

# Who we are and what we do.

## We are the UK's leading home and general merchandise retailer.

Argos and Homebase are two of the UK's leading retail brands, with large customer bases across the UK and Ireland.

Between them, our retail brands have more than 60 years of market heritage and consumer awareness. Argos was founded in 1973 and Homebase in 1981. They have been shaping modern retailing ever since.



Argos, the UK's largest general merchandise retailer, has an unrivalled blend of choice, value and convenience to meet customer needs.

Homebase is the UK's second largest home improvement retailer, and offers a growing range of home enhancement products and services in a differentiated store environment.

18,000+

The product range available at **Argos**.

30,000+

The product range available at **Homebase**.

4% ↓

The average **price reduction** on reincluded lines in the Spring/Summer 2008 Argos catalogue.

200m+

The number of **store transactions** last year.

53,000

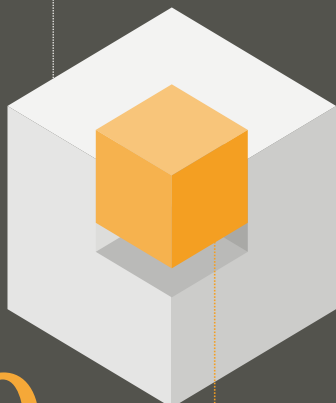
The foundation of our **business success** is our 53,000 colleagues.

**MARKET STRENGTH**

As the leader in UK home and general merchandise retailing, but with only a 10% share of the market, we still have significant room for growth.

£60<sub>bn</sub>

UK home and general merchandise market



10%

Our share of this market

**BECOMING INDEPENDENT**

Home Retail Group has been a standalone business and FTSE 100 company in its own right since the demerger from GUS plc in October 2006. But our success as an independent company is just the latest chapter in a bigger story.

**OUR HISTORY**

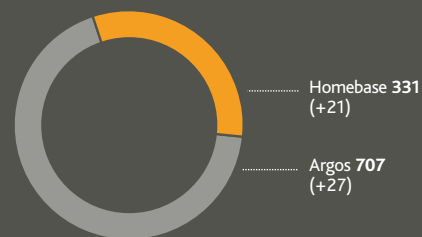
1998 Acquisition of Argos by GUS plc Launch of Argos website	2000 Launch of Financial Services business	2002 Acquisition of Homebase by GUS plc
2004 Acquisition of 33 Index stores	2006 Demerger of Home Retail Group from GUS plc	2007 Launch of trials of Argos in India and HomeStore&More in the UK Acquisition of 27 Focus DIY stores

**WIDE COVERAGE**

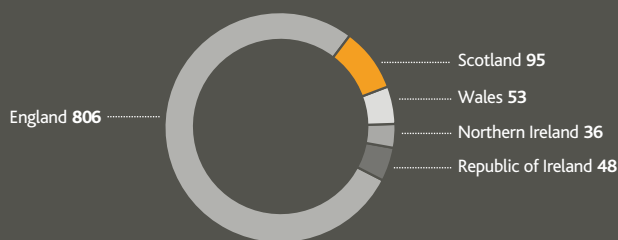
We have more than 1,000 Argos and Homebase stores in the UK and Ireland in a variety of retail formats.

1,038 stores

**STORE NUMBERS 2007/08 (YEAR-ON-YEAR CHANGES)**



**GEOGRAPHICAL BREAKDOWN 2007/08**



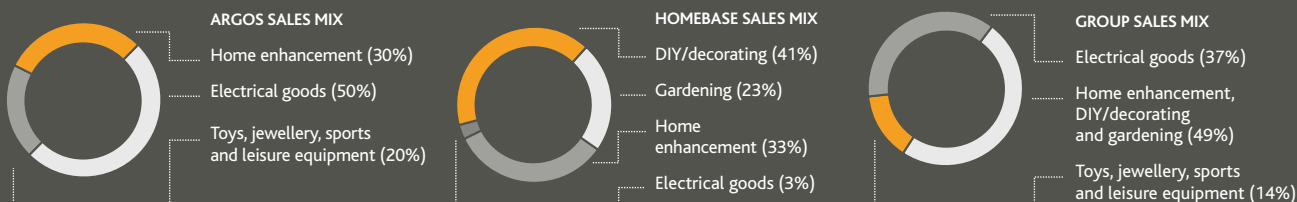
**PURCHASING SCALE**

The size and sophistication of our procurement means we can source the products our customers want at great prices.

**SHARED INFRASTRUCTURE**

Our retail brands are supported by an increasingly shared infrastructure and logistics operation that enables us to meet customer needs cost-efficiently.

**OUR SALES MIX**



## Group performance.

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

### Operating highlights

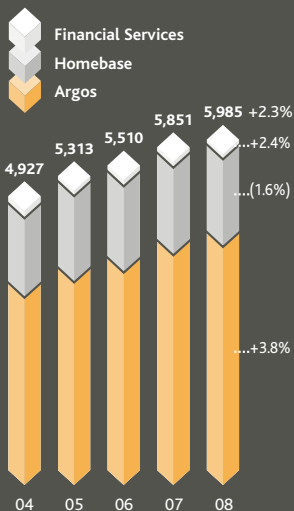
- Leading position in multi-channel retailing further strengthened
- Substantial benefit from Group-wide sourcing scale and supply chain initiatives
- Further improvements to product ranges and choice as well as the customer shopping experience at both Argos and Homebase
- Store networks expanded and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

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### Financial highlights

- Sales<sup>2</sup> 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 profit<sup>3</sup> 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 tax<sup>4</sup> up 15% to £433m (2007 pro forma: £377m); reported profit before tax of £426m
- Basic benchmark earnings per share<sup>5</sup> 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 capital<sup>6</sup> 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.

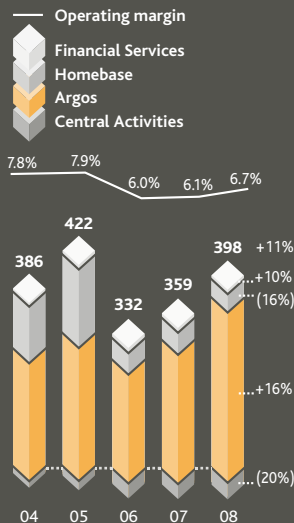


**SALES – CONTINUING OPERATIONS (£M)**

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.

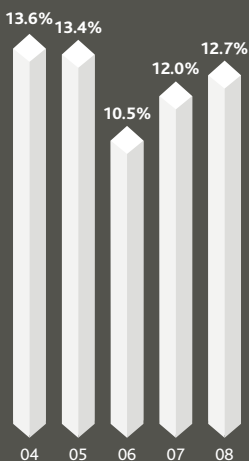


**BENCHMARK OPERATING PROFIT (£M) AND MARGIN (%) – CONTINUING OPERATIONS**

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%**

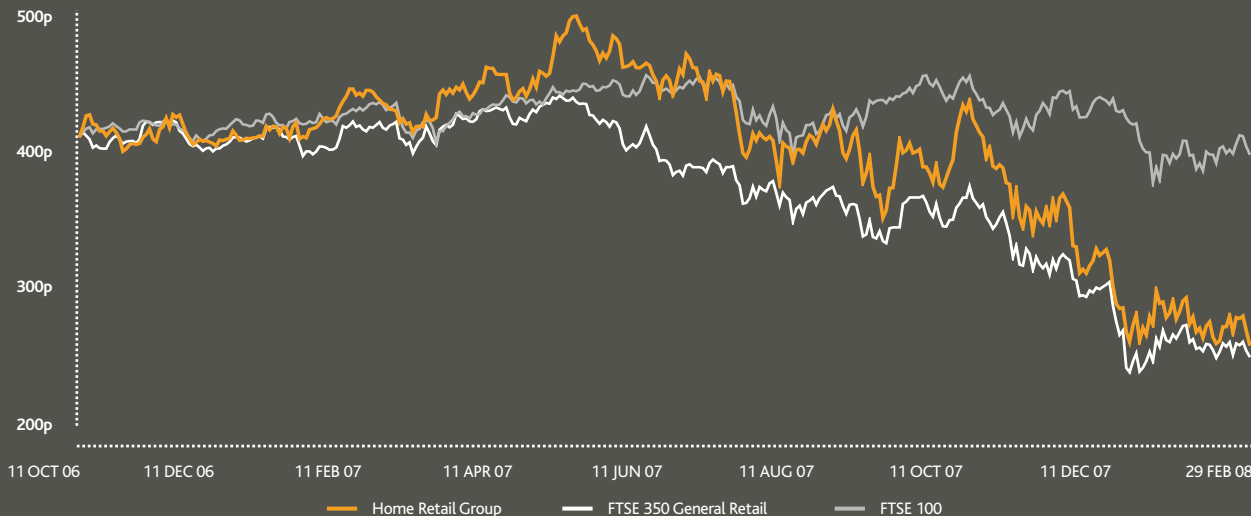
Growth in basic benchmark earnings per share (2008: 33.9p – 2007: 29.3p).

**+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**



## Out in front.

With a 10% share of a £60bn market and the number one position in many product categories, we are the UK market leader in home and general merchandise.

Our stores, catalogues and websites provide many ways for our customers to choose and buy from the ever-widening selection of products we offer. Our size gives us tremendous sourcing and supply chain advantages, allowing us to deliver value for money to our customers across a broad range of products.

### Where can I find more information?

 Pg 16. Key strengths.

Argos and Homebase are two of the UK's most recognised retail brands.

 Pg 16. Key strengths.

We offer our customers great choice and value.

 Pg 18. Competitive position.

We are the market leader in six of our 10 product categories.

 Pg 19. Strategy for growth.

We will continue to drive market share growth in key categories.





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Toasters are just one of the wide range of small domestic appliances available at Argos and Homebase. Customers can browse and buy online in less time than it takes to make breakfast.



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Our multi-channel offer gives consumers  
choice and flexibility. Argos and  
Homebase customers can shop in-store,  
from home or a combination of both.

## Thinking ahead.


Our future is exciting. We're looking forward to it. We continue to innovate to give our customers the best choice of products and a variety of ways to shop to suit their needs.


We are focused on developing our brands to meet changes in consumer behaviour and tastes. Argos customers have multiple ways to find and buy the products they want. Homebase is increasingly meeting the needs of consumers looking for inspirational home enhancement.


We're developing new product ranges and additional services that meet new customer requirements. We're also bringing innovation to the in-store and online customer experience to be ready for what's coming next.




### Where can I find more information?

 Pg 17. **Key strengths.**  
Argos sets the standard for multi-channel retail innovation.

 Pg 24/32. **Developing new products.** New ranges in Argos and Homebase drive growth.

 Pg 20. **Strategy for growth.**  
Our store formats continue to evolve.

 Pg 32. **Developing services.**  
Kitchen installation services are popular with Homebase customers.



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The scale and efficiency of our product sourcing and distribution operations enable us to control our costs and ensure high levels of stock availability. It also helps to deliver the best performance.

## Well equipped for the future.

Our strategy for growth is unchanged. Put simply, it's to 'own the home'. As the UK's leading multi-channel retailer, with a superior supply chain, we are well placed for long-term success.

Whatever happens in the short term, our focus is on continuing to increase our product portfolio and extending our leadership in our existing markets. Our purchasing scale, supply chain and shared infrastructure will help to support margins and manage cost pressures through the cycle. And we'll keep investing for growth to emerge from any economic slowdown in an even stronger position.

### Where can I find more information?

#### Pg 17. Key strengths.

We have one of the largest UK sourcing offices in the Far East.

#### Pg 17. Key strengths.

Argos Direct is the UK's largest 'two-man' delivery operation.

#### Pg 17. Key strengths.

Our shared infrastructure provides benefits to both brands.

#### Pg 60. Board of Directors.

The Group is led by an experienced management team.