

Board of Directors and Operating Board



1. Andy Hornby
Non-Executive Director

2. Oliver Stocken
Chairman

3. Maria Thompson
Commercial Director

4. Penny Hughes
Non-Executive Director

5. John Coombe
Non-Executive Director

6. Eugene Brazil
*Managing Director,
Customer Services*

7. Sara Weller
Managing Director, Argos

8. Sarah Carpenter
Director of Strategic Development

9. Paul Loft
Managing Director, Homebase

10. Richard Ashton
Finance Director

11. Greg Ball
*Managing Director,
Financial Services*

12. Peter Connor
Information Systems Director

13. Terry Duddy
Chief Executive

14. Gordon Bentley
Company Secretary

15. David Guise
Human Resources Director

COMMITTEES

Nomination Committee:

Oliver Stocken (Chairman), John Coombe, Terry Duddy, Andy Hornby, Penny Hughes

Remuneration Committee:

Andy Hornby (Chairman), John Coombe, Penny Hughes, Oliver Stocken

Audit Committee:

John Coombe (Chairman), Andy Hornby, Penny Hughes



BOARD OF DIRECTORS

Oliver Stocken *Chairman*

Oliver was a director of NM Rothschild and Sons and held several roles within Barclays Group culminating in his appointment as group finance director of Barclays PLC. In 2000, he was appointed to the GUS board where he chaired the audit committee and subsequently the remuneration committee. In October 2006, he became chairman of Home Retail Group. He is deputy chairman of 3i Group plc, a non-executive director of Standard Chartered plc and chairman of Stanhope plc and Oval Limited. Oliver is also chairman of the Trustees of the Natural History Museum.

Penny Hughes *Non-Executive Director*

Penny spent ten years with Coca Cola, initially as marketing director and ultimately as president of Coca-Cola GB & Ireland. Over the last decade she has held a number of non-executive roles on the boards of international businesses such as Vodafone, Trinity Mirror and Body Shop. Currently she serves on the boards of Reuters, GAP and the Swedish bank Skandinaviska Enskilda Banken. She is President of the Advertising Association and Trustee, British Museum. Penny joined the Board of Home Retail Group in December 2006.

Terry Duddy *Chief Executive*

Terry began his career at Letraset, working in personnel management and then in product management. In 1984, he joined Dixons Stores Group where he held a variety of commercial positions, including sales director of Currys, product marketing director of Dixons Stores Group and, latterly, managing director of PC World. Terry joined GUS in August 1998 as chief executive of the newly acquired Argos, becoming a GUS director later that year. In 2000, he was appointed chief executive of Argos Retail Group. In October 2006, he became chief executive of Home Retail Group.

John Coombe *Non-Executive Director*

John held a number of senior financial roles within Charterhouse Group plc and Charter Consolidated plc before joining Glaxo Holdings in 1986. Appointed to the board in 1992, he was ultimately chief financial officer of GlaxoSmithKline for five years before retiring in 2005. He joined the GUS board in 2005. He is a non-executive director of HSBC Holdings, chairman of Hogg Robinson Group and a former member of the supervisory board of Siemens AG, the Code Committee of the Panel on Takeovers and Mergers and the UK Accounting Standards Board. He is the senior independent director and chairs the audit committee of Home Retail Group. John became a non-executive director of Home Retail Group in October 2006.

Richard Ashton *Finance Director*

Richard started his career at PricewaterhouseCoopers LLP where he trained as a chartered accountant. In 1994, he joined GE where he spent eight years and held a variety of positions. These included chief financial officer of GE Capital's pan-European equipment financing business, headquartered in The Netherlands, assistant to GE Capital's chief financial officer in the US and various finance roles in the UK. Richard joined Argos Retail Group as finance director in November 2001. In October 2006, he became finance director of Home Retail Group.

Andy Hornby *Non-Executive Director*

Andy began his career at Boston Consulting Group before joining Blue Circle as business development director, Blue Circle Home Products. Following a move to ASDA he held a number of senior general management roles including managing director of the George clothing business. In 1999, Andy joined the board of Halifax as chief executive, Halifax Retail. Since August 2006, he has been chief executive of HBOS plc. Andy joined the GUS board in 2004. He became a non-executive director of Home Retail Group in October 2006. Andy chairs the remuneration committee of Home Retail Group.

Directors' report

The directors present their report and the audited financial statements for the 52 weeks ended 1 March 2008 ('the period').

Principal activities and business review

The Group's principal activities comprise home and general merchandise retailing. The chairman's statement, review of the business and financial statements report on performance of the business during the period, the position at the period end, likely future developments, the principal risks and uncertainties facing the Group and financial key performance indicators, and are incorporated by reference into this directors' report.

There were no material disposals during the period. In October 2007 a contract was signed for the purchase of 27 leasehold properties from Focus DIY, at a purchase price of £40m.

The Group's statement on corporate governance is set out on pages 64 to 68 and is incorporated by reference into this directors' report. Details of charitable donations, employee involvement and policy on the employment of disabled persons are set out in the review of the business on pages 52 to 59 and are incorporated by reference into this directors' report.

Profit and dividends

The Group's consolidated income statement on page 80 shows a profit for the period of £294.6m. The directors recommend the payment of a final dividend of 10.0p per ordinary share to be paid on 23 July 2008 to shareholders on the register at the close of business on 23 May 2008. An interim dividend of 4.7p per ordinary share was paid on 23 January 2008, giving a total dividend for the year of 14.7p per ordinary share.

Directors

The names and biographical details of the directors are shown on pages 60 and 61. There has been no change in the directors during the period. Particulars of directors' remuneration and service contracts are shown in the directors' remuneration report on pages 69 to 77.

The directors retiring at the 2008 Annual General Meeting are Terry Duddy and John Coombe, who, each being eligible, offer themselves for re-election.

During the period, the Group maintained liability insurance and third-party indemnification provisions for its directors under which the Company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company and any of its associated companies. These indemnities are Qualifying Third Party Indemnity Provisions as defined in Section 309A-B of the Companies Act 1985 and copies are available for inspection at the registered office of the Company during business hours on any weekday except public holidays.

Directors' interests

The beneficial interests of the directors, together with non-beneficial interests in Home Retail Group shares, are shown below:

	Number of ordinary shares at 1 March 2008
Terry Duddy	684,924
Richard Ashton	214,051
Oliver Stocken	78,604
John Coombe	34,844
Andy Hornby	13,686
Penny Hughes	2,500

There were no changes to the above interests as at 30 April 2008.

Substantial shareholdings

As at 30 April 2008, the Company had been notified of the following interests in its total voting rights and share capital in issue:

	Total number of voting rights (ordinary shares)	Percentage of total voting rights (%)	Nature of holding
AXA Investment Managers UK Ltd	154,550,260	17.61	Direct and Indirect
Barclays plc	44,313,816	5.05	Indirect
Aviva plc	43,211,654	4.93	Direct and Indirect
Legal & General Group plc	38,743,818	4.42	Direct
Citibank N.A.	34,819,282	3.97	Direct and Indirect

Save for the above, no person has reported any notifiable interest of 3% or more, or a 1% fall or rise above that 3%, or any non-material interest equal to/or more than 10% of the nominal value of the voting and share capital in issue of the Company.

Share capital and control

As at 30 April 2008, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the ordinary share capital can be found in note 28 to the financial statements on page 116.

The rights and obligations attaching to the shares are more fully set out in the Articles of Association of the Company. There are no restrictions on the transfer of ordinary shares in the Company other than the following:

- certain restrictions may from time to time be imposed by laws and regulations (such as insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority, the Company requires certain employees to seek the Company's permission to deal in the Company's ordinary shares.

Directors' report continued

The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights. There are no shareholdings which carry special rights relating to control of the Company. A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiaries is party to take effect, alter or terminate. In the context of the Company as a whole, these agreements are not considered to be significant.

Purchase of own shares

At the Annual General Meeting of the Company held on 3 July 2007, authority was given for the Company to purchase, in the market, up to 87,000,000 ordinary shares of 10p each. The Company did not use this authority to make any purchases of its own shares during the period. At the Annual General Meeting to be held on 2 July 2008, shareholders will be asked to give a similar authority, details of which are contained in the accompanying circular to shareholders.

Details of the Company's interests in its own shares are set out in note 29 to the financial statements on page 117.

Employee share plans

Some of the Company's employee share plans include restrictions on the transfer of shares while the shares are subject to the plan. As described in the directors' remuneration report, non-executive directors receive part of their fees in shares which may not normally be transferred during a director's period of office.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercised by the registered owner at the direction of the participant.

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Political donations

The Group has made no political donations and incurred no items of political expenditure.

Creditor payment

For all trade creditors, it is, and will continue to be for the next financial year, Group policy to:

- agree and confirm the terms of payment at the commencement of business with that supplier;
- pay suppliers in accordance with applicable terms; and
- continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationship.

Trade creditor days of the Group at 1 March 2008 were 52 (2007: 49) based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. The Company has no trade creditors.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of directors and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the Company's website at www.homeretailgroup.com. In accordance with the Articles of Association, directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association must be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the directors may exercise all the powers of the Company and may delegate authorities to committees. Details of the main Board committees can be found in the corporate governance statement on pages 64 to 68.

At the 2008 Annual General Meeting two special resolutions, as set out in the Notice of Meeting, will be put to shareholders proposing the adoption at the Annual General Meeting of new Articles of Association to reflect the provisions of the Companies Act 2006 and the amendment of these adopted Articles of Association to reflect further provisions, coming into effect on 1 October 2008 (or such other date as the relevant provisions come into effect).

Annual General Meeting

The Annual General Meeting of the Company will be held at the Jurys Inn Hotel, Midsummer Boulevard, Milton Keynes MK9 2HP, commencing at 11.30 am on Wednesday, 2 July 2008. The Notice of Meeting is included in a separate circular to shareholders which accompanies this annual report. It is also available on the Company's website at www.homeretailgroup.com.

Relevant audit information

As at 30 April 2008, so far as each director is aware, there is no relevant audit information of which the auditors are unaware and each director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to ensure that the auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board

Gordon Bentley
Secretary

30 April 2008

Registered Office:
Avebury
489-499 Avebury Boulevard
Milton Keynes
MK9 2NW

Corporate governance report

The Board is responsible for the Group's system of corporate governance and is committed to maintaining high standards. For the period under review, Home Retail Group plc has complied fully with the main and supporting principles set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 ('the Code').

The Company has fully complied with the remainder of the Code during the period under review by applying its principles as follows.

The Board

The Board consists of the chairman – Oliver Stocken, chief executive – Terry Duddy, finance director – Richard Ashton, and three non-executive directors: John Coombe (the senior independent director), Andy Hornby and Penny Hughes. The biographical details of the directors are shown on page 61.

The three non-executive directors are all determined by the Board to be independent and there are no relationships or circumstances which could affect, or appear to affect, a non-executive director's judgement. They are appointed for three-year renewable terms. The Board is satisfied that the chairman's other Board appointments and commitments do not place constraints on his ability to fulfil properly his role as chairman of Home Retail Group. The chairman maintains an office at Home Retail Group's registered office in Milton Keynes and is available as needed to carry out his responsibilities.

The Board has six scheduled meetings each year and meets more frequently, as required. During the year, in addition to the scheduled meetings, a meeting to review strategy and three telephone conferences were held. The chairman has also met with the non-executive directors without the executive directors present.

The time commitment expected of non-executive directors is not restricted to meetings of the Board and Board committees. They are available for consultation on specific issues related to their particular fields of expertise and additional time is spent visiting the Group's businesses, distribution centres and stores and meeting informally with the chairman, executive directors, and senior management. The chairman also attends management conferences.

There is a formal schedule of matters specifically reserved to the Board. The Board has responsibility for:

- the overall management of the Group, approval of the Group's long-term objectives and commercial strategy, and the review of performance, ensuring that any necessary corrective action is taken;
- the approval of preliminary announcements of half-yearly and final results, including dividends, and the annual report and accounts, including the corporate governance statement, remuneration report and statement on internal controls;
- the approval of documentation to be put forward to shareholders at general meetings and all circulars and prospectuses other than routine documents;
- the approval of all appointments to the Board and of the company secretary, following recommendations by the nomination committee, ensuring adequate succession planning for the Board and senior management, and approving the terms of reference of the Board committees; and
- determining the responsibilities of the chairman and of the chief executive.

The chairman is responsible for the leadership of the Board and ensuring its effectiveness, for effective communication with shareholders and for facilitating the effective contribution of the non-executive directors and their constructive relationship with the executive directors.

The chief executive is responsible for the day-to-day business of the Group, and is supported by the Operating Board, which includes the finance director and the managing directors of the main businesses and shared services functions (members of the Operating Board are shown on pages 60 and 61). Members of the Operating Board meet informally with the chairman and non-executive directors and regularly attend and present at Board meetings when relevant agenda items are under consideration.

There is in place a procedure under which the directors, in furtherance of their duties, are able to take independent professional advice, if necessary, at the Company's expense. The company secretary, who has been appointed by the Board, is responsible for advising the Board on all corporate governance matters and for ensuring that Board procedures are followed and all directors have access to this professional advice. The company secretary ensures that the Board receives regular briefings on corporate governance matters and company legislation.

Corporate governance report continued

A formal evaluation of the performance of the Board and its committees was conducted during the year. The functioning of the Board, Board processes and interaction with management were discussed and opportunities for improvement were considered. In addition the audit and remuneration committees conducted internal reviews of their effectiveness taking into account the views of senior management and external advisers working with these committees. Individual appraisals of directors have been undertaken by the chairman. Under the leadership of the senior independent director, the non-executive directors met without the chairman present to appraise the chairman's performance taking account of any views expressed by the executive directors.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and, thereafter, in accordance with the Company's Articles of Association. All directors will be required to submit themselves for re-election at least once every three years. Terry Duddy and John Coombe will retire at the Annual General Meeting to be held on 2 July 2008 and will be eligible for re-election.

The letters of appointment for non-executive directors, including the chairman, are available for inspection by any person at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to the meeting and during the meeting).

Board committees

The Board has appointed the following principal committees: remuneration committee, nomination committee and audit committee. The terms of reference of each of these committees are available on the Company's website at www.homeretailgroup.com. In order to facilitate better communication with Board members and the provision of information to the Board, all independent non-executive directors serve on each of the Board committees.

The attendance of directors at scheduled meetings of the Board and the Board committees was as follows:

Board member	Board meetings (6) ^{3,4}	Audit committee (4) ³	Remuneration committee (5) ³	Nomination committee (2) ³
Terry Duddy ¹	6	4	5	2
Richard Ashton ¹	6	4	–	–
Oliver Stocken ²	6	4	5	2
John Coombe	6	4	5	2
Andy Hornby	6	4	5	2
Penny Hughes	6	4	5	2

Notes:

1. Terry Duddy and Richard Ashton are not members of the audit committee or the remuneration committee.
2. Oliver Stocken is not a member of the audit committee.
3. Includes the final meetings of the period under review which took place in early March 2008.
4. In addition to the scheduled meetings of the Board, a strategy meeting attended by all Board members and three telephone conferences were held. Board members either participated in the telephone conferences or communicated their views on the topics under discussion in advance.

Remuneration committee

The remuneration committee is chaired by Andy Hornby and its other members are John Coombe, Penny Hughes and Oliver Stocken. In accordance with the Code, the committee meets not less than three times a year. Details of its responsibilities and of compliance with Section B of the Code regarding remuneration are set out on pages 69 to 77.

Nomination committee

The nomination committee is chaired by Oliver Stocken and its other members are John Coombe, Terry Duddy, Andy Hornby and Penny Hughes. The nomination committee meets not less than twice a year and has responsibility for making recommendations to the Board on the composition of the Board and its committees, on retirements, appointments of additional and replacement directors and on succession planning. During the year, the nomination committee has considered the composition of the Board and its committees and succession planning.

Corporate governance report continued

Audit committee

The audit committee is chaired by John Coombe and its other members are Andy Hornby and Penny Hughes. John Coombe was formerly chief financial officer of GlaxoSmithkline plc. The Board considers that he has the recent and relevant financial experience required to chair the audit committee. Andy Hornby and Penny Hughes offer a wide range of experience from positions at the highest level of business. Further details of all the members of the audit committee are set out on page 61.

The audit committee normally meets no fewer than four times a year and its principal responsibilities cover internal control and risk management, internal audit, external audit (including auditor independence) and financial reporting. The chairman, chief executive and finance director are normally expected to attend meetings of the committee.

The committee has a structured programme linked to the Group's financial calendar. During the period under review, the committee undertook the following activities:

- reviewed the preliminary announcement, annual report and financial statements and the half-yearly announcement and considered reports from the external auditors identifying any accounting or judgemental issues requiring its attention;
- reviewed the statement in the annual report on the system of internal control;
- reviewed and approved audit plans for the external and internal auditors;
- considered quarterly reports from the head of internal audit on the results of internal audit reviews, significant findings, management action plans and timeliness of resolution;
- reviewed reports on the Group's risk management process and risk profile;
- reviewed presentations on risk and its identification, management and control with senior management;
- reviewed, at each scheduled meeting, a report on any material litigation involving Group companies;
- reviewed management of fraud risk and incidences of fraud; and
- reviewed arrangements by which Group employees may, in confidence, raise concerns about possible improprieties in financial reporting, dishonesty, corruption, breaches of business principles and other matters.

One of the primary responsibilities of the audit committee is to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors. A number of factors were taken into account by the committee in assessing whether to recommend the external auditors for re-appointment. These include:

- the quality of reports provided to the audit committee and the Board and the quality of advice given;
- the level of understanding demonstrated of the Group's businesses and the retail sector; and
- the objectivity of the external auditors' views on the controls around the Group.

The committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides. Audit fees paid to the Company's auditors, PricewaterhouseCoopers LLP, in respect of the period under review, exceeded non-audit fees. The committee has established control procedures to safeguard the objectivity and independence of the external auditors and to ensure that the independence of the audit work undertaken by the external auditors is not compromised.

The committee has established a policy covering the type of non-audit work that can be assigned to the external auditors. The auditors may only provide such services provided that these do not conflict with their statutory responsibilities and ethical guidance. These services are:

- further assurance services – where the external auditors' knowledge of the Group's affairs means that they may be best placed to carry out such work. This may include, but is not restricted to, shareholder and other circulars, regulatory reports and work in connection with acquisitions and divestments;
- taxation services – where the external auditors' knowledge of the Group's affairs may provide significant advantages to the Group's tax position and, where this is not the case, the work is put out to tender; and
- general – in other circumstances, the external auditors may provide services, provided that proposed assignments which exceed financial limits set out in the policy are put out to tender and decisions to award work are taken on the basis of demonstrable competence and cost effectiveness.

However, certain areas of work are specifically prohibited, including work related to accounting records and financial statements that will ultimately be subject to external audit and management of, or significant involvement in, internal audit services.

Corporate governance report continued

The committee chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out in the policy.

The committee receives half-yearly reports providing details of assignments and related fees carried out by the external auditors in addition to their normal work. Fees in respect of such assignments carried out in the period under review were:

	£m
Further assurance services	0.1
Taxation services	0.2

Accountability and audit

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of the key procedures which have been established to provide internal control.

The Board confirms that the Company has in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group including risks relating to environmental, social and governance matters. This process was in place throughout the period under review and up to the date of approval of the annual report and meets the requirements of the guidance issued in October 2005 entitled 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull Report). The audit committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board.

As part of the process that the Company has in place to review the effectiveness of the internal control system there are procedures designed to capture and evaluate failings and weaknesses, and to ensure that necessary action is taken to remedy any failings that may be categorised by the Board as significant.

The key procedures which were operational in the period under review were as follows:

Risk assessment

- risks were reviewed by management and updated as part of a bi-annual process. The risks identified were then reviewed by a risk committee chaired by the finance director and comprised of all divisional finance directors and the company secretary. The head of internal audit also attended its meetings;
- those risks classified as high level risks by the risk committee were then reported to the Operating Board and audit committee. The schedule of high level risks was used as the basis for a programme of internal audit and assurance;
- the audit committee has delegated responsibility from the Board for considering operational, financial and compliance risks on a regular basis and received its annual report on the controls over these risks. This included risks arising from environmental, social and governance matters.

Control environment and control activities

- the Group has established procedures for delegating authority, which ensures that decisions that are significant, either because of the value or the impact on other parts of the Group, are taken at an appropriate level;
- the Group has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include internal controls, insurance and specialised treasury instruments;
- the Group sets out principles, policies and standards to be adhered to. These include risk identification, management and reporting standards, ethical principles and practice and accounting policies.

Information and communication

- the Group has a comprehensive system of budgetary control, including monthly performance reviews by the Operating Board. The Operating Board also reviews a range of financial and non-financial performance indicators. These indicators were regularly reviewed to ensure that they remain relevant and reliable;
- the Group had whistleblowing procedures in place for employees to report any suspected improprieties.

Corporate governance report continued

Monitoring

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

Relations with institutional shareholders

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

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

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

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

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

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

Directors' remuneration report

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

Chairman's statement

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

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

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

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

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

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

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

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

Our remuneration policy

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

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

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

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

Directors' remuneration report continued

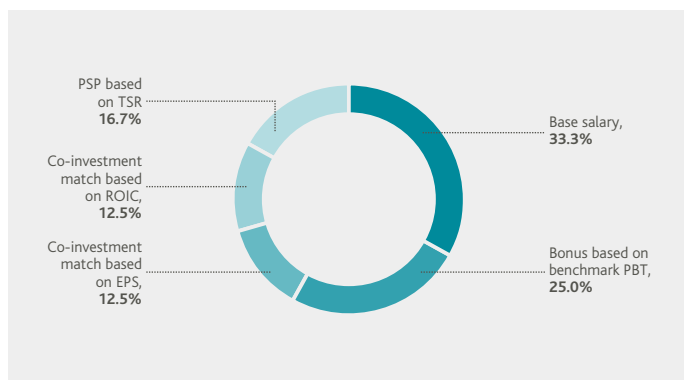
Executive remuneration

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

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

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

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



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

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

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

Base salary and benefits

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

Annual bonus

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

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

Directors' remuneration report continued

Co-investment plan

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

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

Performance share plan

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

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

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

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

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

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

All-employee share plans

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

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

Non-executive directors

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

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

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

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

Directors' remuneration report continued

Committee details

Role and membership

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

Andy Hornby (chairman)
John Coombe
Penny Hughes
Oliver Stocken

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

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

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

Advisers

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

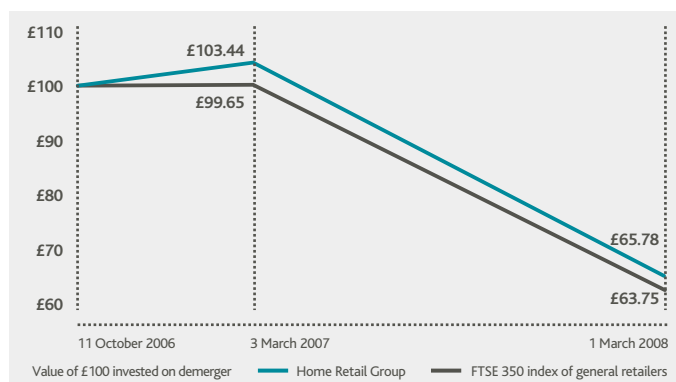
During the period under review, Towers Perrin advised the committee on matters relating to performance conditions for long-term incentive plans and executive remuneration issues and provided the committee with salary survey data. Towers Perrin did not provide Home Retail Group with any other services.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

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

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

Performance graph

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



Directors' remuneration report continued

The following sections are audited

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

Directors' emoluments

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

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

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

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

Notes:

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

Directors' remuneration report continued

Share options

Home Retail Group share options

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

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

Note:

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

Home Retail Group SAYE scheme

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

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

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

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

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

Directors' remuneration report continued

Long-term incentive plans

Home Retail Group performance share plan

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

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

Notes:

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

Co-investment plan and re-investment plan

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

GUS plc co-investment plan

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

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

Notes:

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

Directors' remuneration report continued

Home Retail Group re-investment plan

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

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

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

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

Retirement benefits

Terry Duddy

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

Richard Ashton

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

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

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

Directors' remuneration report continued

Service contracts

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

Terry Duddy

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

Richard Ashton

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

Chairman and non-executive directors

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

By order of the Board

Andy Hornby

Chairman – remuneration committee

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors set out on page 79, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the annual report and financial statements.

The directors are responsible for preparing the annual report, the directors' remuneration report and the Group and the Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the Company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union and with regard to the Company financial statements, that applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that, to the best of their knowledge, they have complied with the above requirements in preparing the financial statements. The directors also confirm that, to the best of their knowledge, the review of the business on pages 12 to 59 includes a fair review of the development and performance of the business and the position of Home Retail Group plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation, and the Company financial statements and the directors' remuneration report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Group which is included on the Company's website.

Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Neither the Company nor the directors accept any liability to any person in relation to the annual report and financial statements except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

The names and functions of the directors of Home Retail Group plc are listed on page 60 of this document.

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