New development opportunities

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

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

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

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

Central Activities

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

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

Group financial review

Sales and operating profit

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

Net interest income

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

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

Share of post-tax results of joint ventures and associates

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

Exceptional items

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

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

Costs related to demerger incentive schemes

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

Financing fair value remeasurements

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

Financing impact on retirement benefit balances

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

Profit before tax

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

Taxation

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

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

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

+16%

Growth in basic benchmark **earnings per share** (2008: 33.9p – 2007: 29.3p).

+70bps

Increase in **benchmark pre-tax return** on invested capital (2008: 12.7% – 2007: 12.0%).

+£114m

Increase in **closing net cash** (2008: £174m – 2007: £60m).

Number of shares and earnings per share

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

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

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

Dividends

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

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

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

Cash flow and closing net cash position

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

Cash flow and closing net cash position

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

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

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

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

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

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

Balance sheet and return on capital

As at	1 March 2008 £m	3 March 2007 £m
Goodwill	1,922.7	1,878.9
Other intangible assets	83.7	73.4
Property, plant and equipment	731.8	691.6
Inventories	1,004.8	906.4
Instalment receivables	432.0	416.8
Other trading assets	196.8	188.3
	4,371.8	4,155.4
Trade and other payables	(1,130.8)	(1,059.1)
Other trading liabilities	(101.5)	(84.5)
	(1,232.3)	(1,143.6)
Invested capital	**3,139.5**	**3,011.8**
Retirement benefit assets	83.7	9.3
Net tax liabilities	(52.0)	(2.6)
Net cash	174.0	60.2
Reported net assets	**3,345.2**	**3,078.7**
Return on invested capital	12.7%	12.0%

Balance sheet and return on capital

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

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

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

Capital structure

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

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

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

Retirement benefit assets

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

Liquidity and funding

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

Treasury policy and risk management

The Group's treasury function seeks to reduce exposures to foreign exchange, interest rate and other financial risks, and to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Its policies and procedures are subject to review and approval by the Board.

Counterparty credit risk management

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

Interest rate risk management

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

Currency risk management

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

Share price and total shareholder return

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

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

Accounting standards and use of non-GAAP measures

The Group has prepared its consolidated financial statements under International Financial Reporting Standards for the 52 weeks ended 1 March 2008. The basis of preparation is outlined in note 2 to the consolidated financial statements on page 85.

The Group has identified certain measures that it believes provide additional useful information on the underlying performance of the Group. These measures are applied consistently but as they are not defined under GAAP they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are outlined in note 3 to the consolidated financial statements on page 92.

Financial summary – notes and definitions

1. The change in both the year-end and the Group's capital structure on demerger resulted in prior year statutory reported results that are non-comparable. The statutory reported results for the financial year being reported represent the 52 weeks to 1 March 2008. The statutory reported results for the prior financial year represented the results for Homebase for an approximate 12 calendar months of March to February inclusive, and the results for the rest of the Group for an approximate 11 calendar months of April to February inclusive. The results for the prior financial year also reflected certain financial impacts that were a result of the fact that Home Retail Group was wholly owned by its former parent company, GUS plc, until the demerger became effective on 10 October 2006. The prior period results are not therefore representative of a financial period length comparable to this year, nor do they reflect the capital structure that Home Retail Group operated under from the date the demerger occurred.

2. Sales are calculated on a 52-week basis. This represents the statutory reported 52 weeks to 1 March 2008 and the comparable pro forma 52 weeks to 3 March 2007.

3. Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, store impairment charges, exceptional items and costs related to demerger incentive schemes. It is calculated on a pro forma 52-week basis for the comparable period.

4. Benchmark profit before tax (benchmark PBT) is defined as profit before amortisation of acquisition intangibles, store impairment charges, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit balances and taxation. Net interest income within pro forma benchmark PBT is calculated to illustrate the Group's financial performance as if the demerger capital structure had existed at 31 March 2006 and had been achieved based on underlying cash flows prior to 31 March 2006. Benchmark PBT also includes Home Retail Group's share of post-tax results of joint ventures and associates. It is calculated on a pro forma 52-week basis for the comparable period.

5. Basic benchmark earnings per share (benchmark EPS) is defined as benchmark PBT less taxation attributable to benchmark PBT, divided by the weighted average number of shares in issue (excluding Home Retail Group shares held in its Employee Share Ownership Trust (ESOT)). It is calculated on a pro forma 52-week basis for the comparable period and uses the weighted average number of shares in issue from the date of demerger to the period end.

6. Benchmark pre-tax return on invested capital (benchmark pre-tax ROIC) is defined as benchmark operating profit plus share of post-tax results of joint ventures and associates, divided by year-end net assets excluding retirement benefit balances, tax balances and net cash/debt. It is calculated on a pro forma 52-week basis for the comparable period.

Financial summary – pro forma reporting

Reporting periods

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

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

For comparative purposes, the financial year 2006/07 restated on a pro forma basis is the 52-week period commencing 5 March 2006 and ending on 3 March 2007.

Central Activities

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

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

Capital structure and net interest

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

Other income statement items

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

'The Group has demonstrated a strong performance in the financial year just completed.'

Financial summary

	Statutory 52 weeks to 1 March 2008 £m	Pro forma 52 weeks to 3 March 2007 £m	Statutory period to 3 March 2007 (short period) £m
Argos	4,320.9	4,164.0	3,912.8
Homebase	1,568.5	1,594.2	1,606.3
Financial Services	95.4	93.2	87.6
Sales	**5,984.8**	**5,851.4**	**5,606.7**
Cost of sales	(3,881.0)	(3,852.2)	(3,680.5)
Gross profit	**2,103.8**	**1,999.2**	**1,926.2**
Net operating expenses before exceptional items and costs related to demerger incentive schemes	(1,705.8)	(1,639.8)	(1,592.5)
Argos	376.2	325.0	300.9
Homebase	45.1	53.4	51.2
Financial Services	5.5	5.0	4.5
Central Activities	(28.8)	(24.0)	(22.9)
Benchmark operating profit	**398.0**	**359.4**	**333.7**
Net interest income (see below)	33.3	16.6	n/a
Share of post-tax results of joint ventures and associates	1.6	0.7	0.7
Benchmark PBT	**432.9**	**376.7**	**n/a**
Net interest costs attributable to GUS capital structure (see below)	–	(39.2)	(21.0)
Exceptional items included in operating profit	0.8	(22.7)	(22.7)
Costs related to demerger incentive schemes	(11.7)	(5.8)	(5.8)
Financing fair value remeasurements	(9.0)	(0.1)	(0.1)
Financing impact on retirement benefit balances	13.0	12.3	12.1
Profit before tax	**426.0**	**321.2**	**296.9**
Taxation	(131.4)	(117.5)	(109.5)
of which: taxation attributable to benchmark PBT	*(138.5)*	*(122.1)*	*n/a*
Profit for the period	**294.6**	**203.7**	**187.4**
Basic benchmark EPS	**33.9p**	**29.3p**	**n/a**
Basic EPS	**34.0p**	**n/a**	**21.6p**
Number of shares for basic EPS	867.7m	869.6m	869.6m
Net interest reconciliation:			
Third-party net interest income/(expense)	13.7	(1.2)	n/a
Financing costs charged to Financial Services	19.6	17.8	n/a
Net interest income	**33.3**	**16.6**	**n/a**
Interest costs attributable to GUS capital structure	–	(46.1)	(44.3)
Exceptional finance income	–	6.9	6.9
Financing costs charged to Financial Services	–	–	16.4
Net interest costs attributable to GUS capital structure	**–**	**(39.2)**	**(21.0)**
Financing fair value remeasurements	(9.0)	(0.1)	(0.1)
Financing impact on retirement benefit balances	13.0	12.3	12.1
Income statement net financing income/(costs)	**37.3**	**(10.4)**	**(9.0)**

The above table has been prepared in accordance with note 2 to the consolidated financial statements on page 85.