

Group performance.

Record profits have been achieved at Argos, and Homebase has traded relatively well in more difficult market conditions.

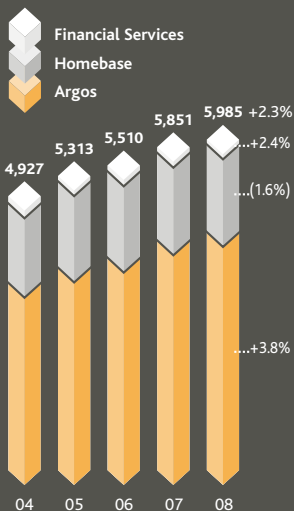
Operating highlights

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

Financial highlights

- Sales² up 2.3% in total to £5,985m (2007 pro forma: £5,851m), with like-for-like sales up 0.7% at Argos and down 4.1% at Homebase
- Gross margin ahead by approximately 50 basis points at Argos and approximately 250 basis points at Homebase
- Operating expenses up 4%, of which underlying inflation is approximately 3%
- Benchmark operating profit³ up 11% to £398m (2007 pro forma: £359m), with growth of 16% to a record level at Argos and a decline of 16% at Homebase; reported operating profit of £387m
- Benchmark profit before tax⁴ up 15% to £433m (2007 pro forma: £377m); reported profit before tax of £426m
- Basic benchmark earnings per share⁵ up 16% to 33.9p (2007 pro forma: 29.3p); reported basic earnings per share of 34.0p
- Net cash increase of £114m; closing net cash of £174m
- Benchmark pre-tax return on invested capital⁶ up 70 basis points to 12.7%
- Final dividend of 10.0p recommended; full-year dividend up 13% to 14.7p (2007: 13.0p).

Notes : refer to page 47 for definitions.

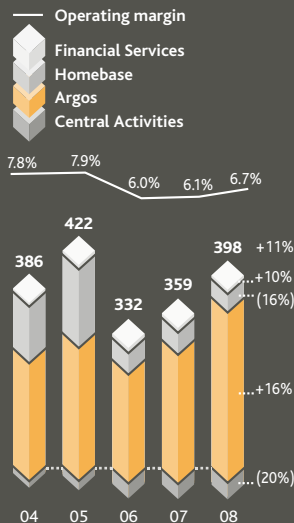


SALES – CONTINUING OPERATIONS (£M)

Group sales increased 2.3% to £5,985m. Argos now accounts for over 70% of Group sales; its £157m or 3.8% sales increase more than offset the £26m or 1.6% sales decline at Homebase. With an additional £1.1bn of sales added over the past four years, the Group is able to leverage central overhead costs and achieve supply chain efficiencies.

Definition: Income received for goods and services.

Source: Audited financial statements.

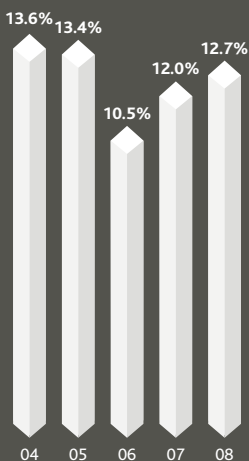


BENCHMARK OPERATING PROFIT (£M) AND MARGIN (%) – CONTINUING OPERATIONS

Group benchmark operating profit increased 11% to £398m. Argos profits increased by over £50m which more than offset the £8m reduction in Homebase profit and the £5m increase in the cost of Central Activities. The increase in operating profit in the year reflects both a strong operational and financial performance. Group benchmark operating margin increased 60 basis points to 6.7%.

Definition: Operating profit and margin before amortisation of acquisition intangibles, store impairment charges, exceptional items and costs related to demerger incentive schemes.

Source: Audited financial statements.



BENCHMARK PRE-TAX RETURN ON INVESTED CAPITAL

Benchmark pre-tax return on invested capital was 12.7%, representing a 70 basis point improvement on the previous balance sheet date. The improvement represents the combination of the £40m or 11% improvement in profit, and an increase of £128m or 4% in invested capital.

Definition: Annual 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.

Source: Audited financial statements.

+16%

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

+13%

Growth in dividend per share (2008: 14.7p – 2007: 13.0p).

■ 06 and 07 are on a 52-week pro forma basis
 ■ 05 onwards IFRS

HOME RETAIL GROUP SHARE PRICE PERFORMANCE

