m	2007 £m
Opening	9.2	0.4
Reclassification to financial assets	(8.1)	–
Exchange differences	0.9	–
Share of profit after tax	2.8	0.7
Additions	6.8	–
Loan to joint venture	–	8.1
Disposals	(3.9)	–
Closing	7.7	9.2

The Group's interest in joint ventures consists of a 50% holding in Home Retail Group Personal Finance Limited, a company incorporated in England, and its interest in associates consists of a 33% shareholding in Ogalas Limited (which trades as 'home store + more'), a company incorporated in the Republic of Ireland, which was acquired during the period for £6.8m. In addition, on 14 November 2007 the Group disposed of its 33% holding of AAGUS Financial Services Group NV, a company incorporated in The Netherlands, which was previously reported as an associate.

The Group's share of the revenue of its joint venture for the 52 weeks ended 1 March 2008 is £0.8m (2007: £nil) and its share of the loss after tax is £1.2m (2007: £nil). At 1 March 2008, the Group's share of the net liabilities of its joint venture amounted to £4.4m (2007: £nil), consisting of assets of £16.3m (2007: £8.1m) and liabilities of £20.7m (2007: £8.1m). No liability has been recognised in the Group's balance sheet in respect of the joint venture, but the Group's share of the accumulated losses has been taken against the carrying value of a loan made by the Group to the joint venture, which is now reported within other financial assets in note 26.

The Group's share of the revenue of its associates for the 52 weeks ended 1 March 2008 is £4.4m (2007: £3.3m) and its share of profit after tax is £2.8m (2007: £0.7m). At 1 March 2008, the Group's share of the net assets of its associates amounted to £7.7m (2007: £1.1m), consisting of assets of £8.2m (2007: £28.5m), which includes goodwill of £4.2m (2007: £nil), and liabilities of £0.5m (2007: £27.4m).

19. INVENTORIES

	2008 £m	2007 £m
Goods for resale	1,004.8	906.4

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

20. TRADE AND OTHER RECEIVABLES

	Current 2008 £m	Non-current 2008 £m	Current 2007 £m	Non-current 2007 £m
Trade receivables:				
– Instalment receivables	488.9	1.7	459.4	12.5
– Other trade receivables	75.3	–	73.8	–
	564.2	1.7	533.2	12.5
Less: provision for impairment of receivables	(60.8)	(0.6)	(57.4)	(1.4)
	503.4	1.1	475.8	11.1
VAT recoverable	–	–	0.2	–
Prepayments and accrued income	94.4	3.7	93.4	6.9
	597.8	4.8	569.4	18.0

The carrying values of current trade and other receivables are a reasonable approximation of their fair values. Fair values of long-term receivables have been discounted where the time value of money is material. All receivables due after more than one year are due within five years from the balance sheet date. There is no concentration of credit risk with respect to trade receivables, as Home Retail Group has a broad customer base. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

As of 1 March 2008, trade receivables of £76.4m (2007: £75.5m) were impaired. The amount of the provision was £61.4m as of 1 March 2008 (2007: £58.8m). The individually impaired receivables mainly relate to store card holder balances on customer accounts on which indications of possible default have been identified.

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 1 April 2006	51.4
Charge for the period	39.0
Utilised	(31.6)
At 3 March 2007	58.8
Charge for the period	36.6
Utilised	(34.0)
At 1 March 2008	61.4

As of 1 March 2008, trade receivables of £24.2m (2007: £28.4m) were past due but not impaired. These relate to corporate customer receivable balances. The ageing analysis of these trade receivables is as follows:

	2008 £m	2007 £m
Less than 3 months	22.2	27.1
3 to 6 months	1.5	1.0
6 to 9 months	0.3	0.2
9 to 12 months	0.2	0.1
	24.2	28.4

The other classes within trade and other receivables do not contain impaired assets.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

21. CASH AND CASH EQUIVALENTS

	2008 £m	2007 £m
Cash at bank and in hand	174.0	283.8

The effective interest rate during the period ended 1 March 2008 for cash and cash equivalents was 5.5% (2007: 4.8%). Under the terms of a re-insurance agreement, bank balances totalling £3.4m (2007: £3.5m) are the subject of custodial agreements and may not be withdrawn without the consent of the re-insured. Home Retail Group has provided letters of credit totalling £12.5m (2007: £22.6m) to AIG Europe (UK) Limited as part of their re-insurance agreement. These letters are secured by cash deposits.

22. TRADE AND OTHER PAYABLES

	Current 2008 £m	Non-current 2008 £m	Current 2007 £m	Non-current 2007 £m
Trade payables	(501.3)	–	(466.5)	–
Social security costs and other taxes	(48.1)	–	(48.4)	–
Accruals and deferred income	(444.8)	(41.3)	(446.2)	(34.0)
Other payables	(95.3)	–	(64.0)	–
	(1,089.5)	(41.3)	(1,025.1)	(34.0)

Trade and other payables are non-interest bearing and the fair values are not considered to differ materially from the recognised book values. Long-term payables have been discounted where the time value of money is material.

23. LOANS AND BORROWINGS

	Current 2008 £m	Non-current 2008 £m	Current 2007 £m	Non-current 2007 £m
4.0% Perpetual securities	–	–	(74.4)	–
4.9% Perpetual securities	–	–	(148.2)	–
Other	–	–	(0.9)	–
	–	–	(223.5)	–
Obligations under finance leases	–	–	(0.1)	–
	–	–	(223.6)	–

The effective interest rate of the perpetual securities was the nominal rate indicated above, which was fixed for the term of the debt. The securities were repaid in June 2007. All loans were denominated in sterling. The carrying values of loans and borrowings are a reasonable approximation of their fair values. All of the borrowings of the Group shown above were unsecured. Lease liabilities were effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

24. PROVISIONS

	Onerous leases £m	Insurance provisions £m	Other £m	Total £m
At 4 March 2007	(40.8)	(29.3)	(12.2)	(82.3)
Charged to the income statement	(10.2)	(9.9)	(5.8)	(25.9)
Acquired through business combination (note 7)	(2.5)	–	(2.4)	(4.9)
Utilised during the period	4.3	7.8	4.6	16.7
Discount unwind	(2.2)	–	(0.1)	(2.3)
At 1 March 2008	(51.4)	(31.4)	(15.9)	(98.7)

Analysed as:

	2008 £m	2007 £m
Current	(26.1)	(25.2)
Non-current	(72.6)	(57.1)
	(98.7)	(82.3)

The onerous lease provision covers potential liabilities for onerous lease contracts for stores that have either closed, or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. The provision is based on the present value of expected future cash flows relating to rents, rates and other property costs to the end of the lease terms net of expected sublet income. The majority of this provision is expected to be utilised over the period to 2011.

Provision is made at the year-end for the estimated costs of claims incurred by Home Retail Group's captive insurance company but not settled at the balance sheet date, including the costs of claims that have arisen but have not yet been reported to Home Retail Group. The estimated cost of claims includes expenses to be incurred in settling claims. The majority of this provision is expected to be utilised over the period to 2011.

Other provisions include legal claims and other sundry provisions. The majority of this provision is expected to be utilised within one year.

25. POST-EMPLOYMENT BENEFITS

Home Retail Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which Home Retail Group pays contributions into an independently administered fund. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the period.

Pension arrangements for UK employees are operated principally through a defined benefit scheme (the Home Retail Group Pension Scheme) and a defined contribution scheme (the Home Retail Group Stakeholder Pension Scheme). In other countries, benefits are determined in accordance with local practice and regulations and funding is provided accordingly.

Defined Benefit Schemes

The Home Retail Group Pension Scheme

The scheme has rules which specify the benefits to be paid and are financed accordingly with assets being held in independently administered funds. A full actuarial valuation of this scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out as at 31 March 2006 by independent, qualified actuaries, Watson Wyatt LLP, using the projected unit method. Under the projected unit method of valuation the current service cost will increase as members approach retirement due to the ageing active membership of the scheme.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

The movements during the year in the net asset recognised in the balance sheet were as follows:

	2008 £m	2007 £m
Opening	9.3	25.5
Total charge recognised in the consolidated income statement	(13.8)	(11.2)
Actuarial gain/(loss) recognised in the consolidated statement of recognised income and expense	73.9	(18.3)
Contributions paid	14.3	13.3
Closing	83.7	9.3

The estimated amount of contributions expected to be paid into the Home Retail Group Pension Scheme by the Group during the next financial year is £14m.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2008 £m	2007 £m
Fair value of scheme assets	646.5	637.3
Present value of funded scheme liabilities	(552.1)	(617.7)
Surplus in the funded scheme	94.4	19.6
Present value of unfunded pension arrangements	(10.7)	(10.3)
Retirement benefit asset recognised in the balance sheet	83.7	9.3

The amounts recognised in the consolidated income statement were as follows:

	2008 £m	2007 £m
Current service cost	(26.8)	(23.3)
Discount unwind on scheme liabilities	(30.5)	(25.7)
Expected return on scheme assets	43.5	37.8
Total charge to consolidated income statement	(13.8)	(11.2)

The charge is recognised in the following line items in the consolidated income statement:

	2008 £m	2007 £m
Administrative costs	(26.8)	(23.3)
Finance expense (note 11)	(30.5)	(25.7)
Finance income (note 11)	43.5	37.8
Total charge to consolidated income statement	(13.8)	(11.2)

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For the 52 weeks ended 1 March 2008

25. POST EMPLOYMENT BENEFITS CONTINUED

IAS 19 valuations

The valuations used for IAS 19 have been based on the most recent actuarial funding valuations and have been updated by Watson Wyatt LLP to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at 1 March 2008 and 3 March 2007. The principal actuarial assumptions used to calculate the present value of the defined benefit obligations were as follows:

	2008 %	2007 %
Rate of inflation	3.5	3.1
Rate of increases for salaries	4.8	4.4
Rate of increase for pensions in payment	3.4	3.0
Rate of increase for deferred pensions	3.5	3.1
Discount rate	6.1	4.9

The amount charged to the income statement in respect of unfunded pension arrangements was £2.2m (2007: £0.8m).

The principal financial assumption is the discount rate. If this assumption is increased/decreased by 0.1%, the defined benefit obligation would decrease/increase by approximately £14.4m and the current service cost would decrease/increase by £0.8m. The discount rate is based on market yields on high-quality corporate bonds of equivalent currency and term to the defined benefit obligation.

The IAS 19 valuation assumes that mortality will be in line with 'PA92 Series' tables with 'medium cohort' projections for males and females. An allowance is also made for anticipated future improvements in life expectancy assuming that the probability of death occurring at each age will decrease by approximately 0.25% each year, equivalent to increasing life expectancy by approximately one month each year.

Overall, the average expectation of life on retirement in normal health is assumed to be:

- 21.4 years at age 65 for a male currently aged 65 (2007: 21.3)
- 24.3 years at age 65 for a female currently aged 65 (2007: 24.2)
- 22.3 years at age 65 for a male currently aged 50 (2007: 22.2)
- 25.1 years at age 65 for a female currently aged 50 (2007: 25.0)

The assets of the Home Retail Group Pension Scheme and the expected rates of return are summarised as follows:

	2008			2007		
	Fair value £m	Percentage of scheme assets %	Expected long-term rate of return % pa	Fair value £m	Percentage of scheme assets %	Expected long-term rate of return % pa
Market value of scheme assets:						
Equities	438.0	68	8.1	448.6	70	7.9
Fixed interest securities	202.7	31	5.0	182.0	29	4.4
Other	5.8	1	5.3	6.7	1	4.9
	646.5	100	7.1	637.3	100	6.9

The overall expected rate of return on scheme assets is the weighted average of the best estimate of the individual asset categories and their inherent expected rates of return.

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For the 52 weeks ended 1 March 2008

Changes in the present value of the defined benefit obligation are as follows:

	2008 £m	2007 £m
Opening defined benefit obligation	(628.0)	(579.1)
Current service cost	(26.8)	(23.3)
Interest cost	(30.5)	(25.7)
Contributions paid by employees	(6.9)	(6.6)
Actuarial gain/(loss) on liabilities recognised in statement of recognised income and expense	118.7	(0.3)
Benefits paid	10.7	7.0
Closing defined benefit obligation	(562.8)	(628.0)

Changes in the market value of the scheme assets are as follows:

	2008 £m	2007 £m
Opening market value of scheme assets	637.3	604.6
Expected return	43.5	37.8
Actuarial loss on assets recognised in statement of recognised income and expense	(44.8)	(18.0)
Contributions paid by Home Retail Group	14.3	13.3
Contributions paid by employees	6.9	6.6
Benefits paid	(10.7)	(7.0)
Closing market value of scheme assets	646.5	637.3
Cumulative actuarial gain/(loss) included in statement of recognised income and expense	34.0	(39.9)

The actual return on scheme assets was a loss of £1.3m (2007: £19.8m gain).

History of experience gains and losses:

	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	(562.8)	(628.0)	(579.1)	(465.5)
Fair value of scheme assets	646.5	637.3	604.6	392.5
Net surplus/(deficit) on the scheme	83.7	9.3	25.5	(73.0)
Experience (loss)/gain on scheme liabilities	(4.3)	20.8	0.2	3.6
Percentage of scheme liabilities	(0.8%)	3.3%	0.0%	0.8%
Experience (loss)/gain on scheme assets	(44.8)	(18.0)	70.9	8.1
Percentage of scheme assets	(6.9%)	(2.8%)	11.7%	2.1%

Defined contribution schemes

The pension cost represents contributions payable by the Group to defined contribution schemes and amounted to £6.2m (2007: £5.9m). Contributions totalling £0.3m (2007: £nil) were payable to the schemes at 1 March 2008 and are included within creditors.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

26. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current 2008 £m	Non-current 2008 £m	Current 2007 £m	Non-current 2007 £m
Other financial assets				
Cash flow hedge – foreign exchange contracts	4.3	–	–	–
Available-for-sale financial assets	–	14.2	–	8.5
Total other financial assets	4.3	14.2	–	8.5
Other financial liabilities				
Cash flow hedge – foreign exchange contracts	(2.8)	–	(1.7)	–
Fair value hedge – interest rate swap	–	–	(0.5)	–
Total other financial liabilities	(2.8)	–	(2.2)	–

The cash flow hedges are intended to hedge the foreign currency exposures of future purchases of inventory. The hedged cash flows are expected to occur up to one year into the future and will be transferred to the consolidated income statement or inventory carrying value as applicable.

Forward foreign exchange contracts

Gains and losses recognised in the hedging reserve in shareholders' equity on forward foreign exchange contracts as of 1 March 2008 and 3 March 2007 will be released to the income statement within one year from the balance sheet date. The notional principal amounts of the outstanding forward foreign exchange contracts at 1 March 2008 were £543.6m (2007: £579.0m).

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts as at 1 March 2008 were £nil (2007: £225.0m). At 3 March 2007, the main floating rates were based on LIBOR. Gains and losses recognised in the hedging reserve in shareholders' equity on interest rate swap contracts are continuously released to the income statement until the repayment of the bank borrowings. Home Retail Group's activities expose it to a variety of financial risks and Home Retail Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Home Retail Group's performance.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value or, where fair value cannot be reliably measured, at cost less impairment.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

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For the 52 weeks ended 1 March 2008

27. DEFERRED TAX

	2008 £m	2007 £m
The movements on the net deferred tax account are as follows:		
Opening	29.6	41.6
Income statement charge (note 12)	(28.6)	(13.7)
Rate change impact (note 12)	1.0	–
Other movements	–	(0.3)
Tax on pensions and share schemes (charged)/credited to shareholders' equity	(22.8)	2.0
Closing	(20.8)	29.6
The deferred tax amounts recognised are as follows:		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	46.6	74.4
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	(67.4)	(44.8)
Net deferred tax (liability)/asset	(20.8)	29.6

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Asset provisions £m	Other temporary differences £m	Total £m
Deferred tax assets			
At 1 April 2006	39.8	69.0	108.8
Income statement credit/(charge)	2.6	(39.0)	(36.4)
Tax credited to equity	0.8	1.2	2.0
At 3 March 2007	43.2	31.2	74.4
At 4 March 2007	43.2	31.2	74.4
Income statement charge	(5.6)	(1.1)	(6.7)
Rate change impact	(2.4)	(0.9)	(3.3)
Tax charged to equity	(1.1)	(16.7)	(17.8)
At 1 March 2008	34.1	12.5	46.6

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

27. DEFERRED TAX CONTINUED

Deferred tax liabilities	Property valuations £m	Accelerated tax depreciation £m	Other £m	Total £m
At 1 April 2006	(27.7)	(20.0)	(19.5)	(67.2)
Income statement credit/(charge)	2.7	(0.5)	20.2	22.4
At 3 March 2007	(25.0)	(20.5)	0.7	(44.8)
At 4 March 2007	(25.0)	(20.5)	0.7	(44.8)
Income statement credit/(charge)	1.7	(11.8)	(11.8)	(21.9)
Rate change impact	1.5	2.2	0.6	4.3
Tax charged to equity	–	–	(5.0)	(5.0)
At 1 March 2008	(21.8)	(30.1)	(15.5)	(67.4)

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

Home Retail Group did not recognise deferred tax assets of £1.4m (2007: £1.5m) in respect of losses that can be carried forward against future taxable income. In addition, Home Retail Group did not recognise deferred tax assets of £28.0m (2007: £30.0m) in respect of capital losses that can be carried forward against future taxable gains. These losses are available indefinitely.

28. SHARE CAPITAL

	2008 Number of shares	2008 £m	2007 Number of shares	2007 £m
Authorised:				
Ordinary share capital of 10p each	2,000,500,000	200.1	2,000,500,000	200.1
	2008 Number of shares m	2008 £m	2007 Number of shares m	2007 £m
Allotted, called-up and fully paid:				
At beginning of the period	877.4	87.7	877.4	2,895.6
Reduction in nominal value of shares from 330p to 10p	–	–	–	(2,807.9)
At end of the period	877.4	87.7	877.4	87.7

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

29. RECONCILIATION OF MOVEMENTS IN EQUITY

	Share capital £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 4 March 2007	87.7	(348.4)	(11.4)	3,350.8	3,078.7
Profit for the financial period	–	–	–	294.6	294.6
Net income recognised in equity for the financial period	–	–	15.2	51.6	66.8
Movement in share-based compensation reserve (note 30)	–	–	–	21.6	21.6
Net movement in own shares	–	–	0.1	2.3	2.4
Equity dividends paid during the period (note 13)	–	–	–	(118.9)	(118.9)
Total equity at 1 March 2008	87.7	(348.4)	3.9	3,602.0	3,345.2

	Share capital £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2006	2,895.6	(348.4)	(4.3)	407.0	2,949.9
Profit for the financial period	–	–	–	187.4	187.4
Share reduction	(2,807.9)	–	–	2,807.9	–
Net cost recognised in equity for the financial period	–	–	(1.0)	(9.1)	(10.1)
Movement in share-based compensation reserve (note 30)	–	–	–	16.3	16.3
Net movement in own shares	–	–	(6.1)	–	(6.1)
Equity dividends paid during the period (note 13)	–	–	–	(34.6)	(34.6)
Other movements	–	–	–	(24.1)	(24.1)
Total equity at 3 March 2007	87.7	(348.4)	(11.4)	3,350.8	3,078.7

Merger reserve

The merger reserve arose on the demerger of the Group from GUS plc during 2006 as outlined in note 2 'Group reorganisation'.

Other reserves

Other reserves principally consist of shares held in trust, the hedging reserve and the translation reserve.

Net movement in own shares represents the purchase, and subsequent utilisation or sale, of shares for the purpose of satisfying obligations arising from Home Retail Group plc share-based compensation schemes. Shares in Home Retail Group plc are held in the following Trusts which have been established since demerger:

Home Retail Group Employee Share Ownership Trust ('ESOT')

The ESOT provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 1 March 2008, the ESOT held 9,206,387 shares with a market value of £23.8m. The shares in the Trust are held in the balance sheet of the Group at nil value. The shares were acquired as part of the demerger from GUS plc at no cost. Dividends on these shares are waived.

Home Retail Group Share Incentive Scheme Trust

The Home Retail Group Share Incentive Scheme Trust provides for the issue of shares to Group employees under the Share Incentive Plan. At 1 March 2008, the Trust held 1,425,505 shares with a market value of £3.7m. These shares are held in the balance sheet of the Group at a cost of £6.0m. No additional shares were purchased in the period.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

30. SHARE-BASED PAYMENT ARRANGEMENTS

The Group operates a number of share-based payment schemes. These can be analysed into three categories, being those rolled over from old GUS plc schemes as a result of the demerger from GUS on 11 October 2006, incentive schemes specifically related to the demerger ('Demerger Incentive Schemes') and new Home Retail Group plc schemes subsequent to the demerger.

Prior to the demerger, a number of Home Retail Group plc employees participated in old GUS plc share-based payment schemes. As part of the demerger, some of these schemes had early vesting with vesting occurring prior to completion of the demerger, while others were modified by rolling them over to become Home Retail Group plc share-based payment schemes. Specifically, all executive share option schemes in operation following the demerger from GUS plc were rolled over from a GUS plc share option arrangement to a Home Retail Group plc arrangement. Furthermore, certain share grant schemes (namely co-investment and performance share plan) which originally operated as GUS plc share grant schemes, have been rolled over as Home Retail Group plc share grant schemes. Under IFRS 2, these changes have been treated as modifications to the schemes and hence revalued as at the demerger date.

Summary of the total cost of share-based compensation in respect of ordinary shares in the Company

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Share option awards	(5.3)	(5.0)
Share grant awards	(16.3)	(11.3)
Total expense recognised (all equity settled)	(21.6)	(16.3)

The total share-based payments charge of £21.6m (2007: £16.3m) includes £10.4m (2007: £5.1m) relating to demerger incentive schemes which, together with national insurance costs of £1.3m (2007: £0.7m) total £11.7m (2007: £5.8m), and are excluded from benchmark profit before tax. In 2007, the total share-based payments charge also included an increase in fair value of £0.2m relating to the rolled over share option schemes and £2.4m relating to the early vesting of certain schemes. The accelerated charge due to early vesting was classified as an exceptional item in line with the Group's accounting policies.

Options in respect of the ordinary shares of the Company

Summary of arrangements

During the year ended 1 March 2008, Home Retail Group plc had two share option arrangements for its employees. Details of these share option arrangements are as follows:

Arrangements	The 1998 approved and non-approved executive share option schemes (rolled over GUS plc schemes)	Savings related share option schemes (new Home Retail Group plc schemes)
Nature of arrangement	Grant of options (modified scheme)	'Sharesave' scheme
Vesting conditions		
– Service period	3 years	3 or 5 years
– Performance/other	EPS growth performance condition ¹	Saving obligation over the vesting period
Expected outcome of meeting performance criteria (at grant date)	100%	n/a
Maximum term	10 years	3.5 or 5.5 years
Method of settlement	Share distribution	Share distribution
Expected departures (at grant date)	5%	3 years – 15% 5 years – 25%
Option exercise price calculation	Market price over the three dealing days preceding grant	20% discount to market price over the three dealing days preceding invitation to participants

Notes:

- The performance condition for the executive share option scheme requires EPS compound annual growth to exceed compound annual retail price inflation by 4% per annum over a continuous three-year period. This is not a market-based performance condition as defined by IFRS 2.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

Information relating to option valuation techniques

The Company uses the Black-Scholes Option Pricing model to determine an appropriate value of the option grants. Where a scheme has been modified, a revaluation is performed at the date of modification. Any increase in fair value is charged to the income statement over the remaining life of the scheme. The estimated fair values and inputs into the option pricing model are as follows:

Options granted in the 52 weeks ended 1 March 2008	The Home Retail Group Sharesave Scheme
Weighted average:	Home Retail Group plc shares
Fair value (£)	1.35
Share price on grant date (£)	4.70
Exercise price (£)	3.79
Expected volatility	24.3%
Expected dividend yield	3.1%
Risk free interest rate	5.43%
Expected option life to exercise	3.8 years

Options granted in the short period ended 3 March 2007	The 1998 Approved and Non-Approved Executive Share Option Schemes	
	Home Retail Group plc shares	GUS plc shares
Weighted average:		
Fair value (£)	0.97	2.06
Share price on grant date (£)	4.17	9.35
Exercise price (£)	3.88	9.26
Expected volatility	26.6%	29.4%
Expected dividend yield	3.0%	3.5%
Risk free interest rate	4.8%	4.7%
Expected option life to exercise	4 years	4 years

Expected volatility for Home Retail Group plc shares – calculated as an average over the expected life. As limited historical volatility exists for Home Retail Group, an average of volatilities has been calculated from comparator companies.

Expected volatility for GUS plc shares – calculated as an average over the expected life with an assumption made for volatility in each year of the expected life. Volatility in the first year is assumed to be the same as implied volatility on grant date. Volatility for year 4 and beyond is assumed to remain at the long run (10 year observed) historic volatility. Linear interpolation is assumed for years 2 and 3.

Reconciliation of movement in the number of share options

	Number of options	Weighted average exercise price £
Outstanding at 4 March 2007	9,958,258	3.70
New grants	9,777,675	3.79
Forfeitures	(1,801,009)	3.77
Exercised options	(679,050)	3.45
Expired options	(95,818)	3.36
Outstanding at 1 March 2008	17,160,056	3.76
Exercisable at 1 March 2008	462,044	3.39

The weighted average share price for share options exercised during the year was £4.44.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2008

30. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

	Number of options	Weighted average exercise price £
Outstanding at 1 April 2006 (GUS plc shares)	12,160,041	6.87
New grants	1,829,272	9.26
Forfeitures	(1,044,528)	6.60
Exercised options	(4,744,024)	5.71
Expired options	(206,099)	6.21
Transferred from GUS plc on demerger	555,300	6.96
Outstanding at demerger date (GUS plc shares)	8,549,962	7.77
Rollover adjustment to Home Retail Group plc shares	14,439,212	3.44
Forfeitures	(1,209,606)	2.93
Exercised options	(3,271,348)	2.84
Outstanding at 3 March 2007 (Home Retail Group plc shares)	9,958,258	3.70
Exercisable at 3 March 2007 (Home Retail Group plc shares)	445,921	3.19

The weighted average share price for share options exercised following demerger was £4.17.

Share options outstanding at the end of the year

Share options at the end of the year had the following exercise prices and remaining contractual lives:

	2008	2007
Number of options	17,160,056	9,958,258
Weighted average share price	£3.76	£3.70
Weighted average remaining lives:		
– Expected years	2.5	2.6
– Contractual years	5.8	8.5
Range of exercise prices	£2.74 - £3.88	£2.13 - £3.88

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For the 52 weeks ended 1 March 2008

Share awards in respect of ordinary shares of the Company

Summary of arrangements

Rolled over from old GUS plc schemes

Arrangements	Performance share plan	Co-investment plan – matching shares
Nature of arrangement	Grant of shares	Grant of shares ¹
Vesting conditions		
– Service period	3 years	4 years
– Performance	Distribution percentage determined by ranking total shareholder return relative to a comparator group	Benchmark operating profit of the Group assessed against specific targets
Expected outcome of meeting performance criteria (at grant date)	60% ²	100%
Maximum term	3 years	6 years
Method of settlement	Share distribution	Share distribution
Expected departures (at grant date)	5%	7%

Demerger incentive schemes

Arrangements	Performance share plan	Re-investment plan – matching shares	Long-term incentive plan – matching shares	Share incentive plan
Nature of arrangement	Grant of shares	Grant of shares ¹	Grant of shares ¹	Grant of shares
Vesting conditions				
– Service period	3 years	A 3-part scheme running over 3, 4 and 5 years	3 years ³	3 years
– Performance	n/a	a) Time vesting b) Total shareholder return c) Return on invested capital	n/a	n/a
Expected outcome of meeting performance criteria (at grant date)	n/a	a) 100% b) 51% ² c) 100%	n/a	n/a
Maximum term	3 years	4, 5 and 6 years	5 years	5 years
Method of settlement	Share distribution	Share distribution	Share distribution	Share distribution
Expected departures (at grant date)	10%	0%	10%	30%

Notes to the financial statements continued

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30. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

New Home Retail Group plc schemes

Arrangements	Performance share plan	Co-investment plan – matching shares (period ended 3 March 2007)	Co-investment plan – matching shares (period ended 1 March 2008)
Nature of arrangement	Grant of shares	Grant of shares ¹	Grant of shares ¹
Vesting conditions			
– Service period	3 years	4 years ³	4 years ³
– Performance	Distribution percentage determined by ranking total shareholder return relative to a comparator group	Benchmark operating profit of the Group assessed against specific targets	a) Benchmark operating profit of the Group assessed against specific targets in year 1 b) EPS growth in years 2-4 c) Return on invested capital in years 2-4
Expected outcome of meeting performance criteria (at grant date)	51% ²	100%	50%
Maximum term	3 years	6 years	6 years
Method of settlement	Share distribution	Share distribution	Share distribution
Expected departures (at grant date)	10%	0%	0%

Notes:

- The matching shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same.
- The performance share plan and re-investment plan - The total shareholder return performance condition is considered a 'market-based' performance condition under IFRS 2. These schemes have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation.
- The grant date for the co-investment plan and the long-term incentive plan is the start of the financial year in which performance is assessed. This may be up to one year before the quantity of shares awarded is determined. The underlying value of the award is known at grant date, subject to the outcome of the performance condition. The value of awarded shares reflects the performance outcome at the date of issue to participants.

Information relating to share grant valuation techniques

The value of the awards is determined as the observed market closing rate on the date awarded grants are issued to participants. For the co-investment plan, this occurs after the first year of performance is assessed. The performance share plan's and the re-investment plan's market-based performance condition is included in the fair value measurement on grant date and is not revised for actual performance.

Under the share awards, the participants have an entitlement to dividend distributions from issue date until point of vesting. The observed market rate on the day of valuation is considered inclusive of future dividend distributions.

There were 3,962,197 ordinary share awards (2007: 8,879,440) granted during the period with a weighted average fair value of £3.14 (2007: £3.57).

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For the 52 weeks ended 1 March 2008

31. OPERATING LEASES

	2008 £m	2007 £m
Future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Less than one year	(358.9)	(334.1)
Between one and five years	(1,359.7)	(1,263.5)
More than five years	(2,611.5)	(2,608.0)
Total operating leases	(4,330.1)	(4,205.6)

Home Retail Group leases various retail stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses, contingent rentals and renewal rights.

32. COMMITMENTS

	2008 £m	2007 £m
Capital expenditure for which contracts have been placed:		
Property, plant and equipment	(59.8)	(58.2)
Intangible assets	(0.1)	(0.6)
Total commitments	(59.9)	(58.8)

33. CONTINGENT LIABILITIES

There are a number of contingent liabilities that arise in the normal course of business which, if realised, are not expected to result in a material liability to the Group.

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34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2008 £m	2007 £m
Cash generated from operations		
Profit before tax	426.0	296.9
Adjustments for:		
Share of post-tax profits of joint ventures and associates	(1.6)	(0.7)
Net financing (income)/costs	(37.3)	9.0
Operating profit	387.1	305.2
Loss on sale of property, plant and equipment	0.4	0.9
Loss on sale of subsidiary	–	1.1
Depreciation and amortisation	151.6	146.4
Impairment losses	10.3	4.1
Finance expense charged to Financial Services cost of sales	19.6	16.4
Increase in inventories	(98.4)	(23.4)
Increase in receivables	(21.2)	(42.7)
Increase in payables	71.5	193.3
Movement in working capital	(48.1)	127.2
Increase/(decrease) in provisions	9.2	(6.3)
Movement in retirement benefits	12.5	10.0
Share-based payment expense	21.6	15.9
Cash generated from operations	564.2	620.9
Reconciliation of net increase in cash and cash equivalents to movement in net debt		
Net cash/(debt) at beginning of the period	60.2	(178.0)
Effect of foreign exchange rate changes	1.8	(3.0)
Net (decrease)/increase in cash and cash equivalents	(111.6)	156.8
Decrease in debt (note 23)	223.6	84.4
Net cash at the end of the period	174.0	60.2

Major non-cash transactions

Home Retail Group did not enter into any new finance lease arrangements during the period (2007: £nil).

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35. RELATED PARTIES

The ultimate parent company of the Group is Home Retail Group plc. The principal subsidiary and associate undertakings at 1 March 2008 are shown in note 37. Transactions between Home Retail Group plc and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Transactions carried out with related parties in the normal course of business are summarised below:

Joint venture

During 2007, the Group lent £8.1m to a joint venture, Home Retail Group Personal Finance Limited. This loan is outstanding as at 1 March 2008.

Key management personnel

Remuneration of key management personnel is disclosed in note 9. During the year, there were no material transactions or balances between the Group and its key management personnel or members of their close families.

Home Retail Group pension plans

Transactions between the Group and the Home Retail Group pension plans are disclosed in note 25.

GUS plc group companies

GUS plc and other GUS related companies were related parties until the demerger which came into effect on 10 October 2006. Since this date, certain services have been provided in accordance with the demerger agreement. Transactions prior to this date are set out below. The following purchases have arisen in the normal course of business from transactions between the Group and GUS plc and related companies.

	2008 £m	2007 £m
Purchases from related parties		
GUS plc and related companies		
– purchase of services	–	(5.6)
– charge in respect of corporate head office costs borne by GUS plc	–	(7.0)
Total	–	(12.6)

36. POST BALANCE SHEET EVENTS

There are no material post balance sheet events.

37. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	Description	Country of incorporation	Percentage of ordinary shares held
Home Retail Group (UK) Limited ¹	Group holding company	England	100
Argos Limited	General merchandise retailing	England	100
Argos Distributors (Ireland) Limited	General merchandise retailing	Republic of Ireland	100
Homebase Limited	Home enhancement retailing	England	100
Homebase House and Garden Centre Limited	Home enhancement retailing	Republic of Ireland	100
Hampden Group Limited	Home enhancement retailing	Northern Ireland	100
Home Retail Group Card Services Limited	Financial services	England	100
ARG Personal Loans Limited	Financial services	England	100
Argos Business Solutions Limited	Financial services	England	100
Home Retail Group Insurance Services Limited	Financial services	England	100
Home Retail Group (Hong Kong) Limited	Product sourcing for the Home Retail Group companies	Hong Kong	100

Notes:

1. Held directly by the Parent Company.

Details of interests in joint ventures and associated undertakings are given within note 18.

Independent auditors' report to the members of Home Retail Group plc – Parent

We have audited the Parent Company financial statements of Home Retail Group plc for the 52 weeks ended 1 March 2008 which comprise the Company balance sheet and the related notes. These Parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Home Retail Group plc for the 52 week period ended 1 March 2008.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Parent Company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Parent Company financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the chairman's statement, the business review, the Board of Directors, the directors' report, the corporate governance statement and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements and the part of the directors' remuneration report to be audited.

OPINION

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 1 March 2008;
- the Parent Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Parent Company financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

30 April 2008

Parent Company balance sheet

At 1 March 2008

	Notes	1 March 2008 £m	3 March 2007 £m
Fixed assets			
Investments in subsidiary	5	2,895.6	2,895.6
Current assets			
Debtors – amounts falling due within one year	6	163.8	179.4
Current liabilities			
Creditors – amounts falling due within one year	7	(297.9)	(209.7)
Net current liabilities		(134.1)	(30.3)
Total assets less current liabilities		2,761.5	2,865.3
Net assets		2,761.5	2,865.3
Capital and reserves			
Called up share capital	8	87.7	87.7
Profit and loss account	9	2,673.8	2,777.6
Equity shareholders' funds		2,761.5	2,865.3

The financial statements were approved by the Board of Directors on 30 April 2008 and were signed on its behalf by:

Terry Duddy, Chief Executive

Richard Ashton, Finance Director

Notes to the Parent Company financial statements

For the 52 weeks ended 1 March 2008

1. GENERAL INFORMATION

The Company was incorporated and registered in England and Wales on 30 June 2006 under the Companies Act as a public limited company by shares with the name Hackplimco (no. 116) plc and with registered number 5863533. The Company changed its name to ARG Holdings (UK) plc pursuant to a special resolution passed on 13 July 2006 and then changed its name to Home Retail Group plc pursuant to a special resolution on 11 September 2006. The registered office of the Company is Avebury, 489-499 Avebury Boulevard, Milton Keynes MK9 2NW.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

These separate financial statements of Home Retail Group ('the Company') are presented as required by the Companies Act 1985 (the Act), and were approved by the Board on 30 April 2008. They have been prepared on a going concern basis and under the historical cost convention modified for the revaluation of certain financial instruments, and in accordance with the Companies Act 1985 and applicable UK Generally Accepted Accounting Principles (UK GAAP).

The Company is the ultimate parent entity of Home Retail Group ('the Group'). The Company's financial statements are included in Home Retail Group plc's consolidated financial statements for the 52 weeks ended 1 March 2008. As permitted by section 230 of the Act, the Company has not presented its own profit and loss account. The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996) 'Cash Flow Statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the Home Retail Group.

The Company has applied the provisions for merger relief under section 131 of the Act. As a consequence no share premium was recorded in respect of the shares issued. The investment in Home Retail Group (UK) Limited has also been recorded at the nominal value of shares issued under the provision of section 133 of the Act (provision supplementing section 131 of the Act).

Changes in accounting standards

The Company has adopted FRS 29, 'Financial instruments: Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no prior period adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosure only. The Company has also adopted FRS 28 'Corresponding Amounts'. There has been no material effect of adopting this standard.

Financial instruments

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this position at every reporting date. The Company may use interest rate swaps to manage its interest rate exposure against borrowings from subsidiary undertakings.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are so designated by management on initial recognition. Derivatives are so designated unless they are designated as hedges. Items in this category are classified as current assets or current liabilities if they are expected to be realised within 12 months of the balance sheet date.

Investments

Investments are included in the balance sheet at their cost of acquisition. Where appropriate, a provision is made for any impairment in their value.

Deferred tax

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred taxation assets and liabilities have not been discounted.

Dividend distribution

Final dividends recommended by the Board of Directors and unpaid at the year-end are not recognised in the financial statements, until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans for the benefit of employees of its subsidiary companies. The fair value of the shares granted is recognised as an expense after taking into account the best estimate of the number of awards expected to vest. The Company revisits the vesting estimate at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period and are recharged in full to the employing subsidiary companies. Fair value is measured at the date of grant using whichever of the Black-Scholes, Monte Carlo model and closing market price is most appropriate to the award. Market-based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

Notes to the Parent Company financial statements continued

For the 52 weeks ended 1 March 2008

3. PROFIT AND LOSS ACCOUNT DISCLOSURES

The Company's loss on ordinary activities was £6.6m (2007: £1.7m profit). Details of the remuneration of directors are given in the auditable part of the directors' remuneration report and were paid by another Group company. There were no non-audit services.

No directors received any remuneration from the Company during either period. The Company has no employees. Further information on directors' remuneration which forms part of the audited Group financial statements can be found in the directors' remuneration report.

4. DIVIDENDS

	52 weeks ended 1 March 2008 £m	Short period ended 3 March 2007 £m
Amounts recognised as distributions to equity holders		
Final dividend of 9.0p per share for the short period ended 3 March 2007	78.1	—
Interim dividend of 4.7p per share (2007: 4.0p)	40.8	34.6
Ordinary dividends on equity shares	118.9	34.6

A final dividend in respect of the period ended 1 March 2008 of 10.0p per share, amounting to a total final dividend of £86.8m, has been recommended by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the period of 14.7p per share, amounting to £127.6m. The recommended dividend has not been included as a liability at 1 March 2008 in accordance with FRS 21 'Events after the balance sheet date'. It will be paid on 23 July 2008 to shareholders who are on the register of members at close of business on 23 May 2008. The Home Retail Group Employee Share Ownership Trust ('ESOT') has waived its entitlement to dividends in the amount of £1.3m (2007: £0.7m).

5. INVESTMENTS IN GROUP SUBSIDIARIES

	2008 £m	2007 £m
Cost:		
At beginning of the period	2,895.6	—
Acquisition of Home Retail Group (UK) Limited	—	2,895.6
At end of the period	2,895.6	2,895.6

In 2007, as part of a scheme of arrangement under section 425 of the Companies Act 1985, the Company issued shares to the public shareholders of Experian Group Limited in return for the receipt of the shares in Home Retail Group (UK) Limited. Home Retail Group (UK) Limited is a 100% owned subsidiary incorporated within the UK and is a Group holding company.

6. DEBTORS

	2008 £m	2007 £m
Amounts owed by Group companies	161.6	179.4
Taxation	2.2	—
	163.8	179.4

The amounts owed by Group companies are unsecured, repayable on demand, and have interest rates linked to LIBOR.

Notes to the Parent Company financial statements continued

For the 52 weeks ended 1 March 2008

7. CREDITORS – AMOUNTS FALLING DUE IN ONE YEAR

	2008 £m	2007 £m
Amounts owed to Group companies	(297.9)	(208.5)
Taxation	–	(0.7)
Other financial liabilities	–	(0.5)
	(297.9)	(209.7)

The amounts owed to Group companies includes an unsecured loan of £191.5m (2007: £208.5m) taken out on 10 October 2006 with Stanhope Finance Limited, a Group company. Interest is fixed and charged at 4.91%. The amounts owed to Group companies are repayable on demand. The other financial liability represented the market value of an interest rate swap novated from GUS plc at nil consideration.

8. CALLED-UP SHARE CAPITAL

	2008 Number of shares	2008 £m	2007 Number of shares	2007 £m
Authorised:				
Ordinary share capital of 10p each	2,000,500,000	200.1	2,000,500,000	200.1
	2008 Number of shares m	2008 £m	2007 Number of shares m	2007 £m
Allotted, called-up and fully paid:				
At beginning of the period	877.4	87.7	877.4	2,895.6
Reduction in nominal value of shares from 330p to 10p	–	–	–	(2,807.9)
At end of the period	877.4	87.7	877.4	87.7

Notes to the Parent Company financial statements continued

For the 52 weeks ended 1 March 2008

9. RESERVES

	Treasury and ESOP shares £m	Profit and loss account £m	Total £m
At 4 March 2007	(6.1)	2,783.7	2,777.6
Loss for the financial period	–	(6.6)	(6.6)
Net movement in own shares	0.1	–	0.1
Equity dividends paid during the period	–	(118.9)	(118.9)
Movement in share-based compensation reserve	–	21.6	21.6
At 1 March 2008	(6.0)	2,679.8	2,673.8

	Treasury and ESOP shares £m	Profit and loss account £m	Total £m
Profit for the financial period	–	1.7	1.7
Reduction in nominal value of shares	–	2,807.8	2,807.8
Net movement in own shares	(6.1)	–	(6.1)
Equity dividends paid during the period	–	(34.6)	(34.6)
Movement in share-based compensation reserve	–	8.8	8.8
At 3 March 2007	(6.1)	2,783.7	2,777.6

Net movement in own shares represents the purchase, and subsequent utilisation or sale, of shares for the purpose of satisfying obligations arising from Home Retail Group plc share-based compensation schemes. Shares in Home Retail Group plc are held in the following Trusts which have been established since demerger:

Home Retail Group Employee Share Ownership Trust (ESOT)

The ESOT provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 1 March 2008, the ESOT held 9,206,387 shares with a market value of £23.8m. The shares in the Trust are held in the balance sheet of the Company at nil value. The shares were acquired as part of the demerger from GUS plc at no cost. Dividends on these shares are waived.

Home Retail Group Share Incentive Scheme Trust

The Home Retail Group Share Incentive Scheme Trust provides for the issue of shares to Group employees under the Share Incentive Plan. At 1 March 2008, the Trust held 1,425,505 shares with a market value of £3.7m. These shares are held in the balance sheet of the Company at a cost of £6.0m. No additional shares were purchased in the period.

10. COMMITMENTS

On 12 July 2006, Argos Limited, a subsidiary of the Company, entered into a five-year multi-currency revolving loan facility, which was subsequently extended by a further year, of £700m with a syndicated group of banks. On 27 October 2006 the Company acceded to this facility as a borrower and a guarantor. As at the balance sheet date there were no drawings made under this facility.

The Company acts as guarantor of the loans between Stanhope Finance Limited and Homebase Group Limited (£150m) and Home Retail Group Card Services Limited (£100m). These companies are all members of the Home Retail Group.

There are no capital or operating lease commitments.