27 April 2016

# Home Retail Group plc
# Full-Year Results

Home Retail Group, the UK's leading home and general merchandise retailer, today announces its results for the 52 weeks to 27 February 2016.

**Argos operating highlights**

- Completed the national roll-out of market leading Fast Track propositions for both same-day home delivery and store collection
- Opened 94 digital concessions and collection points, taking the total number to 114
- Total of 177 digital stores, representing 21% of the Argos store estate
- Internet transactions accounted for 49% of total Argos sales, including mobile commerce which grew by 10% to represent 28% of total sales

## Group financial highlights

- Sales down 1% to £5,668m; flat at Argos, down 3% at Homebase
- Cash gross margin down 3% to £1,978m
- Operating and distribution costs decreased by £21m to £1,887m, Argos costs increased by £22m, Homebase costs decreased by £44m
- Benchmark profit before tax decreased by 28% to £94.7m
- Basic benchmark earnings per share decreased by 28% to 9.3p
- The recommended offer from J Sainsbury plc for the purchase of Home Retail Group plc resulted in an exceptional goodwill impairment charge of £852m, leading to a total loss after tax of £808m
- Year-end cash balance of £623m

## Corporate developments

- Sale of Homebase for £340m successfully completed on 27 February 2016, with £337m received in FY16 and the balance received in FY17
- Post the year-end, on 1 April 2016, the Board recommended an offer from J Sainsbury plc for the purchase of Home Retail Group plc;
  - Under the terms of the offer, Home Retail Group shareholders will be entitled to receive the following for each Home Retail Group share;
    - 0.321 new Sainsbury's shares; and
    - 55.0 pence in cash
  - In addition, Home Retail Group shareholders will also be entitled to the following payments, which together form the proposed capital returns;
    - 25.0 pence per share, reflecting the £200m return to shareholders in respect of the Homebase sale; and
    - 2.8 pence per share in lieu of a final dividend in respect of the financial year ended 27 February 2016. As a result, a final dividend will not be paid

John Walden, Chief Executive of Home Retail Group, commented:

"The past year has been a landmark period for the Group, during which we have completed the sale of Homebase and recommended to shareholders the offer from J Sainsbury plc for the acquisition of the remaining Group, principally Argos. I am pleased that, with its offer for Home Retail Group, Sainsbury's has recognised the good progress we have made in transforming Argos into a digital retail leader.

"During the year we continued to progress the Argos Transformation Plan, including the introduction of Fast Track, which offer market-leading propositions for both same-day home delivery and store collection. We have been encouraged by the customer response to Fast Track with our on-time delivery rates and customer satisfaction having continued to improve to leading levels. Argos also now has a proven digital store model, including small formats and concessions, which require lower capital outlay and provide customers with fast access to an expanded product range regardless of store stock capacity.

"Finally, the Group ended the year with a cash balance of £623m, which is significantly stronger than previously anticipated. With leading digital capabilities, new Fast Track propositions, proven and flexible digital store formats and strong financial resources, we are well positioned for an exciting future."

1. **Benchmark operating profit** is defined as operating profit from all operations (both continuing and discontinued) before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items.
2. **Benchmark profit before tax (benchmark PBT)** is defined as profit from all operations (both continuing and discontinued) before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures, exceptional items, financing fair value remeasurements, financing impact on post-employment benefit obligations, the discount unwind on non-benchmark items and taxation.
3. **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 shares held in Home Retail Group's share trusts net of vested but unexercised share awards).
4. **Discontinued operations** is defined as operations which have been disposed of and which represented a significant operating segment. Further analysis of benchmark operating profit between continued and discontinued operations is shown in Appendix 2 on page 20.
5. Unless stated otherwise, references in the Group financial highlights and the Group financial review sections of this document refer to the total performance of both continuing and discontinued operations.
6. A copy of the full announcement of the recommended offer for Home Retail Group plc can be found on Home Retail Group's website at www.homeretailgroup.com/investor-centre/sainsburys-offer.

**Analysts and investors (Home Retail Group)**

| | | |
|---|---|---|
| Richard Ashton | Finance Director | 01908 600 291 |
| Mark Willis | Director of Investor Relations | |

**Media (Finsbury)**

| | | |
|---|---|---|
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There will be a conference call for analysts and investors to discuss this statement at 9.00am this morning. The call can be accessed as a live webcast on the Home Retail Group website www.homeretailgroup.com. An indexed replay will also be available on the website later in the day.

## FINANCIAL SUMMARY

| £m | 52 weeks to 27 Feb 2016 | 52 weeks to 28 Feb 2015 |
|---|---|---|
| Argos | 4,095.3 | 4,096.0 |
| Homebase | 1,433.1 | 1,479.3 |
| Financial Services | 139.4 | 135.1 |
| **Sales** | **5,667.8** | **5,710.4** |
| Cost of goods | (3,689.7) | (3,673.3) |
| **Gross margin** | **1,978.1** | **2,037.1** |
| Operating and distribution costs | (1,887.0) | (1,907.6) |
| Argos | 83.1 | 129.2 |
| Homebase | 23.5 | 19.8 |
| Financial Services | 7.0 | 7.0 |
| Central Activities | (22.5) | (26.5) |
| **Benchmark operating profit (see below)** | **91.1** | **129.5** |
| Net interest income | 3.6 | 2.6 |
| **Benchmark PBT** | **94.7** | **132.1** |
| Amortisation of acquisition intangibles | (1.8) | (1.8) |
| Post-employment benefit scheme administration costs | (1.9) | (1.9) |
| Store impairment and property provisions | (4.7) | 0.1 |
| Exceptional items – continuing operations | (891.5) | (29.3) |
| Exceptional items – discontinued operations | 13.0 | (6.2) |
| Financing fair value remeasurements | (2.4) | (1.0) |
| Financing impact on post-employment benefit obligations | (3.2) | (3.0) |
| Discount unwind on non-benchmark items | (6.2) | (6.7) |
| Balance sheet review | - | 11.5 |
| **(Loss) / profit before tax** | **(804.0)** | **93.8** |
| Taxation | (3.8) | (22.2) |
| *of which: taxation attributable to benchmark PBT* | *(22.3)* | *(33.0)* |
| *Benchmark effective tax rate* | *23.5%* | *25.0%* |
| **(Loss) / profit after tax** | **(807.8)** | **71.6** |
| **Basic benchmark EPS** | **9.3p** | **13.0p** |
| **Basic (loss) / earnings per share** | **(104.2p)** | **9.4p** |
| Weighted average number of shares for basic EPS | 775.5m | 764.3m |
| **Full-year dividend** | **1.0p** | **3.8p** |
| **Year-end cash balance** | **622.9** | **309.3** |

| **Memo – analysis of benchmark operating profit from continuing and discontinued operations** | | |
|---|---|---|
| Benchmark operating profit from continuing operations | 67.6 | 109.7 |
| Benchmark operating from discontinued operations | 23.5 | 19.8 |
| **Benchmark operating profit** | **91.1** | **129.5** |

The above tables and those throughout this announcement have been prepared in accordance with Note 1 to the Financial Information on page 28.
Further analysis of benchmark operating profit between continued and discontinued operations is shown in Appendix 2 on page 20.

## CHIEF EXECUTIVE'S STATEMENT

### Progress with Argos' Transformation

In October 2012, we outlined a five-year Transformation Plan to reinvent Argos as a digital retail leader, transforming it from a catalogue-led business to a digitally-led business. We have made meaningful progress in developing new strategic capabilities since the introduction of the Transformation Plan, including:

- **A national 'hub & spoke' distribution network** which currently supports c.20,000 products in local hubs, making them available for faster fulfilment via home delivery or store collection. In FY16 Argos further extended this concept to a regional hub trial, with the potential to hold substantially more products, including third party products, for same-day fulfilment.
- **Introduction of Fast Track Delivery and Fast Track Collection.** Launched in FY16, these market-leading same-day home delivery and store collection propositions leverage 845 Argos store locations, the 'hub & spoke' model and a newly-established national home delivery network, offering c.20,000 products for immediate store collection or same-day home delivery to c.95% of UK mainland households. Argos has also introduced an express two-man home delivery service offering leading large item delivery across a broad range of products.
- **Proven digital store model,** including small formats and concessions, which require lower capital outlay and provide customers with fast access to an expanded product range regardless of store stocking capacity. In FY16, Argos expanded its number of concessions, demonstrating both the rapid scalability and the success of this model.
- **Digital development and digital channel capabilities.** Although the Internet is now central to most businesses, the market has both broad variation in digital standards and a shortage of sufficient digital leadership capability. Argos has developed teams with strong digital capabilities, and it has aggressively shifted the business from a catalogue retailer to a digital specialist. In FY16 Internet transactions accounted for 49% of total Argos sales, including mobile commerce which grew by 10% to represent 28% of total Argos sales.
- **More universally appealing offer,** including expanded ranges and marketing communications that are beginning to reposition the Argos brand among consumers as being more dynamic, while preserving its strong heritage. In FY16, this was supported by the introduction of eight new brands such as Nespresso and Bang & Olufsen.
- **A more flexible store cost base**. As at the end of FY16, Argos has significantly reduced the average lease term of Argos stores such that they are now below five years. When combined with new options for store locations presented by small format stores and concessions, Argos now has the flexibility to add, eliminate and relocate stores to minimise costs and meet previously unaddressed consumer demand.

Although Argos' financial performance in FY16 was disappointing, I am pleased overall with the progress of the Argos Transformation. From 2012, Argos has become a materially improved business with a strong complement of new strategic digital capabilities. There is more work to do, but many of the building blocks are now in place.

### Homebase sale

On 27 February 2016 we completed the sale of Homebase to Wesfarmers Limited, for a cash consideration of £340m. This transaction realised good value for Home Retail Group shareholders and enables the Retained Group to focus on the ongoing Transformation Plan at Argos.

The sale followed a review of the Homebase business in 2014, initiated by the Board and myself as the then new Chief Executive. Following the completion of the review, the Board introduced a three-year Productivity Plan that included improving store productivity, closing approximately 25% of the store estate, strengthening customer propositions and accelerating Homebase's digital capabilities. Significant progress was made against the Productivity Plan in the intervening period, including:

- The substantial completion of the programme to close underperforming stores;
- Improvements to both pricing structures and promotional effectiveness;

- A range of improvements to drive an improved trading performance;
- Significant growth in digital sales; and
- An energised new leadership

The Board was cognisant of the value created in Homebase over a short period through the successful progress made in relation to the Productivity Plan, as well as the investment, management attention and other resources required to help grow Homebase further. The Productivity Plan preserved the option to sell Homebase in the event that circumstances proved appropriate.  The Board believed that the transaction was highly compelling for the following reasons:

- The level of consideration was attractive and fairly reflected the business improvements achieved to date. It allowed shareholders to realise a significant part of Homebase's future growth potential whilst also de-risking the future execution of the Productivity Plan;
- It allows £200 million of cash to be available for return to shareholders; and
- It resulted in significant improvements to the Group's overall financial position by removing gross lease liabilities valued at £1.4 billion (as at 28 February 2015) from the Group

As a result of the factors set out above, the Board unanimously decided that the transaction was in the best interests of shareholders.  The transaction was duly approved by shareholders on 25 February and it was completed on 27 February 2016.

**Offer for the Group**

The Board continues to believe that execution of the Argos Transformation Plan would create a leading digital retailer in the UK and deliver future shareholder value.  The Board and I further believe that the progress that has been made to date on the plan, together with the sale of Homebase, led to interest from potential acquirers of the Retained Group. Post the year-end, on 1 April 2016, the Board recommended an offer from J Sainsbury plc for the purchase of Home Retail Group plc.

For Home Retail Group, there will be significant business benefits in the combination with Sainsbury's, including benefits of scale and opportunity to accelerate the work begun under the Transformation Plan, creating opportunities for our employees and other stakeholders.  In addition, the Sainsbury's share component of the purchase will enable Home Retail Group shareholders to benefit from the value creation expected to arise through the combination, including significant synergies.  However, as a result of the recommended offer, we have recorded an exceptional charge of around £850m in respect of an impairment of the goodwill that arose on the acquisition of Argos in 1998.  This charge is a non-cash item and therefore it has had no impact on the Group's year-end cash balance of £623m, which was significantly stronger than previously anticipated.

As announced as a part of the offer from J Sainsbury plc, the FY16 final dividend will be replaced by a payment of 2.8p per Home Retail Group share in lieu of the final dividend as part of the proposed capital returns, which also incorporates the £200m return to shareholders in respect of the Homebase sale.  For further information about the offer, a copy of the full announcement can be found on Home Retail Group's website at www.homeretailgroup.com/investor-centre/sainsburys-offer.

I would like to thank Home Retail Group colleagues for their significant contributions during FY16.  In addition to a challenging trading environment, our colleagues have faced the uncertain effects of the various corporate activities that occurred during the year.  Maintaining focus in this environment has been difficult, but our colleagues have demonstrated both resilience and optimism, which I very much appreciate.

## OPERATING COMPANY REVIEWS

### Argos

| 52 weeks to<br>£m | 27 February<br>2016 | 28 February<br>2015 |
|---|---|---|
| **Sales** | **4,095.3** | **4,096.0** |
| **Benchmark operating profit** | **83.1** | **129.2** |
| **Benchmark operating margin** | **2.0%** | **3.2%** |
| Like-for-like sales change | (2.6%) | 0.6% |
| Net space sales change | 2.6% | 0.5% |
| Total sales change | 0.0% | 1.1% |
| Gross margin rate movement | Down (c.50bps) | Up c.25bps |
| Benchmark operating profit change | (36%) | 15% |
| Number of stores at year-end | 845 | 755 |
| Of which are digital format | 177 | 60 |

In October 2012 Argos outlined a five-year Transformation Plan to reinvent itself as a digital retail leader, transforming from a catalogue-led business to a digitally-led business. The Plan is designed to address competitive challenges, exploit emerging market opportunities and restore sustainable growth.

There are four key strategic elements to the Transformation Plan:

1. Provide more product choice, available to customers faster;
2. Reposition Argos' channels for a digital future;
3. Develop a customer offer that has universal appeal; and
4. Operate a lean and flexible cost base.

**Digital fulfilment propositions**

Argos has spent the last two and a half years enhancing the systems and operational capabilities that underpin its product fulfilment, including improving its real-time stock visibility and stock picking systems, and implementing its 'hub & spoke' distribution network on a national scale. In the first half of FY16, Argos further evolved 'hub & spoke' to improve stock availability and during the second half, Fast Track Delivery and Fast Track Collection were successfully introduced.

Internet sales grew 7% during FY16 and represented 49% of total sales, up from 46% last year. Within this, mobile commerce sales grew by 10% to represent 28% of total sales, up from 25% in the prior year.

Fast Track Delivery offers customers c.20,000 products for same-day home delivery, with the choice of four time slots per day. Orders can be placed until 6pm for same-day delivery by 10pm, 7 days per week, at a standard cost of £3.95. To make this offer available to customers throughout the UK, Argos currently employs c.2,300 colleagues as customer fulfilment drivers for its dedicated fleet of c.500 vans. At peak, our drivers and vans increased to c.3,000 and c.800 respectively in order to meet the increased demand.

Fast Track Collection enables customers to choose from the same c.20,000 products, pay online and collect their products from their local store on the same-day, from a dedicated Fast Track counter, in as little as 60 seconds. This service is free of charge.

The launch of the market-leading Fast Track propositions was a key milestone in Argos' migration to digital channels. Since the launch of both Fast Track Delivery and Fast Track Collection early in the second half, internet sales grew 13% compared to the same months last year, and represented 54% of total Argos sales, up from 49% over the same period last year. There was a strong take up of the Fast Track Delivery offer, such that total one-man home delivery grew 79% for these months versus the prior year. Fast Track Delivery also achieved the highest customer satisfaction scores of any Argos channel with a delivery success rate of 98%. Fast Track Collection has seen collection rates at c.95% which, in-line with expectation, is higher than the traditional check and reserve collection rate.

The market for large item delivery is increasingly competitive and Argos is focussed on improving its proposition, such that during the first half of FY16, it implemented new capability in order for it to launch an express next day proposition during the second half. As a result, Argos' most popular large products can now be delivered on a next day basis, 7 days a week, including the option of new evening slots. This service is a market-leading service across a range of product categories such as furniture, beds and large sports equipment.

Argos has continued to grow its extensive registered customer database, such that it now holds c.18m customer records. It is utilising this data through e-mail programmes which support improved add-on sales, higher levels of cross-category purchases and enable a better understanding of customers.

**Digital stores**
Convenient local product collection, supported by good customer service, continues to be of increasing value to customers. Argos' store estate therefore remains a key point of competitive advantage and it is being adapted to support a more digital future. Facilitated by the 'hub & spoke' distribution model, during FY16 Argos continued to increase its number of collection points through its now proven digital concession store model;

- There were 22 conversions of existing stores to a digital format, 18 of which were based on a new, lower cost version of the digital format;
- A further 94 digital concessions and collection points were opened, taking the total number to 114, of which 101 were within Homebase stores, and 13 within Sainsbury's stores
- One small format store was opened in London (Islington), which brought the total number to eight. This format continues to allow us to test our digital proposition with a smaller, more cost efficient footprint; and
- One regional hub was introduced in London to extend stocking capabilities and handle increased demand from both its local spoke stores and Fast Track Delivery

In addition, Argos has also commenced a trial with EE, and has included a new EE concession model in five of its digital conversion stores. This model allows Argos to test the new partnership's effectiveness, whilst also seeking to establish Argos as a destination for key product categories such as mobile technology.

**Products**
Product strategies remain an important part of the Argos Transformation Plan, as it aims to provide strong product choice to a breadth of customers. During FY16, this was supported by the introduction of another eight aspirational brands including Nespresso coffee machines, Makita power tools and Bang & Olufsen audio products. Argos also improved its own brand portfolio, including the launch of Guild, a comprehensive range of power tools, a new visual identity and brand extension for Chad Valley, together with a brand refresh for the Bush and Alba product ranges and further investment in Heart of House. Argos also focused on refreshing its Value range and re-launched its Colourmatch brand with both new packaging and visuals.

**Financial review**
Total sales in the 52 weeks to 27 February 2016 were broadly flat at £4,095m. Net space increased sales by 2.6% with the store estate increasing by a net 90 stores to 845. Like-for-like sales declined by 2.6% principally driven by a decline in sales of electrical products, such as TVs, tablets and white goods, partially offset by growth in mobiles. The decline in electrical sales were partially offset by growth in toys, sports equipment and furniture.

The gross margin rate decreased by approximately 50 basis points, principally driven by an increased level of promotional sales.

Total operating and distribution costs increased by £22m, principally driven by cost increases as a result of the Transformation Plan’s strategic initiatives, including the net 90 stores added during FY16 and the introduction of Argos’ new Fast Track propositions, together with the impact of both an increased level of depreciation and underlying cost inflation.

Benchmark operating profit declined by £46.1m, or 36% to £83.1m (FY15: £129.2m).

## Financial Services

| 52 weeks to<br>£m | 27 February 2016 | 28 February 2015 |
|---|---|---|
| **Sales** | **139.4** | **135.1** |
| Benchmark operating profit before financing costs | 11.1 | 10.9 |
| Financing costs | (4.1) | (3.9) |
| **Benchmark operating profit** | **7.0** | **7.0** |
| Store card gross receivables | 677.0 | 644.1 |
| Provisions | (62.9) | (64.6) |
| Store card net receivables | 614.1 | 579.5 |
| Provisions % of gross receivables | 9.3% | 10.0% |

Financial Services works in conjunction with Argos and up until the point of its sale, with Homebase, to provide their customers with the most appropriate credit offers to drive retail sales and ensure fair customer outcomes. In doing so, it aims to achieve a return on equity on the revolving element of its loan book that is typical of the financial service industry norm and in addition, to recover its costs on the promotional element of its loan book. The profit earned by Financial Services over and above this amount accrues to the retail companies, which is where both the transactions and the customer relationships originate.

### *Operational & financial review*

Consistent with the wider consumer credit industry, Financial Services is currently managing the change in regulation of consumer credit activity from the Office of Fair Trading to the Financial Conduct Authority ("FCA"). During FY16 a number of internal reviews were completed to ensure processes, agreements and training are in accordance with requirements. In addition, new FCA related governance models have been implemented across the business. Argos, Homebase and Habitat all secured the required retail authorisations and the process is progressing well towards authorisation for the Financial Services business.

In-house store card credit sales were 4% higher at £739m (FY15: £711m) which represented 11.3% (FY15: 10.7%) of Group retail sales. This increased level of credit sales was principally as a result of an increase in credit penetration across most product categories. In addition to credit sales on the Group's own store cards, credit offers for purchases at Homebase, up until the point of its sale, which were greater than £1,000, were principally provided through product loans from a third party provider. Including these product loans, total credit sales increased by 4% to £832m (FY15: £800m) resulting in total credit sales penetration increasing to 12.7% (FY15: 12.1%) of Group retail sales.

Store card net receivables grew by £35m versus FY15 to £614m, principally as a result of the increase in in-house credit sales. The Group finances these receivables internally with no third party debt being required.

Total sales in the 52 weeks to 27 February 2016 increased by 3% to £139m. While delinquency rates continued their downward trend of the last few years, this reduction was at a slower rate than the prior year which, along with an increased loan book, resulted in a marginal increase in the bad debt cost. Financing costs were slightly higher than last year due to the growth in the loan book, with a corresponding credit for this internal financing cost recharge being recognised in Group net interest income. Overall, the improved sales performance was offset by the increased bad debt cost and an increase in operating costs. Benchmark operating profit was in line with last year at £7.0m (FY15: £7.0m).

**Homebase – discontinued operation**

| 52 weeks to<br>£m | 27 February<br>2016 | 28 February<br>2015 |
|---|---|---|
| **Sales** | **1,433.1** | **1,479.3** |
| **Benchmark operating profit** | **23.5** | **19.8** |
| **Benchmark operating margin** | **1.6%** | **1.3%** |
| Like-for-like sales change | 5.2% | 2.3% |
| Net space sales change | (8.3%) | (3.0%) |
| Total sales change | (3.1%) | (0.7%) |
| Gross margin rate movement | Down c.125bps | Down c.100bps |
| Benchmark operating profit change | 19% | 5% |

**Financial review**
Total sales in the 52 weeks to 27 February 2016 declined by 3.1% to £1,433m. Net space reduced sales by 8.3% as a result of the planned reduction in the store estate by a net 34 stores during the year. Like-for-like sales increased by 5.2% with growth broadly across all product categories, but in particular in big ticket. The gross margin rate decreased by approximately 125 basis points. Total operating and distribution costs decreased by £44m principally driven by cost reductions as a result of the store closure programme, partially offset by the impact of underlying cost inflation. Benchmark operating profit increased by £3.7m, or 19% to £23.5m (FY15: £19.8m).

**Homebase sale**
Home Retail Group plc completed the sale of Homebase to Wesfarmers Limited on 27 February 2016 for a cash consideration of £340m. A Transitional Services Agreement was entered into on 17 January 2016 and has been implemented to govern the provision of the transitional services. The key components of the Transitional Services Agreement are set out as follows:

- The Retained Group will continue to charge Homebase, under its new ownership, for the provision of services by the Retained Group’s shared functions. These services relate to items such as large product item home delivery, call centres and information technology. During the financial year ended 27 February 2016, the Retained Group charged Homebase approximately £70 million for the provision of these services;
- The Retained Group will continue to provide the transitional services for a range of periods of time not likely to exceed 18 months;
- As the components of the Transitional Services Agreement expire, the Retained Group will undertake a cost reduction programme to eliminate, as much as possible, any excess costs remaining after Homebase no longer requires certain services from the Retained Group; and
- After this cost reduction programme, approximately £10 million of overhead costs from providing services under the Transitional Services Agreement is expected to be reabsorbed by the Retained Group, assuming that this capacity cannot be utilised through internal growth or otherwise.

Over a period of approximately 18 months, Wesfarmers Limited will require the removal of the Argos digital concessions from Homebase stores, which, in the absence of alternative locations, would result in an anticipated reduction in Argos’ benchmark operating profit of approximately £10 million.

## GROUP FINANCIAL REVIEW

***Sales and benchmark operating profit***
Sales were down 1% at £5,668m (FY15: £5,710m) while Group benchmark operating profit declined 30% to £91.1m (FY15: £129.5m). The drivers of the Argos, Homebase and Financial Services performances have been analysed as part of the preceding business reviews. Central Activities principally represents the cost of central corporate functions. Costs for the year decreased by 15% to £22.5m (FY15: £26.5m), with underlying cost inflation being more than offset by cost saving initiatives.

***Benchmark net interest income***
Net interest income within benchmark PBT increased 38% to £3.6m (FY15: £2.6m).

***Benchmark PBT***
Benchmark PBT for the year declined 28% to £94.7m (FY15: £132.1m) driven by the factors previously discussed.

***Amortisation of acquisition intangibles***
A charge of £1.8m (FY15: £1.8m) was recorded in the year, relating to the amortisation of the value of the brand which arose on the Habitat UK acquisition.

***Post-employment benefit scheme administration costs***
A charge of £1.9m (FY15: £1.9m) was recorded, in respect of the administration costs incurred by the Home Retail Group Pension Scheme.

***Adjustments in respect of store impairment and property provisions***
A net charge of £4.7m (FY15: net credit of £0.1m) was recorded in the year relating to store impairment and property provisions, driven by an impairment charge in Argos as a result of the sale of Homebase and the subsequent closure of Argos concessions within Homebase over approximately the next 18 months, partially offset by the release of surplus property provisions that are now no longer required following the achievement of better than anticipated deals to exit certain stores in the Homebase store estate prior to its sale.

***Exceptional items***
The following table sets out an analysis of exceptional items between continuing and discontinued operations;

| **£m** | **27 February 2016** | **28 February 2015** |
|---|---|---|
| Goodwill impairment attributable to recommended offer | (851.7) | - |
| Habitat impairment attributable to sale of Homebase | (12.5) | - |
| Argos Transformation Plan costs | (10.3) | (12.2) |
| Customer redress payments | (17.0) | (4.1) |
| Other restructuring costs | - | (13.0) |
| **Total exceptional items - continuing operations** | **(891.5)** | **(29.3)** |
| Homebase loss on sale | (18.5) | - |
| Transaction, separation and restructuring costs | (7.8) | - |
| Gain on sale of Battersea freehold | 39.3 | - |
| Other restructuring costs | - | (6.2) |
| **Total exceptional items - discontinued operations** | **13.0** | **(6.2)** |
| **Total exceptional items** | **(878.5)** | **(35.5)** |

The exceptional charge recorded in the year was £878.5m (FY15: £35.5m) as a result of the following factors;

- A charge of £851.7m in relation to the impairment of goodwill. This charge represents the adjustment required to goodwill in order to align the Group's reported net assets, after adjusting for certain other items, to the recommended offer from J Sainsbury plc for the purchase of Home Retail Group plc;

- A charge of £12.5m in relation to the impairment of Habitat brand intangibles and goodwill which occurred directly as a result of the sale of Homebase and the subsequent closure of Habitat concessions in Homebase over approximately the next six months;
- A charge of £10.3m relating to the programme to transform Argos into a digital retail leader and which forms the third and final year of the previously announced c.£50m of costs. A total charge of £41.5m has been incurred across the three-year period;
- A charge of £17.0m in respect of customer redress payments arising within the Financial Services business, principally in relation to PPI and which includes a charge relating to a potential exposure resulting from the Supreme Court ruling on Plevin vs Paragon in November 2014 and the subsequent FCA consultation paper issued in November 2015;
- A charge of £18.5m for items related to the loss on sale of the Homebase business;
- A charge of £7.8m relating to the transaction, separation and restructuring costs as a result of the Homebase sale, and which form part of the previously announced cost of c.£75m; and
- A gain of £39.3m arising on previously announced sale of the Battersea freehold

***Financing fair value remeasurements***
Certain foreign exchange movements are recognised in the income statement within net financing income. These amounted to a net charge of £2.4m (FY15: £1.0m), which arose principally as a result of translation differences on overseas subsidiary currency balances and the recycling of fair value gains on the sale of assets previously classified as available for sale. Equal and opposite adjustments to the translation differences are recognised as part of the movements in reserves. As required by accounting standards, the net nil exchange adjustment is split between the income statement and the statement of comprehensive income.

***Financing impact on post-employment benefit obligations***
The financing impact on post-employment benefit obligations is a net charge of £3.2m (FY15: £3.0m).

***Discount unwind on non-benchmark items***
A charge of £6.2m (FY15: £6.7m) within net financing income relates to the discount unwind on property provisions. As these provisions were items previously excluded from benchmark PBT, the discount unwind has also been excluded from benchmark PBT.

***Net interest reconciliation***
The following table illustrates both the benchmark and non-benchmark impact of net financing items within the income statement.

| **£m** | **27 February 2016** | **28 February 2015** |
|---|---|---|
| **Net interest income within benchmark PBT** | **3.6** | **2.6** |
| Financing fair value remeasurements | (2.4) | (1.0) |
| Financing impact on post-employment benefit obligations | (3.2) | (3.0) |
| Discount unwind on non-benchmark items | (6.2) | (6.7) |
| **Income statement net financing charge** | **(8.2)** | **(8.1)** |

***Loss / profit before tax***
The loss before tax for the year was £804.0m (FY15: profit before tax of £93.8m).

***Taxation***
Taxation attributable to benchmark PBT was £22.3m (FY15: £33.0m), representing an effective tax rate of 23.5% (FY15: 25.0%). The lower effective tax rate principally reflects two elements: a 1% reduction in the UK corporation tax rate together with a small reduction in the level of disallowable expenditure for tax purposes. Taxation attributable to non-benchmark items amounted to a credit of £18.5m (FY15: £10.8m). The total tax expense for the year was therefore £3.8m (FY15: £22.2m).

***Number of shares and (loss) / earnings per share***

The number of shares for the purpose of calculating basic earnings per share (EPS) was 775.5m (FY15: 764.3m), representing the weighted average number of issued ordinary shares of 813.4m (FY15: 813.4m), less an adjustment of 37.9m (FY15: 49.1m) representing shares held in Group share trusts net of vested but unexercised share awards. The calculation of diluted EPS reflects the potential dilutive effect of employee share incentive schemes. This increases the number of shares for diluted EPS purposes by 25.0m (FY15: 36.0m) to 800.5m (FY15: 800.3m). Basic benchmark EPS is 9.3p (FY15: 13.0p), with diluted benchmark EPS of 9.0p (FY15: 12.4p). Reported basic loss per share is (104.2p) (FY15: earnings per share 9.4p), with reported diluted loss per share (104.2p) (FY15: earnings per share 8.9p).

***Balance sheet***

| **As at**<br>**£m** | **27 February 2016** | **28 February 2015** |
|---|---|---|
| Goodwill | 300.6 | 1,543.9 |
| Intangible assets | 228.9 | 235.5 |
| Property, plant and equipment | 259.9 | 412.9 |
| Inventories | 755.8 | 963.0 |
| Financial Services loan book | 614.1 | 579.5 |
| Other assets | 226.5 | 240.8 |
| | 2,385.8 | 3,975.6 |
| Trade and other payables | (1,078.5) | (1,329.5) |
| Provisions | (59.0) | (221.9) |
| | (1,137.5) | (1,551.4) |
| **Invested capital** | **1,248.3** | **2,424.2** |
| Post-employment benefit obligations | (94.5) | (114.4) |
| Net tax assets | 11.4 | 26.7 |
| Forward foreign exchange contracts | 49.5 | 27.1 |
| Net cash | 622.9 | 309.3 |
| **Net assets** | **1,837.6** | **2,672.9** |

Net assets as at 27 February 2016 were £1,837.6m. Invested capital as at 27 February 2016 was £1,248.3m, a decrease of £1,175.9m versus the balance sheet as at 28 February 2015. This decrease in invested capital was driven by the impact of the sale of Homebase's invested capital of £363.6m as at 28 February 2015 together with the impact of the previously discussed impairment of goodwill of £851.7m, partially offset by a £39.4m increase in invested capital within the Retained Group. This increase in invested capital in the Retained Group was principally driven by an increase in the level of property, plant and equipment as a result of the continued higher levels of capital expenditure and the previously discussed increase in the Financial Services loan book. These increases were partially offset by a reduction in the overall level of working capital.

The decrease in invested capital of £1,175.9m, together with a decrease in net tax assets, was partially offset by the decrease in post-employment benefit obligations, an increase in forward foreign exchange contracts and an increase in net cash, principally driven by the receipt of the Homebase sale proceeds of £337.3m. The overall impact of these movements was a decrease in net assets of £835.3m.

***Cash flow and net cash position***

| £m | 52 weeks to 27 February 2016 | 52 weeks to 28 February 2015 |
|---|---|---|
| Benchmark operating profit | 91.1 | 129.5 |
| Exceptional items | (878.5) | (35.5) |
| Post-employment benefit scheme administration costs | (1.9) | (1.9) |
| Amortisation of acquisition intangibles | (1.8) | (1.8) |
| Adjustments in respect of store impairment and property provisions | (4.7) | 0.1 |
| Balance Sheet review | - | 11.5 |
| Total operating (loss) / profit | (795.8) | 101.9 |
| | | |
| Depreciation and amortisation | 140.6 | 136.0 |
| Movement in trade working capital | 52.9 | 36.6 |
| Movement in Financial Services loan book | (34.6) | (55.4) |
| Cash impact of restructuring charges | (25.8) | (22.8) |
| Cash impact of customer redress payments | (34.5) | (8.8) |
| Pension scheme deficit recovery payment | (22.0) | (22.0) |
| Pension scheme payment in respect of Homebase sale | (26.0) | - |
| Financing costs charged to Financial Services | 4.1 | 3.9 |
| Movement in post-employment benefit obligations | 1.2 | 1.2 |
| Disposal of Homebase leasehold properties | (13.2) | (9.0) |
| Homebase loss on sale | 18.5 | - |
| Profit on sale of Battersea freehold | (39.3) | - |
| Goodwill impairment attributable to recommended offer | 851.7 | - |
| Habitat impairment attributable to sale of Homebase | 12.5 | - |
| Other operating items | 31.1 | 41.2 |
| **Cash flows from operating activities** | **121.4** | **202.8** |
| | | |
| Net capital expenditure | (168.5) | (167.8) |
| Proceeds from sale of Battersea freehold | 27.7 | 30.0 |
| Taxation | 13.1 | (12.1) |
| Net interest | (2.3) | 0.7 |
| Cash proceeds from sale of Homebase | 337.3 | - |
| **Cash inflow before financing activities** | **328.7** | **53.6** |
| | | |
| Dividends paid | (29.0) | (25.3) |
| Sale / (purchase) of own shares for Employee Share Trust | 13.3 | (48.5) |
| **Increase in cash and cash equivalents** | **313.0** | **(20.2)** |
| | | |
| Effect of foreign exchange rate changes | 0.6 | (1.5) |
| **Increase in financing net cash** | **313.6** | **(21.7)** |
| | | |
| Opening financing net cash | 309.3 | 331.0 |
| **Closing financing net cash** | **622.9** | **309.3** |

Cash flows from operating activities were £121.4m (FY15: £202.8m). This £81.4m decrease was principally attributable to the lower level of benchmark operating profit, together with the impact of an additional pension scheme payment agreed with the Trustee as a result of the sale of Homebase and a higher level of customer redress payments principally in respect of PPI, partially offset by a decrease in the cash outflow in respect of the Financial Services loan book and an increase in the cash inflow from trade working capital.

Net capital expenditure was £168.5m (FY15: £167.8m), representing the continued higher level of investment in strategic initiatives across the Group. Proceeds from the sale of the Battersea freehold were £27.7m (FY15: £30.0m), representing the final payment received in respect of the sale of the freehold relating to Homebase's Battersea store for a total consideration of £57.7m. Taxation was a net cash inflow of £13.1m representing a normal cash tax payment level which was more than offset by the receipt of £27m in respect of historical outstanding tax items for which the Group had previously paid in full and which have recently been agreed and settled by HMRC (FY15 outflow: £12.1m).

The Group received £337.3m (FY15: £nil) in respect of the sale of the Homebase business, which represents the proceeds of £340m less a timing adjustment for the Homebase closing net cash position which occurred due to the transaction completing on Saturday 27 February 2016. The balance of the total sale proceeds has been received in FY17.

Dividends paid to Shareholders amounted to £29.0m (FY15: £25.3m). Cash of £13.3m was received, principally in respect of the exercise of a Save As You Earn scheme, available to all employees. (FY15 outflow: £48.5m)

The Group's financing net cash position at 27 February 2016 was £622.9m, an increase of £313.6m over the year. The underlying financing net cash position, excluding the impact of the Homebase transaction was broadly flat year-on-year.

***Group pension arrangements***

The Group's pension arrangements are operated principally through the Home Retail Group Pension Scheme, a defined benefit scheme, which was closed to future accrual with effect from 31 January 2013, together with the Home Retail Group Personal Pension Plan, a defined contribution scheme.

The IAS 19 valuation as at 27 February 2016 for the defined benefit pension scheme was a net deficit of £94.5m (FY15: £114.4m). The decrease in the deficit of £19.9m was principally driven by an increase of £20.1m in the scheme assets to £1,009.4m (FY15: £989.3m). Scheme liabilities were broadly flat at £1,103.9m (FY15: £1,103.7m).

A full actuarial valuation of the defined benefit pension scheme is carried out every three years with interim reviews in the intervening years. The last full actuarial valuation of the scheme was carried out as at 31 March 2012 and resulted in a deficit of £158m. The deficit recovery plan agreed with the Trustee provides for payments of £22m per annum paid in quarterly instalments until 31 December 2019.

As part of the sale of Homebase it was agreed with the Trustee that an additional cash contribution of £26m would be made to the scheme during the year. In addition, following any return of capital associated with the sale of Homebase, an additional cash contribution of £24m will be made to the scheme. The Group will also provide security in the form of a first fixed charge over certain property of the Group with a value of £37.5m on an open market vacant possession basis.

The full actuarial valuation of the scheme as at 31 March 2015 is well advanced and agreement has been reached in principle with the Trustee which would result in a deficit as at 31 March 2015 of £250m, before the payments associated with the sale of Homebase noted above. In addition, the annual deficit recovery payments to the scheme will increase from £22m to £30m. Final agreement of the valuation is awaiting the outcome of the potential purchase of the Group by J Sainsbury plc. Should the purchase not proceed, the agreement in principle noted above will be put into effect. Should the purchase proceed then separate arrangements agreed between J Sainsbury plc and the Trustee will be put into effect.

***Group financing arrangements***

The Group finances its operations through a combination of cash, property leases and access to committed bank facilities where necessary. The Group's net cash balances averaged approximately £324m (FY15: approximately £451m) over the year.

The Group has a £250m committed unsecured borrowing facility, which is currently undrawn and which expires in March 2019. In addition, as at 27 February 2016 the Group's Financial Services business held a net loan book balance of £614m (FY15: £580m).

The Group has additional liabilities through its obligations to pay rents under operating leases. The operating lease charge for the year amounted to £320.2m (FY15: £333.4m). Total lease commitments for the Group stood at £799m as at 27 February 2016 (FY15: £2,342m), with the reduction from FY15 principally driven by the sale of the Homebase business. This is a £3,531m, or 82% reduction from the peak total lease commitments of £4,330m held as at 1 March 2008. Based upon the discounted cash flows of these expected future operating lease charges, the capitalised value of these liabilities is £677m (FY15: £1,914m) utilising a discount rate of 3.6% (FY15: 4.1%). The Group's total financing position is therefore summarised as follows;

| **Total Financing Position £m** | **27 February 2016** | **28 February 2015** |
|---|---|---|
| Cash | 623 | 309 |
| Loan book | 614 | 580 |
| **Balance sheet position** | **1,237** | **889** |
| Gross lease liabilities | (799) | (2,342) |
| **Total financing position** | **438** | **(1,453)** |

***Currency risk management***
The Group's key objective is to minimise the effect of exchange rate volatility. Transactional currency exposures that could significantly impact the income statement are hedged using forward purchase contracts. Approximately one quarter of the Group's product costs are paid for in US dollars. The hedged rates achieved during FY16 compared to FY15 are noted in the table below;

| **US dollar hedged rates** | **FY16** | **FY15** | **Change cents** |
|---|---|---|---|
| First half | 1.63 | 1.55 | c.8 |
| Second half | 1.57 | 1.61 | c.(4) |
| **Full year** | **1.60** | **1.58** | **c.2** |

***Share price and total shareholder return***
The Group's share price ranged from a low of 89.7p to a high of 203.2p during FY16. On 26 February 2016, the closing mid-market price was 176.9p, giving a market capitalisation of £1.4 billion.

Total shareholder return (the change in the value of a share including reinvested dividends) decreased by 10% over the year. This compares to a decrease of 5% for the FTSE 350 General Retail index.

***Accounting standards and use of non-GAAP measures***
The Group has prepared its consolidated financial statements based on International Financial Reporting Standards for the 52 weeks ended 27 February 2016. The basis of preparation is outlined in Note 1 to the Financial Information on page 28.

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 2 to the Financial Information on page 28.

***Principal risks and uncertainties***
The Group will set out the principal risks and uncertainties which could impact its performance, together with examples of mitigating activity, in its 2016 Annual Report and Financial Statements; a full text excerpt will also be included in the Regulatory Information Service announcement accompanying the publication of the 2016 Annual Report.

The Group operates a structured risk management process which identifies and evaluates risks and uncertainties and reviews mitigating activity.  The main areas of potential risk and uncertainty centre on the execution and delivery of the Argos Transformation Plan, together with the impact on sales volumes and thereby profitability in relation to economic conditions and overall consumer demand.  There are also transactional risks arising from the sale of Homebase and the proposed purchase of the Group.  Other potential risks and uncertainties around sales and/or profit growth include the cost of goods and services to the Group, competitor activity, seasonal weather patterns, infrastructure development, reliance on key personnel, failure to meet customer expectations, currency exposures, product supply and other operational processes, product safety, the regulatory environment and business interruption.

***Annual report and annual general meeting***

The 2016 Annual Report and Financial Statements is expected to be available at www.homeretailgroup.com and posted to shareholders on or around 27 May 2016.  The Annual General Meeting will be held from 11.00am on Wednesday 29 June 2016 at the Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes, MK9 2HQ.

## ***Appendix 1. Trading statement comparables***

| | **Q1**<br>**13 weeks to**<br>**30 May 2015** |
|---|---|
| **Argos** | |
| Sales | £846m |
| Like-for-like sales change | (3.9%) |
| Net space sales change | 1.3% |
| Total sales change | (2.6%) |
| Gross margin movement | Up c.50bps |
| **Homebase** | |
| Sales | £438m |
| Like-for-like sales change | 5.4% |
| Net space sales change | (7.0%) |
| Total sales change | (1.6%) |
| Gross margin movement | Down c.175bps |

| | **Q2**<br>**13 weeks to**<br>**29 Aug 2015** | **H1**<br>**26 weeks to**<br>**29 Aug 2015** |
|---|---|---|
| **Argos** | | |
| Sales | £897m | £1,743m |
| Like-for-like sales change | (2.8%) | (3.4%) |
| Net space sales change | 2.4% | 1.9% |
| Total sales change | (0.4%) | (1.5%) |
| Gross margin movement | Up c.125bps | Up c.100bps |
| **Homebase** | | |
| Sales | £378m | £816m |
| Like-for-like sales change | 5.9% | 5.6% |
| Net space sales change | (8.7%) | (7.8%) |
| Total sales change | (2.8%) | (2.2%) |
| Gross margin movement | Down c.75bps | Down c.125bps |

| | **Q3**<br>**18 weeks to**<br>**2 Jan 2016** | **YTD**<br>**44 weeks to**<br>**2 Jan 2016** |
|---|---|---|
| **Argos** | | |
| Sales | £1,837m | £3,580m |
| Like-for-like sales change | (2.2%) | (2.8%) |
| Net space sales change | 3.1% | 2.5% |
| Total sales change | 0.9% | (0.3%) |
| Gross margin movement | Down c.225bps | Down c.75bps |
| **Homebase** | | |
| Sales | £434m | £1,250m |
| Like-for-like sales change | 5.0% | 5.4% |
| Net space sales change | (9.0%) | (8.2%) |
| Total sales change | (4.0%) | (2.8%) |
| Gross margin movement | Down c.50bps | Down c.100bps |

| | **Q4**<br>**8 weeks to**<br>**27 Feb 2016** | **H2**<br>**26 weeks to**<br>**27 Feb 2016** | **FY**<br>**52 weeks to**<br>**27 Feb 2016** |
|---|---|---|---|
| **Argos** | | | |
| Sales | £515m | £2,352m | £4,095m |
| Like-for-like sales change | (1.1%) | (2.0%) | (2.6%) |
| Net space sales change | 3.0% | 3.1% | 2.6% |
| Total sales change | 1.9% | 1.1% | 0.0% |
| Gross margin movement | Up c. 75bps | Down c.175bps | Down c.50bps |
| **Homebase** | | | |
| Sales | £183m | £617m | £1,433m |
| Like-for-like sales change | 3.3% | 4.5% | 5.2% |
| Net space sales change | (8.5%) | (8.9%) | (8.3%) |
| Total sales change | (5.2%) | (4.4%) | (3.1%) |
| Gross margin movement | Down c.225bps | Down c.100bps | Down c.125bps |

## ***Appendix 2. Analysis of continuing & discontinued operations***

| £m | 52 weeks to 27 Feb 2016 | 52 weeks to 28 Feb 2015 |
|---|---|---|
| **Continuing operations** | | |
| Argos | 4,095.3 | 4,096.0 |
| Financial Services | 139.4 | 135.1 |
| **Sales** | **4,234.7** | **4,231.1** |
| Cost of goods | (2,955.7) | (2,929.8) |
| **Gross margin** | **1,279.0** | **1,301.3** |
| Operating and distribution costs | (1,211.4) | (1,191.6) |
| Argos | 83.1 | 129.2 |
| Financial Services | 7.0 | 7.0 |
| Central Activities | (22.5) | (26.5) |
| **Benchmark operating profit from continuing operations** | **67.6** | **109.7** |
| **Discontinued operations** | | |
| Homebase | 1,433.1 | 1,479.3 |
| **Sales** | **1,433.1** | **1,479.3** |
| Cost of goods | (734.0) | (740.2) |
| **Gross margin** | **699.1** | **739.1** |
| Operating and distribution costs | (675.6) | (719.3) |
| **Benchmark operating profit from discontinued operations** | **23.5** | **19.8** |
| **Total benchmark operating profit** | **91.1** | **129.5** |
| Net interest income | 3.6 | 2.6 |
| **Benchmark PBT** | **94.7** | **132.1** |
| **Basic benchmark EPS – total** | **9.3p** | **13.0p** |
| **Basic benchmark EPS – continuing operations** | **6.4p** | **11.2p** |
| **Basic (loss) / earnings per share – total** | **(104.2p)** | **9.4p** |
| **Basic (loss) / earnings per share – continuing operations** | **(109.4p)** | **8.6p** |
| Weighted average number of shares for basic EPS | 775.5m | 764.3m |

The above tables and those throughout this announcement have been prepared in accordance with Note 1 to the Financial Information on page 28.

# Consolidated income statement

For the 52 weeks ended 27 February 2016

| | | **52 weeks ended 27 February 2016** | | | 52 weeks ended 28 February 2015 | | |
|---|---|---|---|---|---|---|---|
| | | **Before exceptional items** | **Exceptional items (notes 3 & 4)** | **After exceptional items** | Before exceptional items | Exceptional items (notes 3 & 4) | After exceptional items |
| | Notes | **£m** | **£m** | **£m** | £m | £m | £m |
| ***Continuing operations*** | | | | | | | |
| **Revenue** | | **4,234.7** | **-** | **4,234.7** | 4,231.1 | - | 4,231.1 |
| Cost of sales | | **(3,153.9)** | **-** | **(3,153.9)** | (3,133.2) | - | (3,133.2) |
| **Gross profit** | | **1,080.8** | **-** | **1,080.8** | 1,097.9 | - | 1,097.9 |
| Net operating expenses | | **(1,028.6)** | **(891.5)** | **(1,920.1)** | (981.5) | (29.3) | (1,010.8) |
| **Operating (loss)/profit** | | **52.2** | **(891.5)** | **(839.3)** | 116.4 | (29.3) | 87.1 |
| - Finance income | | **1.9** | **-** | **1.9** | 3.4 | - | 3.4 |
| - Finance expense | | **(2.9)** | **-** | **(2.9)** | (2.7) | - | (2.7) |
| Net financing (expense)/income | 5 | **(1.0)** | **-** | **(1.0)** | 0.7 | - | 0.7 |
| **(Loss)/profit before tax** | | **51.2** | **(891.5)** | **(840.3)** | 117.1 | (29.3) | 87.8 |
| Taxation | | **(16.3)** | **8.0** | **(8.3)** | (28.3) | 5.8 | (22.5) |
| **(Loss)/profit for the year after tax from continuing operations** | | **34.9** | **(883.5)** | **(848.6)** | 88.8 | (23.5) | 65.3 |
| ***Discontinued operations*** | | | | | | | |
| Profit/(loss) for the year after tax from discontinued operations | 3 | **27.5** | **13.3** | **40.8** | 11.2 | (4.9) | 6.3 |
| **Total (loss)/profit for the year attributable to equity holders of the Company** | | **62.4** | **(870.2)** | **(807.8)** | 100.0 | (28.4) | 71.6 |

| **Earnings per share** | | **pence** | pence |
|---|---|---|---|
| Continuing operations: | | | |
| - Basic | 7 | **(109.4)** | 8.6 |
| - Diluted | 7 | **(109.4)** | 8.1 |
| Total Group: | | | |
| - Basic | 7 | **(104.2)** | 9.4 |
| - Diluted | 7 | **(104.2)** | 8.9 |
| *Benchmark earnings per share:* | | | |
| *- Basic* | *7* | **9.3** | *13.0* |
| *- Diluted* | *7* | **9.0** | *12.4* |

| | | **pence** | pence |
|---|---|---|---|
| **Proposed final dividend per share** | 6 | **-** | 2.8 |
| **Interim dividend per share** | 6 | **1.0** | 1.0 |
| **Proposed total dividend per share** | | **1.0** | 3.8 |

On 27 February 2016 the Group sold 100% of the Homebase business to Wesfarmers Limited. As a result, Homebase has met the recognition criteria of a discontinued operation under IFRS 5 'Non-current assets held for sale and discontinued operations' and is therefore presented as such throughout this announcement. In order to comply with this presentation, FY15 income statement disclosures have been represented separating continuing and discontinued operations.

| ***Non-GAAP measures***<br>***Reconciliation of profit before tax (PBT) to benchmark PBT*** | *Notes* | ***52 weeks ended 27 February 2016***<br>***£m*** | *52 weeks ended 28 February 2015*<br>*£m* |
|---|---|---|---|
| ***(Loss)/profit before tax from continuing operations*** | | ***(840.3)*** | *87.8* |
| *Adjusted for:* | | | |
| *Profit before tax from discontinued operations* | *3* | ***36.3*** | *6.0* |
| *Amortisation of acquisition intangibles* | | ***1.8*** | *1.8* |
| *Post-employment benefit scheme administration costs* | | ***1.9*** | *1.9* |
| *Adjustments in respect of store impairment and property provisions* | | ***4.7*** | *(0.1)* |
| *Exceptional items – continuing operations* | *4* | ***891.5*** | *29.3* |
| *Exceptional items – discontinued operations* | *3* | ***(13.0)*** | *6.2* |
| *Financing fair value remeasurements* | *5* | ***2.4*** | *1.0* |
| *Financing impact on post-employment benefit obligations* | *5* | ***3.2*** | *3.0* |
| *Discount unwind on non-benchmark items* | *5* | ***6.2*** | *6.7* |
| *Balance sheet review* | | ***-*** | *(11.5)* |
| ***Benchmark PBT*** | | ***94.7*** | *132.1* |

# Consolidated statement of comprehensive income

For the 52 weeks ended 27 February 2016

| | **52 weeks ended 27 February 2016** | 52 weeks ended 28 February 2015 |
|---|---|---|
| | **£m** | £m |
| **(Loss)/profit for the year attributable to equity holders of the Company** | **(807.8)** | 71.6 |
| | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Net change in fair value of cash flow hedges | | |
| - Foreign currency forward exchange contracts | **72.0** | 49.1 |
| Net change in fair value of cash flow hedges transferred to inventory | | |
| - Foreign currency forward exchange contracts | **(44.4)** | (3.3) |
| Fair value movements on available-for-sale financial assets | **(0.3)** | 0.7 |
| Currency translation differences | **2.9** | (1.5) |
| Tax (charge) in respect of items that will be or have been recycled | **(5.1)** | (9.1) |
| Items recycled from other reserves | **(13.1)** | - |
| | **12.0** | 35.9 |
| **Items that will not be reclassified subsequently to profit or loss:** | | |
| Remeasurement of the net defined benefit liability | **(24.7)** | (55.6) |
| Tax credit in respect of items not recycled | **3.9** | 11.1 |
| | **(20.8)** | (44.5) |
| | | |
| **Other comprehensive (expense)/income for the year, net of tax** | **(8.8)** | (8.6) |
| **Total comprehensive (expense)/income for the year attributable to equity holders of the Company** | **(816.6)** | 63.0 |
| | | |
| Continuing operations | **(849.4)** | 32.4 |
| Discontinued operations | **32.8** | 30.6 |
| **Total comprehensive income for the year attributable to equity holders of the Company** | **(816.6)** | 63.0 |

# Consolidated balance sheet

At 27 February 2016

| | Notes | 27 February 2016 £m | 28 February 2015 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | | **300.6** | 1,543.9 |
| Other intangible assets | | **228.9** | 235.5 |
| Property, plant and equipment | | **259.9** | 412.9 |
| Deferred tax assets | | **26.0** | 44.6 |
| Trade and other receivables | | **-** | 1.4 |
| Other financial assets | | **10.3** | 10.6 |
| **Total non-current assets** | | **825.7** | 2,248.9 |
| **Current assets** | | | |
| Inventories | | **755.8** | 963.0 |
| Trade and other receivables | | **830.3** | 790.0 |
| Current tax assets | | **4.9** | 13.2 |
| Other financial assets | | **52.1** | 30.0 |
| Cash and cash equivalents | | **622.9** | 309.3 |
| **Total current assets** | | **2,266.0** | 2,105.5 |
| **Non-current assets classified as held for sale** | | **-** | 18.3 |
| **Total assets** | | **3,091.7** | 4,372.7 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | | **(16.8)** | (46.4) |
| Provisions | 8 | **(20.9)** | (126.2) |
| Deferred tax liabilities | | **(14.0)** | (24.3) |
| Post-employment benefits | | **(94.5)** | (114.4) |
| **Total non-current liabilities** | | **(146.2)** | (311.3) |
| **Current liabilities** | | | |
| Trade and other payables | | **(1,061.7)** | (1,283.1) |
| Provisions | 8 | **(38.1)** | (95.7) |
| Other financial liabilities | | **(2.6)** | (2.9) |
| Current tax liabilities | | **(5.5)** | (6.8) |
| **Total current liabilities** | | **(1,107.9)** | (1,388.5) |
| **Total liabilities** | | **(1,254.1)** | (1,699.8) |
| **Net assets** | | **1,837.6** | 2,672.9 |
| **EQUITY** | | | |
| Share capital | | **81.3** | 81.3 |
| Capital redemption reserve | | **6.4** | 6.4 |
| Merger reserve | | **(348.4)** | (348.4) |
| Other reserves | | **10.0** | (61.5) |
| Retained earnings | | **2,088.3** | 2,995.1 |
| **Total equity** | | **1,837.6** | 2,672.9 |

On 27 February 2016 the Group sold 100% of the Homebase business to Wesfarmers Limited. As a result, the FY16 balance sheet does not include Homebase.

# Consolidated statement of changes in equity

For the 52 weeks ended 27 February 2016

| | **Attributable to equity holders of the Company** | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital £m** | **Capital redemption reserve £m** | **Merger reserve £m** | **Other reserves £m** | **Retained earnings £m** | **Total £m** |
| Balance at 1 March 2015 | 81.3 | 6.4 | (348.4) | (61.5) | 2,995.1 | 2,672.9 |
| Loss for the year | - | - | - | - | (807.8) | (807.8) |
| Other comprehensive income/(expense) | - | - | - | 12.1 | (20.9) | (8.8) |
| Total comprehensive income/(expense) for the year ended 27 February 2016 | - | - | - | 12.1 | (828.7) | (816.6) |
| Transactions with owners: | | | | | | |
| Movement in share-based compensation reserve | - | - | - | - | 0.8 | 0.8 |
| Net movement in own shares | - | - | - | 59.4 | (46.2) | 13.2 |
| Tax debit related to share-based compensation reserve | - | - | - | - | (2.5) | (2.5) |
| Equity dividends paid during the year | - | - | - | - | (29.0) | (29.0) |
| Other distributions | - | - | - | - | (1.2) | (1.2) |
| Total transactions with owners | - | - | - | 59.4 | (78.1) | (18.7) |
| **Balance at 27 February 2016** | **81.3** | **6.4** | **(348.4)** | **10.0** | **2,088.3** | **1,837.6** |

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital £m | Capital redemption reserve £m | Merger reserve £m | Other reserves £m | Retained earnings £m | Total £m |
| Balance at 2 March 2014 | 81.3 | 6.4 | (348.4) | (52.3) | 2,986.5 | 2,673.5 |
| Profit for the year | - | - | - | - | 71.6 | 71.6 |
| Other comprehensive income/(expense) | - | - | - | 35.6 | (44.2) | (8.6) |
| Total comprehensive income for the year ended 28 February 2015 | - | - | - | 35.6 | 27.4 | 63.0 |
| Transactions with owners: | | | | | | |
| Movement in share-based compensation reserve | - | - | - | - | 8.6 | 8.6 |
| Net movement in own shares | - | - | - | (44.8) | (3.7) | (48.5) |
| Tax credit related to share-based compensation reserve | - | - | - | - | 1.9 | 1.9 |
| Equity dividends paid during the year | - | - | - | - | (25.3) | (25.3) |
| Other distributions | - | - | - | - | (0.3) | (0.3) |
| Total transactions with owners | - | - | - | (44.8) | (18.8) | (63.6) |
| Balance at 28 February 2015 | 81.3 | 6.4 | (348.4) | (61.5) | 2,995.1 | 2,672.9 |

# Consolidated statement of cash flows

For the 52 weeks ended 27 February 2016

| | Notes | **52 weeks ended 27 February 2016 £m** | 52 weeks ended 28 February 2015 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 9 | **134.6** | 211.8 |
| Tax received/(paid) | | **13.1** | (12.1) |
| Disposal of leasehold property | | **(13.2)** | (9.0) |
| **Cash flows from operating activities** | | **134.5** | 190.7 |
| Purchase of property, plant and equipment | | **(65.5)** | (81.2) |
| Purchase of other intangible assets | | **(107.3)** | (93.3) |
| Proceeds from the disposal of property, plant and equipment - freehold property | | **27.7** | 30.0 |
| Proceeds from the disposal of property, plant and equipment - other | | **4.3** | 6.7 |
| Sale of Homebase – discontinued operations | 3 (iv) | **337.3** | - |
| Interest and other financing fees (paid)/received | | **(2.3)** | 0.7 |
| **Net cash generated/(used) in investing activities** | | **194.2** | (137.1) |
| **Cash flows from financing activities** | | | |
| Purchase of shares for Employee Share Trust | | **-** | (50.0) |
| Proceeds from disposal of shares held by Employee Share Trust | | **13.3** | 1.5 |
| Dividends paid | | **(29.0)** | (25.3) |
| **Net cash used in financing activities** | | **(15.7)** | (73.8) |
| **Net increase/(decrease) in cash and cash equivalents** | | **313.0** | (20.2) |
| **Movement in cash and cash equivalents** | | | |
| Cash and cash equivalents at the beginning of the year | | **309.3** | 331.0 |
| Effect of foreign exchange rate changes | | **0.6** | (1.5) |
| Net increase/(decrease) in cash and cash equivalents | | **313.0** | (20.2) |
| **Cash and cash equivalents at the end of the year** | | **622.9** | 309.3 |

# Analysis of net cash/(debt)

At 27 February 2016

| Non-GAAP measures | ***27 February 2016 £m*** | *28 February 2015 £m* |
|---|---|---|
| ***Financing net cash:*** | | |
| *Cash and cash equivalents* | ***622.9*** | *309.3* |
| ***Total financing net cash*** | ***622.9*** | *309.3* |
| ***Operating net debt:*** | | |
| *Off balance sheet operating leases* | ***(676.9)*** | *(1,914.4)* |
| ***Total operating net debt*** | ***(676.9)*** | *(1,914.4)* |
| ***Total net debt*** | ***(54.0)*** | *(1,605.1)* |

The Group uses the term 'total net debt' to highlight the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably operating leases. The gross lease commitments are £798.9m (2015: £2,342.2m), the discounted value of these leases is £676.9m (2015: £1,914.4m) based upon discounting the existing lease commitments at the Group's estimated long-term cost of borrowing of 3.6% (2015: 4.1%).

# Notes

For the 52 weeks ended 27 February 2016

**1. BASIS OF PREPARATION**

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, is derived from the full Group consolidated financial statements for the 52 weeks to 27 February 2016 and does not constitute full accounts within the meaning of Section 435 (1) and (2) of the Companies Act 2006. The Group's Annual Report and Financial Statements 2016, on which the auditors have given an unqualified audit report and which does not contain a statement under Section 498 (2) or (3) of the Companies Act 2006, will be delivered to the Registrar of Companies in due course, and made available to shareholders in June 2016. The financial year represents the 52 weeks to 27 February 2016 (prior financial year 52 weeks to 28 February 2015).

The Group consolidated financial statements are presented in sterling, rounded to the nearest hundred thousand. They are prepared on a going concern basis and under the historic cost basis modified for the revaluation of certain financial instruments, share-based payments and post-employment benefits. The principal accounting policies adopted by Home Retail Group are set out in Home Retail Group plc's Annual Report and Financial Statements dated 28 February 2015. With the exception of those changes in accounting standards which are effective for the first time for the current period, as detailed below, these policies have been consistently applied to all the periods presented.

On 27 February 2016 the Group sold 100% of the Homebase business to Wesfarmers Limited. As a result, Homebase has met the recognition criteria of a discontinued operation under IFRS 5 'Non-current assets held for sale and discontinued operations' and is therefore presented as such throughout this Announcement. In order to comply with this presentation, FY15 income statement disclosures have been represented separating continuing and discontinued operations.

**Changes in accounting standards**

There are no new standards, amendments to existing standards or interpretations which are effective for the first time during the year ended 27 February 2016 that have a material impact on the Group. At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective, including IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial Instruments', which are both effective for periods beginning on or after 1 January 2018. IFRS 16 'Leases' was published during the year and will come into effect on periods beginning on or after 1 January 2019. The Group has not early-adopted any of these new standards or amendments to existing standards and the Group will assess their full impact in due course.

There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

**2. NON-GAAP FINANCIAL INFORMATION**

Home Retail Group has identified certain measures that it believes will assist the understanding of the performance of the business. The measures are not defined under IFRS and they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are not intended to be a substitute for, or superior to, any IFRS measures of performance but Home Retail Group has included them as it considers them to be important comparables and key measures used within the business for assessing performance. The following are the key non-GAAP measures identified by Home Retail Group:

**Exceptional items**

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

**Benchmark measures**

The Group uses the following terms as measures which are not formally recognised under IFRS:

- Benchmark operating profit is defined as operating profit from all operations (both continuing and discontinued) before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items.

- Benchmark profit before tax (benchmark PBT) is defined as profit from all operations (both continuing and discontinued) before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures, exceptional items, financing fair value remeasurements, financing impact on post-employment benefit obligations, the discount unwind on non-benchmark items and taxation.

- 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 shares held in Home Retail Group's share trusts net of vested but unexercised share awards).

These measures are considered useful in that they provide investors with an alternative means to evaluate the underlying performance of the Group's operations.

**Total net debt**

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

## 3. DISCONTINUED OPERATIONS

On 27 February 2016 the Group sold 100% of the Homebase business to Wesfarmers Limited. As a result, Homebase has met the recognition criteria of a discontinued operation under IFRS 5 'Non-current assets held for sale and discontinued operations' and is therefore presented as such throughout this Announcement. A summary of the consolidated income statement, exceptional items and the loss on disposal, with respect to discontinued operations are set out below.

### (i) Consolidated income statement

| | *Notes* | ***52 weeks ended 27 February 2016 £m*** | *52 weeks ended 28 February 2015* £m |
|---|---|---|---|
| **Revenue** | | **1,433.1** | 1,479.3 |
| Cost of sales | | **(801.8)** | (804.2) |
| **Gross profit** | | **631.3** | 675.1 |
| Net operating expenses | | **(600.8)** | (654.1) |
| **Operating profit before exceptional items** | | **30.5** | 21.0 |
| Exceptional items | *3 (iii)* | **13.0** | (6.2) |
| **Operating profit** | | **43.5** | 14.8 |
| Finance expense | | **(7.2)** | (8.8) |
| **Profit before tax from discontinued operations** | | **36.3** | 6.0 |
| Taxation | | **4.5** | 0.3 |
| **Profit after tax from discontinued operations** | | **40.8** | 6.3 |

### (ii) Benchmark PBT reconciliation

| ***Non-GAAP measures*** | *Notes* | ***52 weeks ended 27 February 2016 £m*** | *52 weeks ended 28 February 2015 £m* |
|---|---|---|---|
| ***Reconciliation of PBT to benchmark PBT*** | | | |
| ***PBT from discontinued operations*** | | ***36.3*** | *6.0* |
| *Adjusted for:* | | | |
| *Adjustments in respect of store impairment and property provisions* | | ***(7.0)*** | *(1.2)* |
| *Exceptional items* | *3 (iii)* | ***(13.0)*** | *6.2* |
| *Financing fair value remeasurements* | *5* | ***0.7*** | *1.3* |
| *Discount unwind on non-benchmark items* | *5* | ***6.2*** | *6.7* |
| ***Benchmark PBT from discontinued operations*** | | ***23.2*** | *19.0* |
| *Benchmark net financing expense* | | ***0.3*** | *0.8* |
| ***Benchmark operating profit from discontinued operations*** | | ***23.5*** | *19.8* |

# Notes

For the 52 weeks ended 27 February 2016

**(iii) Exceptional items**

| | Notes | **52 weeks ended 27 February 2016 £m** | 52 weeks ended 28 February 2015 £m |
|---|---|---|---|
| Loss on disposal | *3(iv)* | **(18.5)** | - |
| Sale related transaction, separation and restructuring costs | | **(7.8)** | - |
| Gain on sale of freehold property | | **39.3** | - |
| Other restructuring costs | | **-** | (6.2) |
| **Exceptional items in operating profit** | | **13.0** | (6.2) |
| Tax on exceptional items in profit before tax | | **0.3** | 1.3 |
| **Exceptional gain/(loss) after tax for the year** | | **13.3** | (4.9) |

Transaction, separation and restructuring costs of £7.8m relate to the costs incurred as a result of the Homebase sale, and which form part of the previously announced total cost of c.£75m.

The gain on disposal of freehold property represents the gain following the sale of the Group's freehold located in Battersea, London. The gain represents cash proceeds of £57.7m (2016: £27.7m, 2015: £30.0m) less net book value and costs of sale of £18.4m.

**(iv) Loss on disposal**

| | **52 weeks ended 27 February 2016 £m** | 52 weeks ended 28 February 2015 £m |
|---|---|---|
| FY16 gross cash proceeds | **362.1** | - |
| Less: Homebase cash | **(24.8)** | - |
| **FY16 net cash proceeds** | **337.3** | - |
| FY17 gross cash proceeds | **2.7** | - |
| **Total net cash proceeds** | **340.0** | - |
| Net assets disposed of | **(371.6)** | - |
| Exchange differences recognised in the income statement on disposal | **13.1** | - |
| **Loss on disposal** | **(18.5)** | - |

Exchange differences recognised in the income statement on disposal principally comprises a hedging reserve gain.

| **4. EXCEPTIONAL ITEMS FROM CONTINUING OPERATIONS** | **52 weeks ended 27 February 2016** | 52 weeks ended 28 February 2015 |
|---|---|---|
| | **£m** | £m |
| Argos goodwill impairment | **(851.7)** | - |
| Habitat goodwill and brand intangible impairment | **(12.5)** | - |
| Argos transformation charges | **(10.3)** | (12.2) |
| Financial Services customer redress | **(17.0)** | (4.1) |
| Other restructuring charges | **-** | (13.0) |
| **Exceptional items in operating (loss)/profit** | **(891.5)** | (29.3) |
| Tax on exceptional items in profit before tax | **8.0** | 5.8 |
| **Exceptional loss after tax for the year** | **(883.5)** | (23.5) |

The carrying amount of Argos goodwill has been reviewed in light of the recommended offer received from J Sainsbury plc on 1 April 2016 for the purchase of Home Retail Group plc. An impairment charge of £851.7m has been recognised to write the carrying value of goodwill down to its recoverable amount. This charge has been calculated to align Group net assets, adjusted for certain items, to the offer value.

A charge of £12.5m has been incurred in relation to the impairment of the Habitat brand intangibles and goodwill which occurs directly as a result of the sale of Homebase and subsequent closure of Habitat concessions in Homebase over approximately the next 6 months.

Exceptional restructuring charges totalling £10.3m (FY15: £12.2m) were incurred during the 52 weeks ended 27 February 2016. These charges were incurred in Argos in respect of the ongoing project to transform Argos into a digital retail leader. A total charge of £41.5m has been recognised across the three-year period versus the original estimate of c.£50m which was announced at the start of the Transformation Plan in October 2012.

The Financial Services customer redress charges principally relate to customer redress in respect of Payment Protection Insurance which was historically provided by Financial Services. This includes a charge relating to a potential exposure resulting from the Supreme Court ruling on Plevin vs Paragon in November 2014 and the subsequent FCA consultation paper issued in November 2015.

Exceptional items from discontinued operations were covered in note 3(iii).

# Notes

For the 52 weeks ended 27 February 2016

### 5. NET FINANCING INCOME/(EXPENSE)

| | **52 weeks ended 27 February 2016** | | | 52 weeks ended 28 February 2015 | | |
|---|---|---|---|---|---|---|
| | **Continuing operations £m** | **Discontinued operations £m** | **Total £m** | Continuing operations £m | Discontinued operations £m | Total £m |
| **Finance income:** | | | | | | |
| Bank deposits | **1.9** | **-** | **1.9** | 0.7 | - | 0.7 |
| Financing fair value remeasurements - net exchange gains | **-** | **-** | **-** | 2.7 | - | 2.7 |
| **Total finance income** | **1.9** | **-** | **1.9** | 3.4 | - | 3.4 |
| **Finance expense:** | | | | | | |
| Unwinding of discounts | **-** | **(6.5)** | **(6.5)** | - | (7.5) | (7.5) |
| Financing fair value remeasurements - net exchange losses | **(1.7)** | **(0.7)** | **(2.4)** | (2.4) | (1.3) | (3.7) |
| Net finance expense on post-employment benefit obligations | **(3.2)** | **-** | **(3.2)** | (3.0) | - | (3.0) |
| Other finance expense | **(2.1)** | **-** | **(2.1)** | (1.2) | - | (1.2) |
| **Total finance expense** | **(7.0)** | **(7.2)** | **(14.2)** | (6.6) | (8.8) | (15.4) |
| Less: finance expense charged to Financial Services cost of sales | **4.1** | **-** | **4.1** | 3.9 | - | 3.9 |
| **Total net finance expense** | **(2.9)** | **(7.2)** | **(10.1)** | (2.7) | (8.8) | (11.5) |
| **Net financing (expense)/income** | **(1.0)** | **(7.2)** | **(8.2)** | 0.7 | (8.8) | (8.1) |

Included within unwinding of discounts is a £6.2m charge (2015: £6.7m) relating to the non-benchmark discount unwind on property provisions.

### 6. DIVIDENDS

| | **52 weeks ended 27 February 2016 £m** | 52 weeks ended 28 February 2015 £m |
|---|---|---|
| **Amounts recognised as distributions to equity holders** | | |
| Final dividend of 2.8p per share (2015: 2.3p) for the prior year | **(21.2)** | (17.8) |
| Interim dividend of 1.0p per share (2015: 1.0p) for the current year | **(7.8)** | (7.5) |
| **Ordinary dividends on equity shares** | **(29.0)** | (25.3) |

On 1 April 2016, the Board recommended an offer from J Sainsbury plc for the purchase of Home Retail Group plc, the details of which are set out in note 11. As a result of the 2.8p element of the proposed capital return component of the offer, which reflects a payment in lieu of the FY16 final dividend, no final dividend is proposed for FY16.

### 7. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held in Home Retail Group's share trusts, net of vested but unexercised share awards. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares.

| **Earnings** | Notes | **52 weeks ended 27 February 2016 £m** | 52 weeks ended 28 February 2015 £m |
|---|---|---|---|
| (Loss)/profit after tax for continuing operations | | **(848.6)** | 65.3 |
| Profit after tax for discontinued operations | | **40.8** | 6.3 |
| **Total (loss)/profit after tax for the financial year** | | **(807.8)** | 71.6 |
| Adjusted for: | | | |
| Amortisation of acquisition intangibles | | **1.8** | 1.8 |
| Post-employment benefit scheme administration costs | | **1.9** | 1.9 |
| Adjustments in respect of store impairment and property provisions | | **4.7** | (0.1) |
| Exceptional items – continuing operations | 4 | **891.5** | 29.3 |
| Exceptional items – discontinued operations | 3(iii) | **(13.0)** | 6.2 |
| Financing fair value remeasurements | | **2.4** | 1.0 |
| Financing impact on post-employment benefit obligations | 5 | **3.2** | 3.0 |
| Discount unwind on non-benchmark items | 5 | **6.2** | 6.7 |
| Balance sheet review | 5 | **-** | (11.5) |
| Attributable taxation credit | | **(11.4)** | (7.8) |
| Non-benchmark tax credit in respect of prior years | | **(6.9)** | (3.0) |
| Tax rate change | | **(0.2)** | - |
| **Benchmark profit after tax for the financial year** | | **72.4** | 99.1 |
| Continuing operations | | **50.0** | 85.1 |
| Discontinued operations | | **22.4** | 14.0 |

| **Weighted average number of shares** | **millions** | millions |
|---|---|---|
| Number of ordinary shares for the purpose of basic EPS | **775.5** | 764.3 |
| Dilutive effect of share incentive awards | **25.0** | 36.0 |
| **Number of ordinary shares for the purpose of diluted EPS** | **800.5** | 800.3 |

| | **52 weeks ended 27 February 2016 pence** | 52 weeks ended 28 February 2015 pence |
|---|---|---|
| EPS from continuing operations: | | |
| - Basic | **(109.4)** | 8.6 |
| - Diluted | **(109.4)** | 8.1 |
| EPS from discontinued operations: | | |
| - Basic | **5.3** | 0.8 |
| - Diluted | **5.1** | 0.8 |
| EPS for total Group: | | |
| - Basic | **(104.2)** | 9.4 |
| - Diluted | **(104.2)** | 8.9 |

EPS from continuing operations and EPS for total Group are losses per share for FY16. As such, in line with the requirements of IAS 33 'earnings per share', these diluted EPS calculations are based on the basic number of shares.

# Notes
For the 52 weeks ended 27 February 2016

| EPS | **52 weeks ended 27 February 2016 pence** | 52 weeks ended 28 February 2015 pence |
|---|---|---|
| *Total basic benchmark EPS* | ***9.3*** | *13.0* |
| *- Continuing operations* | ***6.4*** | *11.2* |
| *- Discontinued operations* | ***2.9*** | *1.8* |
| *Diluted benchmark EPS* | ***9.0*** | *12.4* |
| *- Continuing operations* | ***6.2*** | *10.6* |
| *- Discontinued operations* | ***2.8*** | *1.8* |

**8. PROVISIONS**

| | **Property £m** | **Insurance £m** | **Restructuring £m** | **FS customer redress £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|---|---|
| At 1 March 2015 | (130.7) | (35.5) | (20.8) | (29.0) | (5.9) | (221.9) |
| Charged to the income statement | (8.0) | (4.3) | (19.0) | (17.0) | (5.7) | (54.0) |
| Released to the income statement | 14.6 | 3.2 | - | - | - | 17.8 |
| Utilised during the year - cash | 18.3 | 4.9 | 25.8 | 34.5 | 5.8 | 89.3 |
| Utilised during the year - non cash | 0.7 | - | 1.2 | - | - | 1.9 |
| Transfer from accruals | (1.3) | - | (0.2) | - | - | (1.5) |
| Exchange differences | (1.6) | - | - | - | - | (1.6) |
| Discount unwind | (6.7) | - | - | - | - | (6.7) |
| Impact of business disposal | 112.9 | 2.3 | 0.2 | - | 2.3 | 117.7 |
| **At 27 February 2016** | **(1.8)** | **(29.4)** | **(12.8)** | **(11.5)** | **(3.5)** | **(59.0)** |

| **Analysed as:** | **2016 £m** | 2015 £m |
|---|---|---|
| Current | **(38.1)** | (95.7) |
| Non-current | **(20.9)** | (126.2) |
| | **(59.0)** | (221.9) |

Property provisions comprise obligations in respect of onerous leases together with other costs or income associated with store closures. In respect of onerous leases, provision is made for onerous lease contracts on stores that have either closed, or where projected future trading income is insufficient to cover the lower of exit cost or cost of continuing to trade the store. Where the cost of continuing to trade the store is lower, the provision is based on the present value of expected future cash flows relating to rents, rates and other property costs to the end of the lease terms net of expected trading or sublet income.

Provision is made for the estimated costs of insurance claims incurred by the Group which have not been settled at the balance sheet date, including the costs of claims that have arisen but have not yet been reported to the Group. The estimated cost of claims includes operational costs to be incurred in administering future claims.

The restructuring provision principally relates to the restructuring charges incurred following the sale of Homebase.

The Financial Services customer redress provision principally relates to customer redress in respect of Payment Protection Insurance (PPI) and includes a charge relating to a potential exposure resulting from the Supreme Court ruling on Plevin vs Paragon in November 2014 and the subsequent FCA consultation paper issued in November 2015. The customer redress provision comprises the estimated cost of making redress payments to customers in respect of past sales of PPI policies, including the related operational costs of administering these claims. The eventual cost is dependent upon response rates, uphold rates, redress costs, claim handling costs and costs associated with claims that are subsequently referred to the Financial Ombudsman Service. The provision represents management's best estimate of future costs and will remain under review.

## 9. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

| Cash generated from operations | Notes | **52 weeks ended 27 February 2016 £m** | 52 weeks ended 28 February 2015 £m |
|---|---|---|---|
| (Loss)/profit before tax from continuing operations | | **(840.3)** | 87.8 |
| Net financing expense/(income) | | **1.0** | (0.7) |
| **Operating (loss)/profit from continuing operations** | | **(839.3)** | 87.1 |
| Operating profit from discontinued operations | 3(i) | **43.5** | 14.8 |
| **Total operating (loss)/profit** | | **(795.8)** | 101.9 |
| Adjusted for loss on disposal within exceptional items | 3(iii) | **18.5** | - |
| Adjusted for profit on disposal of freehold property | | **(39.3)** | - |
| Profit on sale of property, plant and equipment and other intangible assets | | **(0.7)** | (1.5) |
| Depreciation and amortisation | | **140.6** | 136.0 |
| Impairment charge | | **875.5** | 15.8 |
| Finance expense charged to Financial Services cost of sales | | **4.1** | 3.9 |
| Increase in inventories | | **(27.7)** | (60.6) |
| Increase in trade and other receivables | | **(13.5)** | (23.0) |
| Increase in payables | | **94.1** | 120.2 |
| Movement in trade working capital | | **52.9** | 36.6 |
| Increase in Financial Services loan book | | **(34.6)** | (55.4) |
| Movement in total working capital | | **18.3** | (18.8) |
| Decrease in provisions | | **(39.5)** | (13.0) |
| Movement in post-employment benefit obligations – annual deficit recovery payment | | **(22.0)** | (22.0) |
| Movement in post-employment benefit obligations – Homebase disposal related payment | | **(26.0)** | - |
| Movement in post-employment benefit obligations – other | | **1.2** | 1.2 |
| Share-based payment expense (net of dividend equivalent payments) | | **(0.3)** | 8.3 |
| **Cash generated from operations** | | **134.6** | 211.8 |

## 10. RELATED PARTIES

The Group's related parties are its associates and key management personnel.

At 27 February 2016, the amounts owed by its associates to the Group totalled £0.1m (2015: £0.1m), net of accumulated impairment losses totalling £3.9m (2015: £3.9m) following the decision to close HH Retail Limited, the Group's associate in China.

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

## 11. POST BALANCE SHEET EVENTS

On 1 April 2016, the Board recommended an offer from J Sainsbury plc for the purchase of Home Retail Group plc. Under the terms of the offer, Home Retail Group shareholders will be entitled to receive the following for each Home Retail Group share;

- 0.321 new Sainsbury's shares; and
- 55.0 pence in cash

In addition, Home Retail Group shareholders will also be entitled to the following payments, which together form the proposed capital return;

- 25.0 pence per share, reflecting the £200m return to shareholders in respect of the Homebase sale; and
- 2.8 pence per share in lieu of a final dividend in respect of the financial year ended 27 February 2016. As a result, a final dividend will not be paid.

# Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the Group 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 applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are required by law to give a true and fair view of the state of affairs and of the profit or loss of the Group for that year.

The preliminary results for the 52 weeks ended 27 February 2016 have been extracted from the annual report and the Group financial statements.

In preparing the Group 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A list of current directors of Home Retail Group plc is maintained on the Home Retail Group website, www.homeretailgroup.com.

By order of the Board

John Walden
Chief Executive
27 April 2016

Richard Ashton
Finance Director
27 April 2016