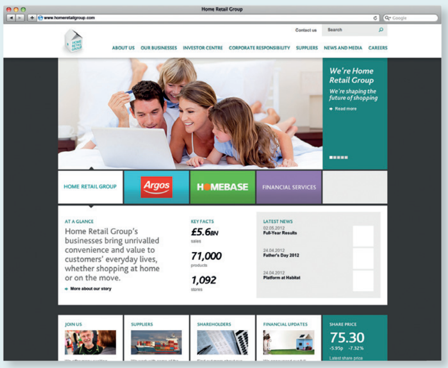
HOME RETAIL GROUP PLC

Annual Report and Financial Statements 2012

Our online reporting suite

At Home Retail Group, we're always looking to make it easy for people to get the information they need. One such method is by making information available online, which also helps us to minimise our environmental impact and save cost. The websites below contain a wealth of information about Home Retail Group and they're updated throughout the year, so these really are a good way of keeping up to date.

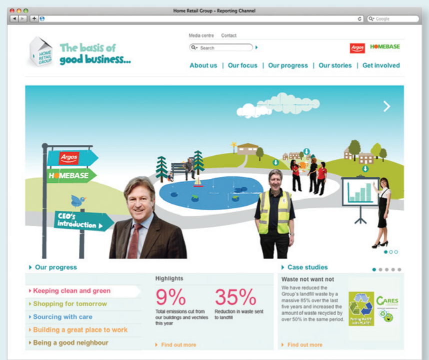


Corporate website

Find our latest news, information and reports quickly and easily, along with a combination of video, audio and visual resources.
www.homeretailgroup.com

Annual report

View an online version of the Annual Report and Financial Statements 2012 and download a full PDF version too.
www.homeretailgroup.com/ar/2012/



Corporate responsibility report

Find out how we have made 'the basis of good business' part of the way we work and the progress we have made this year.
www.thebasisofgoodbusiness.com

If you're a shareholder, you can receive information more quickly and help us save paper and money by registering for all future shareholder communications online at
www.homeretailgroup-shares.com

What's inside

Who we are and what we do — We are the UK's leading home and general merchandise retailer, operating two key businesses; Argos and Homebase.

Home Retail Group continues to shape the future of shopping by investing in multi-channel initiatives, expanding choice and developing both product ranges and services, ensuring that we continue to build successful businesses that bring unrivalled convenience and value to customers' everyday lives, whether shopping at home or on the move.

50,000
colleagues are at the heart of everything we do

1,089
stores in the UK and Republic of Ireland (RoI) across the Argos and Homebase formats

71,000
products available across Argos and Homebase

193m
customer transactions last year

Argos

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

748
stores in UK and ROI

430m
website visits during the year

33,000
catalogue and internet-only products

48%
of sales are multi-channel

HOMEBASE

Homebase is one of the UK's leading home enhancement retailers and offers a growing range of home improvement products in a differentiated store environment.

341
stores in UK and ROI

90%+
average recommendation for our installation services

38,000
branded, own-brand and exclusive products

3rd
consecutive year of market share gains

We have maintained our market-leading position despite these challenging times

The home and general merchandise market declined in the 2011/12 financial year, but we have maintained our market-leading position with approximately 10% of the £55bn market. We therefore have significant opportunity for growth and are continually looking for opportunities to expand market share and move into new markets.

£55bn
home and general merchandise market

10%
our share of this market

We have a strong portfolio of own brands

Argos and Homebase are two of the UK's leading retail brands and our recent acquisition of the Habitat UK brand brings one of the UK's leading contemporary home retailers into Home Retail Group. Habitat's style-led credentials are a significant addition to our portfolio of own brands, which include Bush and Alba in consumer electronics and Chad Valley in toys. Our Schreiber and Hygena brands offer quality and stylish furniture at affordable prices.

habitat

BUSH ALBA

CHAD VALLEY

SCHREIBER

hygena

We have an efficient and integrated approach

Our clear scale advantage comes from our well-invested infrastructure, which has been built up over a period of many years.

Multi-channel shopping

Our highly-successful internet and mobile channels help us meet consumer demand and make us the market leader in multi-channel retailing.

Country-wide coverage

Our extensive high street and out-of-town store network and comprehensive home delivery operation bring our multi-channel convenience within easy reach of our customers.

Integrated infrastructure

Our scale and infrastructure enables us to leverage financial benefits and synergies to give a competitive advantage which is difficult to replicate.

Financial Services

Our Financial Services business works in conjunction with Argos and Homebase to provide our customers with the most appropriate credit offers to drive product sales.

International sourcing

Our Group sourcing operations import products which account for more than a third of our sales. This provides benefits to both businesses and across all major product groups.

Chairman's statement — While the Group's performance in the short term cannot be immune from the economic environment, we continue to focus on its strategic advantages to ensure that it will be well positioned for the economic recovery over the long term.

Oliver Stocken
Chairman

Against this economic backdrop, the Board has decided not to recommend a final dividend this year and therefore the full-year dividend is represented by the interim dividend of 4.7p. Future dividends will be set at a level which is sustainable and which reflects the trading prospects and financial position of the Group.

This year has seen benchmark profit before tax reduce by 60% to £102m as a result of the difficult trading environment. Our businesses have responded with robust management of costs and by maintaining a clear focus on cash. We have also continued to develop our multi-channel capabilities and to invest to improve our customer proposition. Our leadership positions in the home and general merchandise market are supported by our integrated infrastructure, scale and experience. The Group has used the strength of its recognised and trusted retail brands to expand its product ranges and related services. The recent addition of Habitat to the Group has added further breadth to the Group's great own-brand ranges such as Chad Valley, Schreiber, Hygena, Bush and Alba.

However, our greatest asset is without doubt our colleagues. The commitment and effort of our colleagues in every part of the business underpins our resilience and our potential. On behalf of the Board I would like to thank them for their ongoing valuable contribution and service to our customers. I would also like to thank them for all the support they provide to the communities we serve.

During the year we launched our volunteering policy, giving colleagues the annual opportunity to request two days' paid time off to volunteer in their community. I am also delighted to report that, with the support of both our colleagues and our customers, we raised over £2m for our charity partner, Teenage Cancer Trust; helping them improve the lives of young people with cancer.

Earlier this year I announced that I would be retiring after the Annual General Meeting in July, after 12 years working with the Argos and Homebase businesses as Chairman of Home Retail Group and, prior to the demerger in 2006, as a non-executive of GUS plc. It has been a privilege to be associated with these businesses and the great people that work in them.

I would also like to thank each of the directors who have served on the Board during my tenure for their commitment to the Company and its businesses and the diligence with which they have undertaken their responsibilities, as well as the support they have provided to me as Chairman.

As the UK's leading multi-channel retailer, I believe that Home Retail Group is uniquely positioned to capitalise on renewed consumer confidence to emerge, in the longer term, a stronger competitor in a more consolidated market.

Oliver Stocken
Chairman

Chief Executive's statement — "As the UK's leading multi-channel retailer we have continued to invest to improve our customer proposition in an environment where customer shopping behaviours are changing rapidly".

Terry Duddy
Chief Executive

Argos has been successful in product markets such as laptops and tablets and homewares, although this was more than offset by weakness in other product categories, most notably in consumer electronics which has seen a market decline of around 20% in the year and, excluding the growth in laptops and tablets, accounted for around 80% of the sales reduction in the year. Homebase's continued market share gains reflect a robust performance in this difficult trading environment.

As the UK's leading multi-channel retailer we have continued to invest to improve our customer proposition in an environment where customer shopping behaviours are changing rapidly. Both businesses have expanded product choice and services, enhanced store and product presentation and delivered further value for our customers.

Multi-channel expertise and leadership

Home Retail Group has been at the forefront of rapid advances in technology that have brought about a fundamental shift in the way consumers shop. Increasingly, they choose to shop online, or on the move through mobile devices, for pick up in a local store or by home delivery. This 'multi-channel' experience is core to what we do and is the reason why we have a relentless focus on developing further our highly successful internet and mobile commerce channels to meet consumer demand. We will prioritise future investment into these multi-channel capabilities to satisfy customers in whichever way they wish to interact and shop with us, including the convenience of immediate product collection via our store networks.

Argos again grew its multi-channel sales penetration, representing £1.9bn or 48% of its sales, up from 46% a year earlier. Argos remains the second-largest internet retailer in the UK, with over 430 million website visits during the year. Mobile commerce has seen a rapid rise in customer usage to represent 6% of Argos' total sales in the fourth quarter, a threefold increase over last year. This illustrates that Argos remains at the forefront of technological advancement, with developments like the Apple iPhone and Android apps and the web platform for mobile devices exploiting this increasingly popular method of shopping.

Homebase's internet sales and website visits have seen continued growth, in particular driven by 'Reserve and Collect'. The Homebase website has also benefited from improvements to the customer journey, including an online decoration tool to inspire customers when they embark on a decorating project.

The Group's store portfolio remains a critical part of the multi-channel offer. The stores represent an integral part of the Argos model, complementing the multi-channel offer with nearly 90% of all sales involving the store in some way, a level that has remained constant over the last five years. In Homebase, the mezzanine and midi-refits have enabled significant improvements in its big-ticket offer as well as enhancing its home and decorative offerings. With around 300 store lease renewals or break clauses due over the next five years, representing nearly 30% of the store portfolio, this flexibility gives the Group the ability to manage proactively the size of its store estate.

Expansion of product ranges and related services

The Group uses the strength of its retail brands to drive leadership in its core markets through expanding its product ranges.

During the year, Argos has expanded its product range into children's and adult clothing and gifting categories. Argos continues to trial selling third-party products through its website and also has around 9,000 internet-only lines which are on top of the 24,000 lines in the current Spring/Summer 2012 catalogue. Furthermore, Argos' own brands have continued to see excellent growth, with the Alba and Bush electrical brands now accounting for approximately £200m of annual sales.

Homebase's exclusive brand strategy, together with its differentiated proposition, has driven market share gains for the third consecutive year. Big-ticket ranges have been upgraded in a number of stores and Homebase's market-leading installation services continue to achieve a customer recommendation rate in excess of 90%.

Highly competitive customer offering
The Group ensures the customer continues to receive excellent value and choice by maximising its buying scale and sourcing capabilities, particularly via direct import and direct sourcing of product.

Argos has maintained its commitment to being highly price competitive through the use of weekly price comparisons, ensuring it maintains a price position better than the competition on its highest sales volume lines. This is enhanced through Argos Value ranges and 'WOW' offers.

Homebase monitors its value position with an emphasis on key value indicators and entry price points. Homebase promotes its value position through its Value range, best buys, bulk deals and other promotional offers and has seen its active Nectar customer base grow to 7.5 million customers.

Acquisitions and joint ventures
During the year, the Group acquired the exclusive use of the Habitat brand, its brand designs and intellectual property in the UK and Republic of Ireland together with the UK website and three of its London stores. Habitat product will be introduced into both Argos and Homebase during 2012.

In addition, the Group agreed to launch a joint venture company to develop a multi-channel general merchandise retail business in China with Haier Group, one of the world's leading home appliance manufacturers.

Continued cost management
The Group has a strong track record of delivering significant organisational and infrastructure changes to reduce costs and improve the flexibility of our business, while maintaining or improving operational standards. Cost reductions have been achieved in the year to mitigate both the level of underlying cost inflation and to fund the investment in new initiatives, resulting in a broadly flat cost base. We will continue to review and challenge our cost base to ensure we maintain our low-cost operating model.

Financial strength
The Group has strong cash flow characteristics, with £194m of net cash as at 3 March 2012 together with a debt-free balance sheet. This financial structure, together with its receivables loan book, ensures the Group continues to be able to support growth through investment in its retail formats.

Outlook
Prospects for the 2012/13 financial year remain uncertain as consumers' disposable income is impacted by ongoing inflationary pressure, together with low levels of consumer confidence. As a result the Group will continue to plan cautiously for the 2012/13 financial year.

However, the Group's strong financial position, with a net cash balance as at 3 March 2012 of £194m, enables us to continue to prioritise investment in the development of our multi-channel capabilities to ensure that the Group will be well positioned for the economic recovery over the longer term.

Terry Duddy
Chief Executive

> "The Group's strong financial position enables us to continue to prioritise investment in the development of our multi-channel capabilities."

Our product markets — Home Retail Group operates in the home and general merchandise market, worth approximately £55 billion in terms of retail sales. With £5.5 billion worth of sales reported for its last financial year; Home Retail Group holds 10% of this market.

Home Retail Group continues to maintain leading market positions in the product categories within which it trades.

Homebase

Homebase trades within the DIY and home enhancement market, which in the UK is a very fragmented market comprising the 'sheds' together with a significant number of specialists and independents. These two components are each estimated to represent about 50% of the overall DIY and home enhancement market. The sheds market, until recently, contained the UK's four DIY shed retailers, these being B&Q, Wickes, Focus DIY and Homebase. Following the administration and subsequent closure of Focus DIY in 2011, the sheds market now consists of only B&Q, Wickes and Homebase. A third-party source, Gfk, tracks the sheds market and it is this metric against which Homebase's performance is measured to ascertain its market share.

For this financial year, both the overall DIY and home enhancement market and the sheds market, as measured by Gfk, have declined. The sheds market is divided into five product categories, these being DIY, decorating, big ticket, home and garden. Over the same period, Homebase has held or gained market share in each of these five product categories, with the strongest market share gain being within the big-ticket category. Over the last three years Homebase has significantly improved its big-ticket offer, which principally comprises kitchen, bathrooms and bedrooms and it has also introduced a highly regarded installation service. As a result of these initiatives, Homebase has seen its share of the big-ticket market increase from 20% to 22% over this three-year period.

Homebase now holds an overall share of 23% of the sheds market; its highest recorded share since Gfk sheds market research was launched in 2007.

Argos

Unlike Homebase, Argos operates over a much broader spectrum of product categories. There are 24 markets in which Argos operates, with no one single metric existing that measures Argos' market share performance across all these categories. Argos refers to these 24 markets as 'tracked markets', and each market is reported on by a third-party source such as Gfk, National Purchase Diary (NPD) and the Office of National Statistics (ONS).

Over the last financial year, these tracked markets have indicated that Argos' total market has declined by about 5%, with many categories, especially those that are product innovation driven or are susceptible to overlap by other technologies, recording double-digit declines. Argos has seen the overall consumer electronics market, as defined by Gfk, decline by around 20%, with audio, televisions (TV), mobiles and video gaming systems (VGS) seeing the greatest declines. Argos has grown its market share within the TV category despite a substantial decline in the market but it has lost market share in VGS due to the conscious decision not to compete with loss-leading deals that existed in the market place at some points during the financial year. In contrast to these market-declining categories within consumer electronics, there was considerable market growth in laptops and tablets, driven by new technology such as the iPad and Kindle, and Argos recorded strong market share gains in this particular area.

The electricals market, which encompasses the large and small domestic appliances markets, also saw an overall decline in the financial year. Despite this, Argos held its market share within this category. Argos saw a small market share loss within furniture, a market which continued to suffer from record low levels of housing transactions and a reluctance of Argos' core customers to spend on big-ticket furniture purchases for the home, however this was offset by market share gains in homewares as consumers, instead, spent on smaller ticket items to enhance their homes.

Overall Argos saw a small loss in market share across the total of its tracked markets for the financial year. However, if the exceptional market declines seen in VGS, where Argos deliberately reduced its participation, and audio, were excluded, Argos would have held share across its market categories.

Group performance

Operating highlights

- Ongoing investment initiatives in both businesses to maintain leadership in multi-channel retailing:
  - Argos multi-channel sales penetration increased to 48% of total sales with online Check & Reserve still the fastest growing channel
  - Argos is the second-largest internet retailer in the UK, with over 430 million site visits
  - Argos mobile shopping has grown threefold to represent 6% of total sales by year-end
  - Homebase multi-channel sales penetration increased to 4% of total sales
- Ongoing development and growth in own-brand and exclusive product strategies in both businesses
- Argos store refurbishment continues to deliver sales uplifts ahead of plan
- Extension of Argos online product offering
- Third consecutive year of market share gains at Homebase
- Improved ranges across Homebase big-ticket categories with award-winning installation services
- Acquired the exclusive use of the Habitat UK brand; introduction of Habitat product into both the Argos and Homebase businesses during 2012

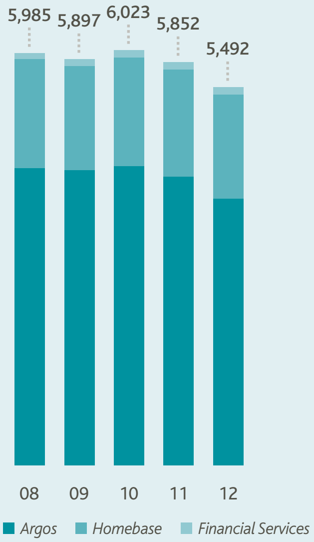
Financial highlights

- Sales down 6% to £5,492m
- Cash gross margin down 7% to £2,027m
- Robust management of costs with operating and distribution costs broadly flat at £1,930m, with the impact of both underlying cost inflation pressures and the investment in new initiatives having been offset by further cost savings
- Benchmark operating profit[1] down 61% to £98m; Group operating margin of 1.8%
- Benchmark profit before tax[2] down 60% to £102m
- Basic benchmark earnings per share[3] down 59% to 8.7p
- Closing net cash position at 25 February 2012 of £181m
- Full-year dividend of 4.7p; no final dividend recommended
- For the 53 weeks to 3 March 2012, sales down 5% to £5,583m and benchmark profit before tax[2] down 54% to £116m. Reported profit before tax of £104m. Reported basic earnings per share of 9.1p. Closing net cash position at 3 March 2012 of £194m. The 53rd week contributed £14m of additional benchmark profit before tax[2] and £13m of additional cash.

NOTES 1, 2 AND 3: REFER TO PAGE 66 FOR DEFINITIONS OF BENCHMARK MEASURES.

We are required to report our audited financial results for the 53-week statutory period ended 3 March 2012, however, we believe that the proforma 52-week results better reflect the underlying performance of the Group. As such, all references to financial performance in respect of the income statement, cash flow and business reviews are stated on a proforma 52-week basis to 25 February 2012 unless specified otherwise.

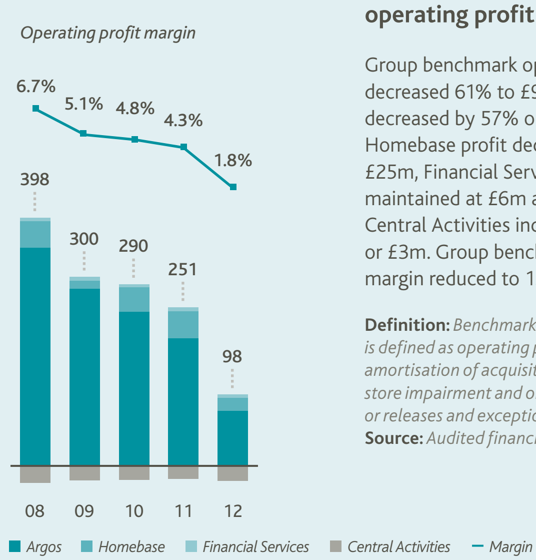
Group key performance indicators



Sales (£m)

Group sales decreased by 6.2% to £5,492m. Argos accounts for 71% of Group sales and declined by 7.7% or £322m in the year. Homebase accounts for 27% of Group sales and declined by 2.6% or £41m in the year. Financial Services accounts for the remaining 2% of Group sales and grew by 2.1% in the year.

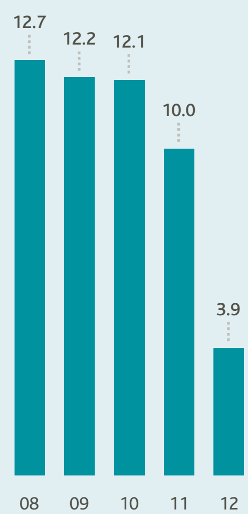
Definition: *Income received for goods and services.*
Source: *Audited financial statements.*



Benchmark operating profit (£m) and benchmark operating profit margin (%)

Group benchmark operating profit decreased 61% to £98m. Argos profit decreased by 57% or £125m, Homebase profit decreased 52% or £25m, Financial Services profit was maintained at £6m and costs of Central Activities increased by 16% or £3m. Group benchmark operating margin reduced to 1.8% in the year.

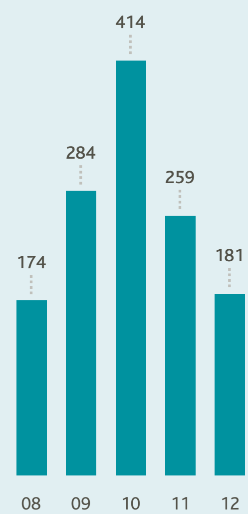
Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases and exceptional items.*
Source: *Audited financial statements.*



Benchmark pre-tax return on invested capital (ROIC) (%)

Benchmark operating profit plus share of post-tax results of joint ventures and associates was £98m, down 61% or £153m, while year-end invested capital remained broadly in line with last year. This resulted in a pre-tax ROIC of 3.9%.

Definition: *Benchmark pre-tax return on invested capital (benchmark pre-tax ROIC) is defined as benchmark operating profit plus share of post-tax results of joint ventures and associates, divided by year-end net assets excluding retirement benefit balances, tax balances, derivative financial instruments and financing net cash.*
Source: *Audited financial statements.*

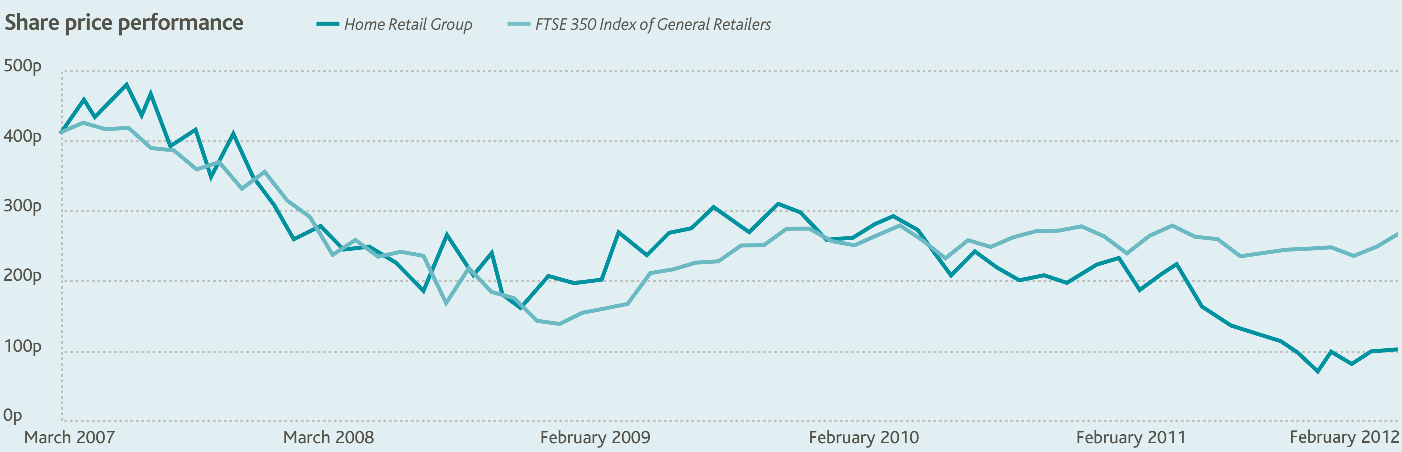


Financing net cash (£m)

The Group's year-end net cash position reduced by £78m to £181m, attributable predominantly to a reduced level of operating profit. The Group continues to have strong cash flow characteristics, with free cash flow generation in the year of c.£165m. The 53rd week contributed a further £13m cash resulting in a net cash position of £194m as at 3 March 2012.

Definition: *Year-end balance sheet financing net cash.*
Source: *Audited financial statements.*

Share price performance



Note: FTSE 350 data rebased to 4 March 2007.

FOR ALL CHARTS, 2012 IS ON A 52-WEEK PRO FORMA BASIS.

Argos business review —— As the UK's leading multi-channel retailer, Argos provides a unique offer of choice, value and convenience.

Argos

9 million Argos Value units sold during the year

Multi-channel sales now represent £1.9bn or 48% of Argos total sales

We now have 1,700 clothing lines, including an exclusive range from Emma Bunton

Operational review

Multi-channel leader

Multi-channel sales participation has continued to grow and now represents £1.9bn or 48% of Argos' total sales. Total internet orders, including Check & Reserve, grew to comprise 39% of Argos' total sales, with the remaining 9% of multi-channel sales being products ordered in-store for home delivery or by telephone. The fastest growing channel continues to be online Check & Reserve, which grew to represent 28% of all sales. The launch of the web platform for mobile devices and the app for Android phones, supported by the previously launched Apple iPhone app, is leading to the rapid growth of mobile shopping. In the fourth quarter of the year the proportion of total sales from mobile shopping was around 6%, up from 2% last year.

The store network provides the certainty and immediacy of stock availability that customers require. In the run up to Christmas this becomes even more important to customers when Check & Reserve participation of hot-selling categories, such as technology and toys, increases by around a further 10%. Argos is the second-largest internet retailer in the UK, with over 430 million website visits in the year.

Argos continues to trial its TV shopping channel to showcase its full range of product brands and categories, trial new product ideas and explain and demonstrate some of the more complex products from within its range. The channel, which is available on Sky, Freesat and online streaming, gives access to around 12 million homes.

Argos will continue to develop its multi-channel leadership by introducing new applications for tablet devices and refreshing its website in time for peak trading at Christmas 2012.

Store network

Stores remain a key component of the Argos multi-channel model, operating with a national chain that provides convenient 'pick up points' for the customer. Nearly 90% of all Argos sales involve the store in some way, a level that has remained constant over the last five years.

Argos has approximately 230 store lease renewals or break clauses due over the next five years. With this flexibility, Argos will focus on optimising its store network by relocating or closing some older stores and opening some new stores if attractive sites become available. In the 2012/13 financial year, there are around ten stores that are likely to be closed; there will also be a number of additional stores that are relocated to better sites.

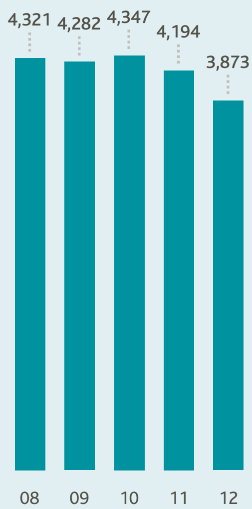
The programme to refurbish the store network is progressing well. During the year a further 200 stores were refurbished, bringing the total number of stores that have been refurbished by the end of the year to around 350 stores. Customers' response to the refurbished stores continues to be very positive and this is contributing to Argos' strong brand and store service reputation. The financial performance of the refurbished stores continues to be encouraging with the average sales uplift being 2.5%, which is ahead of the business case requirement of 1%. Refurbishment costs are averaging approximately £100k per store and therefore the previously announced £70m cost to complete the programme is on track.

Product leaders

With around 24,000 lines, the Spring/Summer 2012 catalogue has increased the choice compared with last year by around 500 lines. This increase has been primarily in the new children's clothing category and gardening ranges, partially offset by decreases in furniture and gifting categories.

Own brands continue to offer excellent value and further choice with Alba, Bush, Chad Valley, Hygena and Schreiber having around 2,000 product lines in the Spring/Summer 2012 catalogue. The Alba and Bush electrical brands now account for approximately £200m of sales while Chad Valley, one of the leading toy brands in the UK, recently won Retail Week's Product Innovation of the Year award. The acquisition by the Group of the Habitat UK brand extends the own brand customer offering and Habitat products will be included in the 2012 Autumn/Winter catalogue.

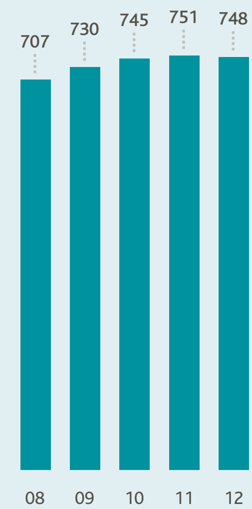
Argos key facts



Sales (£m)

Argos sales decreased by 7.7% or £322m in total. The consumer electronics market, in particular televisions and video games systems, accounted for the majority of the reduction in Argos' sales. Laptops and tablets saw good growth while small ticket homeware sales were also ahead.

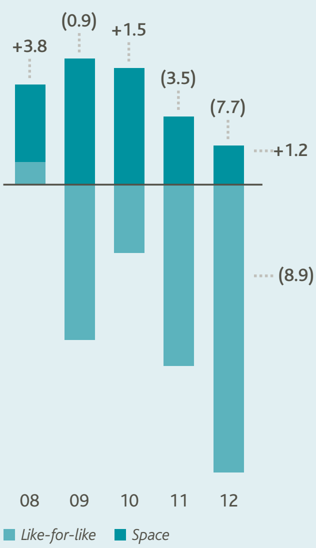
Definitions: *Income received from goods and services.*
Source: *Audited financial statements.*



Number of stores

During the year, 13 stores were opened and 16 were closed, with a further four stores relocating to improved locations, reducing the store portfolio to 748. All 748 stores offer around 18,000 product lines for collection, with an additional 6,000 lines available to order from any store for home delivery. Around 200 stores have been refurbished in the year bringing the total number of refurbished stores to date to 350.

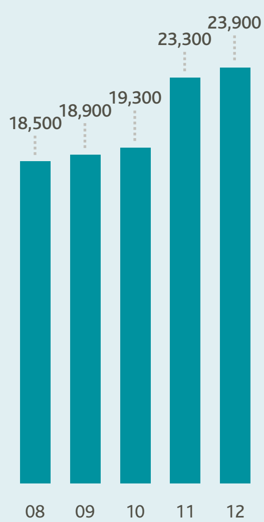
Definitions: *Total number of stores at year-end.*
Source: *Measured internally.*



Sales trends (% change)

Like-for-like sales declined by 8.9%, reflecting the volatile and ongoing challenging retail environment. The contribution to sales from net new space was 1.2%.

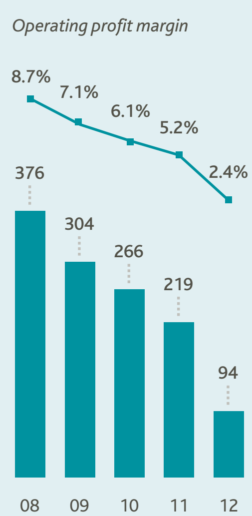
Definition: *Annual percentage change in sales. Like-for-like sales are calculated on stores that have been open for more than a year; and the contribution to sales from net new space is the sales performances for the first 52 weeks trading of any newly opened stores less the sales performances for the last 52 weeks of any stores that have been closed.*
Source: *Audited financial statements/ measured internally.*



Number of lines in the main catalogue (Spring/Summer)

With 23,900 lines, the Spring/Summer 2012 catalogue has increased the choice on last year by 2% or around 600 lines. This increase has been primarily in the new children's clothing category and gardening ranges, partially offset by decreases in furniture and gifting categories. The catalogue, now in its 77th edition, remains central to the Argos proposition.

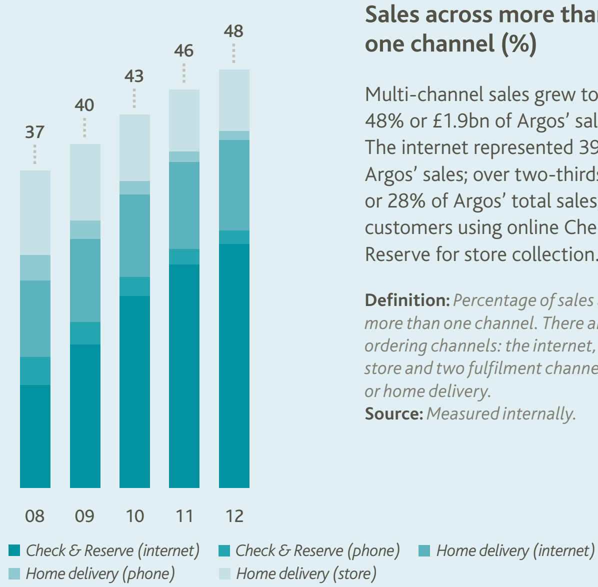
Definition: *Total number of lines in the main Spring/Summer Argos catalogue.*
Source: *Measured internally.*



Benchmark operating profit (£m) and margin (%)

Benchmark operating profit decreased by 57% or £125m, to £94m. Spending in our home and general merchandise markets has continued to decline, with many consumers continuing to face pressure which affects the amount of household cash flow they have available for the purchase of discretionary goods. This sales decline, combined with a lower gross margin rate with the cost base remaining broadly flat, saw Argos profit decline from £219m to £94m in the financial year.

Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases and exceptional items.*
Source: *Audited financial statements.*



Sales across more than one channel (%)

Multi-channel sales grew to over 48% or £1.9bn of Argos' sales. The internet represented 39% of Argos' sales; over two-thirds of this, or 28% of Argos' total sales, were customers using online Check & Reserve for store collection.

Definition: *Percentage of sales across more than one channel. There are three ordering channels: the internet, phone or store and two fulfilment channels, store or home delivery.*
Source: *Measured internally.*

FOR ALL CHARTS, 2012 IS ON A 52-WEEK PRO FORMA BASIS.

Argos business review continued

Argos continues to trial selling third-party products that are embedded within the Argos web shopping experience. This offer allows Argos to sell third-party products on a fully integrated basis through its website and earn a commission on the sales. This trial has now been extended to over 14,000 lines including clothing, DVDs and photography. Argos also continues to trial its internet-only lines with around 9,000 lines now available, of which approximately 3,000 can be ordered for in-store collection.

The new children's and adult clothing and gifting categories leverage Argos' market-leading toy and gift licence relationships. Around 500 clothing lines were launched in the Autumn/Winter 2011 catalogue, extending to 1,700 in the Spring/Summer 2012 catalogue. In children's clothing, the range builds on Argos' existing strength with major toy licences, such as Disney characters, to provide a wide range of additional merchandise, such as pyjamas, t-shirts and bedding, which are brought together in 'character shops' within both the catalogue and online. Argos also launched Emma Bunton's children's clothing range in the Spring/Summer 2012 catalogue.

In technology, Argos increased the in-store display of televisions, cameras and laptops. Argos has also extended its range to include the Amazon Kindle, which proved to be a top selling line over Christmas. The new Apple iPad is now available in 715 stores and via nationwide home delivery.

A range of white goods is now available for in-store collection. This allows customers to buy the products in over 350 of Argos' larger stores for immediate take home. Around 15% of white goods products sold are now collected in store.

Argos continues to encourage its customers to review their purchases and share their experiences online. Argos has received about 600,000 online product reviews from customers and around 75% of products reviewed score 4 out of 5 stars or more, with products in the home and furniture category receiving the greatest number of reviews.

Strengthening value

Argos is a leading value retailer and remains highly price competitive, supported by the Group's sourcing scale and infrastructure advantages, together with the benefit of Argos' low-cost operating model. Argos continues to retain an overall competitive price position which is measured weekly using internet price comparisons while maintaining a price position better than the competition on its highest sales volume lines.

Argos offers over 700 'WOW' deals across all major product categories in the catalogue including some of the biggest consumer brand names. The Argos Value range of over 300 lines offers customers a variety of products at low prices and it sold over 9 million items during the year.

"Argos remains the second-largest internet retailer in the UK, with over 430 million website visits during the year."

Improved service for our customers

Argos delivered another record performance in its store mystery shop results, an improvement for the third consecutive year. Argos will build upon the customer service improvements delivered in the 2011/12 financial year through enhanced customer feedback and research. Feedback received from around eight million customers last year, as well as market research, will be used to better understand and serve existing customers as well as acquire and convert new customers. Customers continue to access Argos products, share ideas and discover engaging content through the growing Twitter and Facebook communities.

Financial review

Total sales in the 52 weeks to 25 February 2012 decreased by 7.7% to £3,873m. Net new space contributed 1.2% with 13 new stores opened, 16 closed and a further four being relocated to improved locations, reducing the store portfolio to 748. Like-for-like sales declined by 8.9%. The majority of the reduction in Argos' sales was attributable to the weak consumer electronics market, in particular televisions and video games systems. However, laptops and tablets continued to show good growth.

The gross margin rate was down by approximately 50 basis points. Around 50 basis points was driven by the anticipated net impact of adverse currency and shipping rates together with around 25 basis points from an increased level of stock clearance activity in the first half of the year. A slightly higher level of promotions in the peak trading period drove a further 25 basis points reduction. This was partially offset by a continued benefit from the sales mix of 50 basis points, principally driven by the reduction in the level of margin-dilutive consumer electronics sales.

Total operating and distribution costs were in line with last year with the impact of both underlying cost inflation pressures and the investment in new initiatives being offset by further cost savings. Benchmark operating profit was £94.2m, a £124.8m or 57% decline on the previous year.

For the 53 weeks to 3 March 2012, total sales were down 6.2% to £3,935m and benchmark operating profit was down 51% to £106.9m.

Keep up to date with the latest Argos news and information via our corporate website www.homeretailgroup.com

52 WEEKS TO	25 FEBRUARY 2012	26 FEBRUARY 2011
Sales (£m)	**3,872.6**	**4,194.3**
Benchmark operating profit (£m)	**94.2**	**219.0**
Benchmark operating margin	**2.4%**	**5.2%**
Like-for-like change in sales	(8.9%)	(5.6%)
New space contribution to sales change	1.2%	2.1%
Total sales change	(7.7%)	(3.5%)
Gross margin movement	Down c.50bps	Down c.100bps
Benchmark operating profit change	(57%)	(18%)
Number of stores at year-end	748	751

Homebase business review — Homebase is a leading home enhancement retailer.

HOMEBASE

We continue to extend exclusive ranges such as Jamie Oliver and Qualcast

Our new 'Create your own look' online decorating tool helps customers decide which products to buy

habitat

We'll be launching a range of Habitat products in Homebase during 2012

Operational review

Extending multi-channel

Visitors to the Homebase website have grown by 15% during the year and 'Reserve and Collect' sales have risen by 35% due, in part, to better customer awareness. This access to the Homebase brand has been further enhanced by activity on social media sites including Facebook, Twitter and YouTube. In addition, this year, the website has benefited from improvements to the customer journey, a refreshed 'Help and Advice' section that includes 'How to' videos and new richer content images. As a result, a third of Homebase customers browse online before they buy and over 18% use mobile devices to do so.

The 'Create Your Own Look' online decorating tool, introduced in the Aylesford prototype store, was launched on the website in January 2012. This tool allows customers to visualise transforming the look of their home at the click of a mouse, and for an even more realistic view, customers can upload a photo of a room from their own home giving a unique and personalised experience.

A further 1,400 online exclusive lines have been added during the year, taking the total number of online exclusive products to more than 15,000.

Developing the store portfolio

Homebase will continue to examine the opportunity for store closures, relocations or downsizes as part of the ongoing management of the portfolio as either leases expire or lease break clauses are due, of which there are around 65 over the next five years.

Homebase has further extended its trial of mezzanine refits with premium Odina kitchens now in 19 stores, with four of these stores also having received the new Schreiber branded kitchen displays. The programme to upgrade kitchen, bathroom and bedroom ranges continued this year with a further 74 stores receiving best seller kitchen displays, 64 stores receiving updated bathroom displays and 100 stores receiving updated bedroom displays. Eight midi-refits were completed during the year. Homebase has completed around 40 midi-refits over the last six years which completes this investment programme.

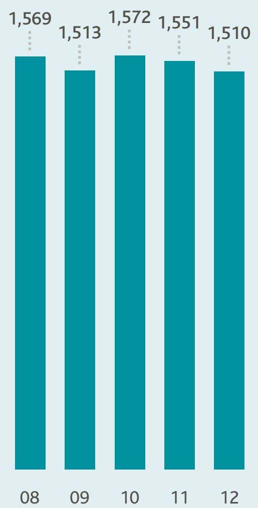
As a result of the success of the new garden layout at the Aylesford store, a further 22 stores have benefited from a new garden centre format during the year which delivers the 'Great for Garden' proposition. This transformation inspires Homebase's customers to create their ideal garden by offering more plants and pots in a solution-selling format, inspirational garden displays to provide ideas and practical advice from knowledgeable colleagues to ensure success.

Developing ranges

Homebase's programme of range reviews is designed to enhance customer choice by offering differentiated and affordably stylish products. Decorating projects remain a large footfall driver for Homebase and decorating categories have shown market-beating growth during the year.

Homebase's exclusive brand strategy continues to gain momentum, with continued expansion of Jamie Oliver and Qualcast lines this year, along with the successful launch of the 'Home of Style' brand. The recently acquired Habitat UK brand fits well within the Homebase proposition and customers will enjoy a selection of Habitat products in over 200 stores across a number of categories, including furniture, lighting, interior store, wallpaper, paint and tiling.

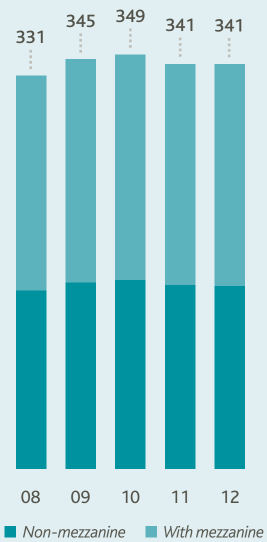
Homebase key facts



Sales (£m)

Homebase sales decreased by 2.6% or £41m in total. Big-ticket sales were lower overall reflecting a challenging market. Sales of seasonal categories were level with last year while other categories were marginally down.

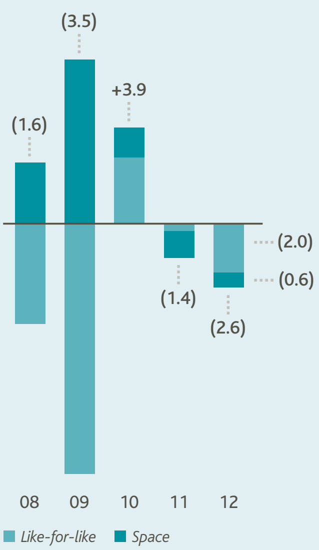
Definitions: *Income received for goods and services.*
Source: *Audited financial statements.*



Number of stores

During the financial year one store opened and one store closed, leaving the store portfolio at 341.

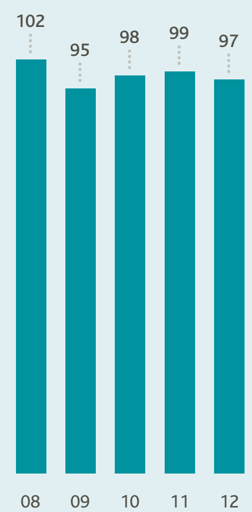
Definitions: *Total number of stores at year-end. Mezzanine stores contain a mezzanine selling floor which is typically used to display kitchens, bathrooms and furniture.*
Source: *Measured internally.*



Sales trends (% change)

Like-for-like sales decreased by 2.0% in the year. Net closed space reduced sales by 0.6%.

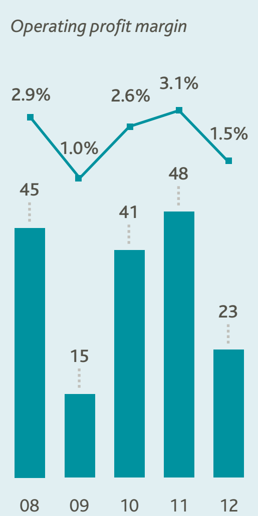
Definition: *Annual percentage change in sales. Like-for-like sales are calculated on stores that have been open for more than a year; the contribution to sales from net new space is the sales performances for the first 52 weeks trading of any newly opened stores less the sales performances for the last 52 weeks of any stores that have been closed.*
Source: *Audited financial statements/ measured internally.*



Sales per square foot (£)

Sales per square foot based on total year-end selling space decreased to £97. The reduction in previous years was driven by the combination of a difficult DIY market and the impact of store mezzanine and garden centre space, which is dilutive to sales densities. This trend reversed in 2009/10, aided by an improved trading environment, however the tough retail environment in 2011/12 saw this decline marginally again.

Definitions: *Annual sales divided by year-end total selling space.*
Source: *Audited financial statements/ measured internally.*



Benchmark operating profit (£m) and margin (%)

Benchmark operating profit decreased by 52% or £25m, to £23m. This was a result of a marginally negative sales performance in a challenging market, combined with underlying cost inflation pressures and investment in new initiatives, offset in part by cost savings.

Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases and exceptional items.*
Source: *Audited financial statements.*

FOR ALL CHARTS, 2012 IS ON A 52-WEEK PRO FORMA BASIS.

Homebase business review continued

Keep up to date with the latest Homebase news and information via our corporate website
www.homeretailgroup.com

Installation and other services
Homebase's installation services support the big-ticket offer and provide the customer with a complete home enhancement solution. Kitchen and bathroom installation services are available in all stores and fitted bedroom installation is offered in 200 stores. Homebase's market-leading installation services all enjoy an over 90% recommendation rate from customers.

Strengthening value
Homebase continues to monitor its price position on around 9,000 lines with the emphasis on being competitively priced on key value indicators and entry price points. In addition, the Homebase value position is promoted through its Value product range, best buys, bulk deals and other promotional mechanics.

Loyalty programme
Homebase connects with 7.5 million active Nectar customers and Nectar has a participation rate of more than 60% of Homebase sales. During the year, new promotional mechanics were successfully trialled to drive sales such as triple points weekends and category-specific points promotions. Over 16 million direct mail packs were sent to customers to increase brand engagement, resulting in significantly increased spend per customer.

> "Homebase's continued market share gains reflect a robust performance in this difficult trading environment."

Financial review

Total sales in the 52 weeks to 25 February 2012 decreased by 2.6% to £1,510m. One store was opened during the year and one store was closed, leaving the portfolio at 341. Net space reduced sales by 0.6% principally driven by the store closures in the second half of the previous financial year. Like-for-like sales declined by 2.0%. Big-ticket sales were lower overall reflecting a challenging market, although fitted bedroom furniture continued to perform well, benefiting from the rollout of the installation service and in-store displays. Sales of seasonal categories were level with last year while other categories were marginally down.

The gross margin rate was maintained year-on-year. A decline of around 25 basis points driven by the net impact of adverse currency and increased shipping costs and a decline of around 25 basis points due to product mix were offset by improvements of around 50 basis points, principally from stock management benefits.

Total operating and distribution costs increased by £5m or 1%, driven by the impact of underlying cost inflation pressures and the investment in new initiatives, partially offset by further cost savings. Benchmark operating profit was £22.8m, a £24.8m or 52% decline on the previous year.

For the 53 weeks to 3 March 2012, total sales were down 0.9% to £1,536m and benchmark operating profit was down 50% to £23.8m.

> "Homebase's exclusive brand strategy, together with its differentiated position, has driven market share gains for the third consecutive year."

52 WEEKS TO	25 FEBRUARY 2012	26 FEBRUARY 2011
Sales (£m)	**1,509.8**	**1,550.7**
Benchmark operating profit (£m)	**22.8**	**47.6**
Benchmark operating margin	**1.5%**	**3.1%**
Like-for-like change in sales	(2.0%)	(0.3%)
New space contribution to sales change	(0.6%)	(1.1%)
Total sales change	(2.6%)	(1.4%)
Gross margin movement	c.0bps	c.0bps
Benchmark operating profit change	(52%)	16%
Number of stores at year-end	341	341
Of which contain a mezzanine floor	187	186
Store selling space at year-end (million sq ft)	15.6	15.6
Of which – garden centre area	3.6	3.6
– mezzanine floor area	1.8	1.8

Financial Services business review — Financial Services works in conjunction with Argos and Homebase to provide their customers with the most appropriate credit offers to drive retail sales, and to maximise the total profit from the transaction.

Operational review

In-house store card credit sales reduced marginally to £611m (2011: £613m) and represented 9.7% (2011: 9.3%) of Group retail sales. The proportion of promotional credit sales increased by 2% to 79% of all sales placed on the store cards, with the Buy Now Pay Later product offer remaining a key enabler of sales in higher value products. In addition to credit sales placed on the Group's own store cards, credit offers for purchases at Homebase which are greater than £3,000 are provided through product loans from a third-party provider. Including these product loans, total credit sales penetration increased to 10.6% (2011: 10.1%) of Group retail sales.

The increased credit penetration is a result of selected range support in key big-ticket categories and other tactical Buy Now Pay Later offer periods. Customer use of the online account management tools continues to grow with over 400,000 registered customers.

Financial review

Store card net receivables grew by £5m year-on-year to £461m, as a result of the mix towards longer-term promotional credit plans. The Group finances these receivables balances internally with no third-party debt being required. Delinquency rates continued their trend of the last two years with a further reduction, resulting in a reduced bad debt charge. Financing costs were broadly flat versus last year, with this internal recharge being based upon UK base rates with a corresponding credit being recognised in Group net interest income.

Benchmark operating profit for the 52 weeks to 25 February 2012 of £6.0m (2011: £6.0m) reflects the financial return on the revolving (i.e. interest-bearing) element of receivables, as promotional credit products are recharged to Argos and Homebase at cost. The cost advantage of this internal arrangement versus a third-party provider is a benefit within both the Argos and Homebase benchmark operating profits.

400,000 customers have now registered to use our online account management tool

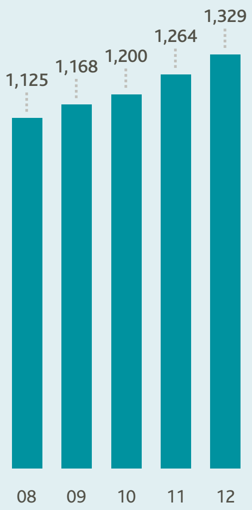
The in-house store card operations drove £611m of Group retail credit sales

52 WEEKS TO	25 FEBRUARY 2012	26 FEBRUARY 2011
Sales (£m)	**109.1**	**106.9**
Benchmark operating profit before financing costs	9.4	9.2
Financing costs	(3.4)	(3.2)
Benchmark operating profit	**6.0**	**6.0**
Store card gross receivables	540	530
Provision	(79)	(74)
Store card net receivables	461	456
Provision % of gross receivables	14.7%	14.0%

As at 3 March 2012 (£m)	
Store card gross receivables	535
Provision	(78)
Store card net receivables	457
Provision % of gross receivables	14.7%

Financial Services key facts

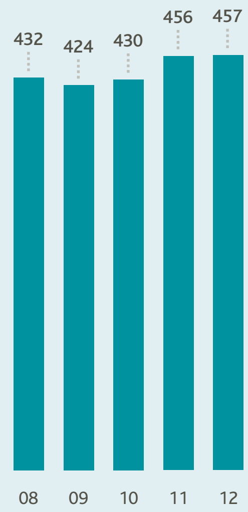
Number of active store card holders ('000s)



The total number of active accounts grew to over 1.3 million. The cards offer a revolving credit proposition together with a range of 'buy now pay later' plans. The offer is fully multi-channel with the availability of credit online being a feature on both www.argos.co.uk and www.homebase.co.uk.

Definition: *Total number of store card accounts that have had monetary activity, either making a sale transaction, a payment or having an outstanding balance in the last six months.*
Source: *Measured internally.*

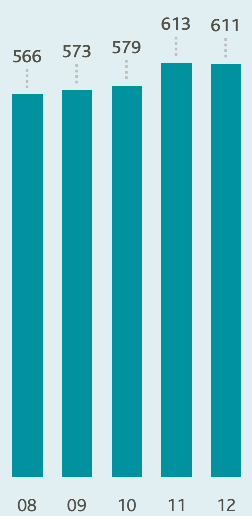
Net store card receivables (£m)



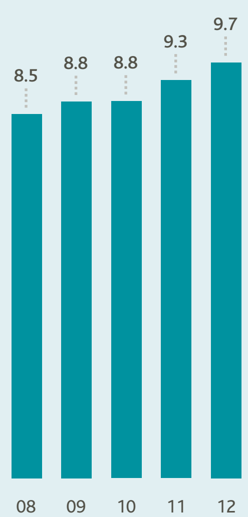
There was a £1m increase in net store card receivables in the year, driven by the continued success in the range of credit products offered.

Definition: *Total balances outstanding on customer store card accounts.*
Source: *Measured internally.*

In-house retail credit sales (£m)



In-house credit penetration (%)



The in-house store card operations drove £611m of Group retail sales, flat on the previous year, representing 9.7% of sales. In addition to credit sales placed on the Group's in-house store cards, credit offers for purchases at Homebase of over £3,000 are provided through product loans from a third-party provider.

Definitions: *Store card retail credit sales (including VAT), and penetration based upon total in-house retail credit sales (including VAT) divided by total UK retail sales (including VAT).*
Source: *Measured internally.*

FOR ALL CHARTS, 2012 IS ON A 52-WEEK PRO FORMA BASIS.

Responsible retailing —— We call our approach to corporate responsibility 'the basis of good business', because we believe it makes good business sense. By contributing to the communities that we operate in, reducing waste and by being more efficient in our use of energy, we deliver benefits to our stakeholders.

To us, corporate responsibility is not an abstract idea, but about how we work every day. Colleagues across the Group are passionate in their support for both our charity partner – Teenage Cancer Trust – and for their local communities. Our colleagues and customers raised a record £2.5m for charitable causes during the year, more than for any year previously, and our new volunteering policy encourages colleagues to give their time more freely to help in their local community.

We're proud of our achievements so far. 2011/12 was a year of further progress across all key areas and we're committed to doing even more this coming year.

For more details and case studies on our corporate responsibility activities, please see **www.thebasisofgoodbusiness.com**

Performance highlights

- 91% of waste from the business was recycled
- 35% reduction in waste sent to landfill
- 26% reduction in packaging from own brand and direct-sourced products
- 9% reduction in carbon footprint
- 100% of direct-source and direct-import factories have a current ethical audit
- £2.5m raised by colleagues and customers for charitable causes
- Argos and Homebase named winners of the RoSPA award for occupational health and safety in the commercial and business services sector

COMMUNITY SUPPORT

	2011/12	2010/11
£000		
Cash donations	652	407
Volunteering	206	123
Gifts in kind	231	140
Management resource	160	159
Company donations	**1,249**	**829**
Monies raised by colleagues – payroll giving	405	398
Colleague and customer fund raising	2,058	1,578
Donations from others	**2,463**	**1,976**
Total	**3,712**	**2,805**

PLATINUM AWARD 2012 PAYROLL GIVING

More than 10% of our colleagues participate in our Payroll Giving scheme

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2012

Homebase was ranked 20th overall in the Sunday Times 'Best Big Companies to work for' review of 2012

best company 2012

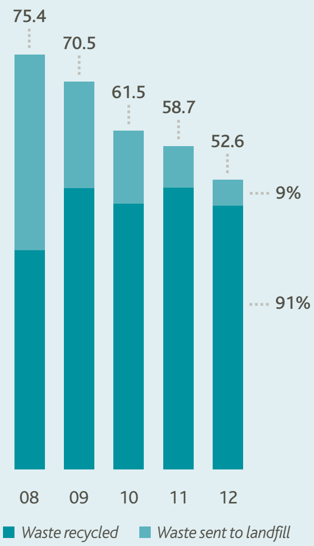
Homebase was awarded a first class 'one star' rating and Argos was recognised as 'one to watch' in the Best Companies Accreditation Survey 2012

CR INDEX 2012 PLATINUM

Dow Jones Sustainability Indexes

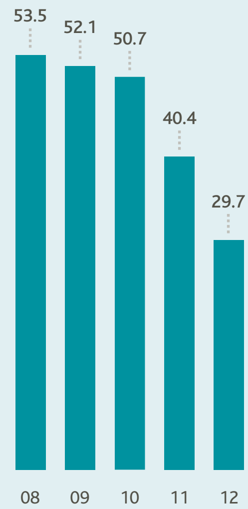
FTSE4Good

Responsible retailing key facts



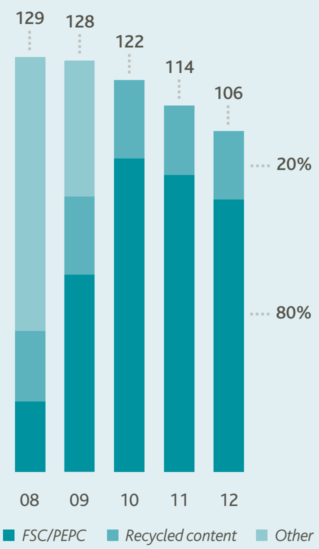
Waste management (k tonnes)

Total Group waste fell 10% from 58.7k tonnes to 52.6k tonnes, and our recycling rate climbed from 87% to 91%. As a result, only 4.9k tonnes went to landfill, a 35% reduction on the prior year.



Packaging: Own-brand and direct-sourced products (k tonnes)

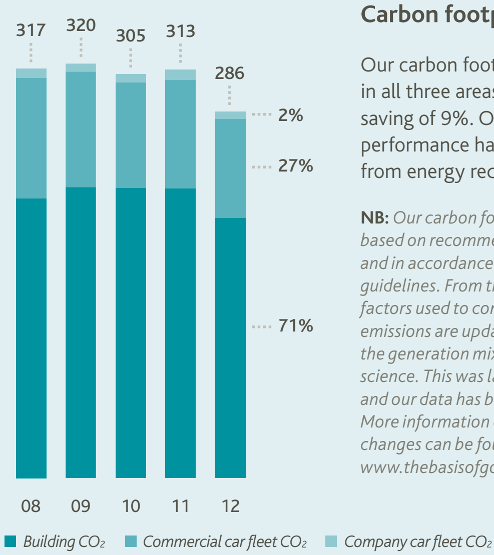
Total packaging (retail and transit) for own-brand and direct-sourced products has reduced by 26%, from 40.4k tonnes to 29.7k tonnes.



Catalogues and publications: Total paper used (k tonnes) and percentage sustainably sourced

We have reduced our paper usage this year by 7%. All print paper publications are printed on paper from certified sources or recycled paper.

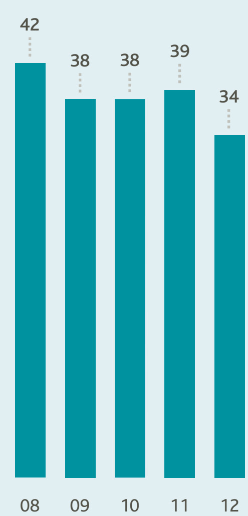
FSC: *Forest Stewardship Council*
PEFC: *Programme for the Endorsement of Forest Certification*



Carbon footprint (k tonnes)

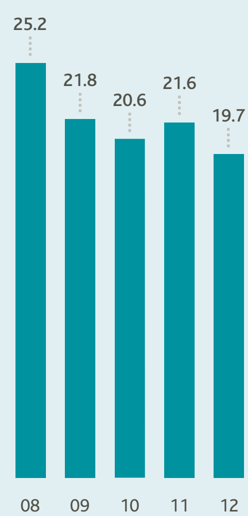
Our carbon footprint has reduced in all three areas, giving an overall saving of 9%. Our commercial fleet performance has continued to benefit from energy reduction measures.

NB: *Our carbon footprint is calculated based on recommended good practice and in accordance with UK Government guidelines. From time to time, emissions factors used to convert energy into carbon emissions are updated to reflect changes in the generation mix for electricity or better science. This was last done in August 2011 and our data has been restated on this basis. More information on the impact of these changes can be found on our website at www.thebasisofgoodbusiness.com*



Building energy use (kwh/sq ft)

Total energy consumed in buildings fell by 13% attributable to the milder winter weather in 2011/12 and the ongoing implementation of energy efficiency measures across the Group.



Carbon emissions (kg/sq ft)

Overall, the fleet and building energy efficiency measures across the Group, combined with the milder winter weather in 2011/12, have enabled us to achieve our best energy performance relative to our shop floor selling space in the last five years.

Financial summary

£m	53 WEEKS TO 3 MARCH 2012	52 WEEKS TO 25 FEBRUARY 2012	52 WEEKS TO 26 FEBRUARY 2011
Argos	3,935.3	3,872.6	4,194.3
Homebase	1,536.4	1,509.8	1,550.7
Financial Services	111.1	109.1	106.9
Sales	**5,582.8**	**5,491.5**	**5,851.9**
Cost of goods	(3,521.1)	(3,464.1)	(3,674.9)
Gross margin	**2,061.7**	**2,027.4**	**2,177.0**
Group gross margin % rate	*36.9%*	*36.9%*	*37.2%*
Operating and distribution costs	(1,950.0)	(1,929.7)	(1,926.2)
Argos	106.9	94.2	219.0
Homebase	23.8	22.8	47.6
Financial Services	6.1	6.0	6.0
Central Activities	(25.1)	(25.3)	(21.8)
Benchmark operating profit	**111.7**	**97.7**	**250.8**
Group operating margin % rate	*2.0%*	*1.8%*	*4.3%*
Net interest income (see below)	3.5	3.4	3.2
Share of post-tax results of joint ventures and associates	0.5	0.5	0.1
Benchmark PBT	**115.7**	**101.6**	**254.1**
Exceptional items	(20.3)	(20.3)	–
Financing fair value remeasurements	3.3	3.3	5.4
Financing impact on retirement benefit obligations	4.8	4.8	4.6
Discount unwind on non-benchmark items	(6.7)	(6.5)	(6.1)
Amortisation of acquisition intangibles	(1.2)	(1.2)	–
Onerous lease provision releases	8.5	8.5	7.2
Profit before tax	**104.1**	**90.2**	**265.2**
Taxation	(31.3)	(27.6)	(74.3)
of which: taxation attributable to benchmark PBT	*(35.5)*	*(31.8)*	*(77.5)*
Benchmark effective tax % rate	*30.8%*	*31.5%*	*30.5%*
Profit for the year	**72.8**	**62.6**	**190.9**
Basic benchmark EPS	**10.0p**	**8.7p**	**21.3p**
Basic EPS	**9.1p**	**7.8p**	**23.1p**
Weighted average number of shares for basic EPS	799.4m	799.4m	827.4m
Full-year dividend	**4.7p**	**4.7p**	**14.7p**
Closing net cash position	**194.3**	**181.4**	**259.3**
Net interest reconciliation:			
Bank deposits and other interest	1.8	1.7	2.6
Financing costs charged to Financial Services	3.4	3.4	3.2
Discount unwind on benchmark items	(1.7)	(1.7)	(2.6)
Net interest income	**3.5**	**3.4**	**3.2**
Financing fair value remeasurements	3.3	3.3	5.4
Financing impact on retirement benefit balances	4.8	4.8	4.6
Discount unwind on non-benchmark items	(6.7)	(6.5)	(6.1)
Income statement net financing income	**4.9**	**5.0**	**7.1**

The above table has been prepared in accordance with note 2 to the consolidated financial statements on page 58.

Group financial review

The Group is required for the financial year just ended to report its audited financial results for the 53-week statutory period ended 3 March 2012. However, we believe that the proforma 52-week results better reflect the underlying performance of the Group and so all references to financial performance in respect of the income statement, cash flow and business reviews are stated on a proforma 52-week basis to 25 February 2012 unless specified otherwise.

Sales and benchmark operating profit

Group sales were 6% lower at £5,492m (2011: £5,852m) while Group benchmark operating profit declined 61% to £97.7m (2011: £250.8m). The drivers of the Argos, Homebase and Financial Services performances have been analysed as part of the preceding business reviews.

Central Activities represents the cost of central corporate functions and the investment costs of new development opportunities. Costs for the year were 16% higher at £25.3m (2011: £21.8m), principally driven by the costs of the Habitat acquisition together with its initial trading losses, partially offset by the continued control of central corporate costs.

Net interest income

Net interest income was £3.4m (2011: £3.2m). Within this, third-party interest income for the year under review reduced to £1.7m (2011: £2.6m), as a consequence of the completion of the £150m share buy-back programme during the previous financial year, which resulted in a lower average cash balance of approximately £320m being held by the Group during this financial year (2011: approximately £490m).

Financing costs charged within Financial Services' benchmark operating profit saw the corresponding credit within net interest income increase to £3.4m (2011: £3.2m). This non-cash internal recharge is based upon UK base rates.

The charge within net interest income in relation to the discount unwind on benchmark items was £1.7m (2011: £2.6m). This arises from the accounting treatment whereby provisions for expected future liabilities are required to be discounted back to their current value. As settlement of the liability moves closer to the present day, additional non-cash charges to unwind the discount are incurred; this will result in the absolute level of provision eventually matching the liability in the accounting period that it becomes due.

Share of post-tax results of joint ventures and associates

These amounted to a profit of £0.5m (2011: profit of £0.1m). The increase in profit reflects the improved trading performance during the last financial year of the Group's 33% associate, Ogalas Limited, which trades as 'home store + more' in the Republic of Ireland.

Benchmark PBT

Benchmark PBT for the year declined 60% to £101.6m (2011: £254.1m) driven by the factors discussed above.

Exceptional items

The exceptional items charge recorded in the year was £20.3m, with the main items being the closure costs of the Group's UK homewares trial format HomeStore&More, and the costs relating to the proposed closure of one of the Group's distribution warehouses.

Financing fair value remeasurements

Certain foreign exchange movements as well as changes in the fair value of certain financial instruments are recognised in the income statement within net financing income. These amounted to a net gain of £3.3m (2011: £5.4m), which arises principally as a result of translation differences on overseas subsidiary cash balances. The reduction in the gain reflects a lower level of cash balances held overseas and a narrowing in the exchange rate range experienced during the year. Equal and opposite adjustments to these translation differences are recognised as part of the movements in reserves. As required by accounting standards, the net nil exchange adjustment is therefore split between the income statement and the statement of comprehensive income.

Financing impact on retirement benefit obligations

The credit through net financing income in respect of the expected return on retirement benefit assets net of the interest expense on retirement benefit liabilities was £4.8m (2011: £4.6m). The current service cost, which the Group considers a fairer reflection of the cost of providing retirement benefits, is already reflected in benchmark operating profit.

Discount unwind on non-benchmark items

An expense of £6.5m (2011: £6.1m) within net financing income relates to the discount unwind on onerous lease provisions. As these provisions were items previously excluded from benchmark PBT, the discount unwind has also been excluded from benchmark PBT.

Amortisation of acquisition intangibles

A charge of £1.2m was recorded in the year, relating to the amortisation of the value of the brand which arose on the Habitat UK acquisition.

Onerous lease provision releases

A credit of £8.5m (2011: £7.2m) was recorded in the year, relating to onerous lease provisions that are no longer required. As the provision charges were items previously excluded from benchmark PBT, the provision releases are also excluded from benchmark PBT.

Profit before tax

The profit before tax for the year was £90.2m (2011: £265.2m).

Group financial review continued

Taxation

Taxation attributable to benchmark PBT was £31.8m (2011: £77.5m), representing an estimated effective tax rate (excluding joint ventures and associates) of 31.5% (2011: 30.5%). The higher effective tax rate reflects two opposing elements: the adverse impact of a relatively fixed level of disallowable expenditure in comparison to a reduced level of profits partially offset by a reduction in the UK corporation tax rate of 2% to 26%. Taxation attributable to non-benchmark items amounted to a credit of £4.2m (2011: £3.2m). The total tax expense for the year was therefore £27.6m (2011: £74.3m).

Number of shares and earnings per share

The number of shares for the purpose of calculating basic earnings per share (EPS) was 799.4m (2011: 827.4m). The weighted average number of issued ordinary shares reduced by 28.3m to 813.4m (2011: 841.7m), reflecting the weighted impact of the Group's share buy-back programme during the previous financial year. The adjustment for shares held in Group share trusts net of vested but unexercised share awards was 14.0m (2011: 14.3m).

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 3.9m (2011: 3.9m) to 803.3m (2011: 831.3m). Basic benchmark EPS is 8.7p (2011: 21.3p), with diluted benchmark EPS of 8.7p (2011: 21.2p). Reported basic EPS is 7.8p (2011: 23.1p), with reported diluted EPS being 7.8p (2011: 23.0p).

Dividends

The Board is not recommending the payment of a final dividend for the year. The dividend for the full year is therefore represented by the interim dividend of 4.7p which was paid to shareholders on 18 January 2012 (2011 full-year dividend: 14.7p). Based on basic benchmark EPS of 8.7p (2011: 21.3p), dividend cover is 1.85 times (2011: 1.45 times).

The Board recognises the importance of the dividend to Home Retail Group's shareholders and as a financial discipline in itself. The Board will ensure that future dividends are set at a level which is sustainable and which reflects the trading prospects and financial position of the Group.

CASH FLOW AND NET CASH POSITION

£m	53 weeks to 3 March 2012	52 weeks to 25 February 2012	52 weeks to 26 February 2011
Benchmark operating profit	111.7	97.7	250.8
Exceptional items	(20.3)	(20.3)	–
Amortisation of acquisition intangibles	(1.2)	(1.2)	–
Onerous lease provision releases	8.5	8.5	7.2
Statutory operating profit	98.7	84.7	258.0
Depreciation and amortisation	126.5	125.7	127.5
Movement in working capital	(0.6)	–	(89.9)
Financing costs charged to Financial Services	3.4	3.4	3.2
Cash flow impact of FY 09 restructuring charge	(3.8)	(3.8)	(7.0)
Other operating items	10.3	10.0	(13.0)
Cash flows from operating activities	**234.5**	**220.0**	**278.8**
Net capital expenditure	(131.0)	(130.7)	(142.7)
Acquisition of business	(24.5)	(24.5)	–
Taxation	(26.8)	(26.8)	(11.3)
Net interest	2.4	2.2	2.6
Net movement of term deposit	100.0	100.0	(50.0)
Other investments	(2.1)	(1.2)	(1.8)
Cash inflow before financing activities	**152.5**	**139.0**	**75.6**
Dividends paid	(117.5)	(117.5)	(123.9)
Share buy-back programme	–	–	(150.2)
Purchase of own shares for EST[1]	–	–	(6.7)
Other financing activities	0.1	0.1	0.4
Net increase/(decrease) in cash and cash equivalents	**35.1**	**21.6**	**(204.8)**
Add back: net movement of term deposits	(100.0)	(100.0)	50.0
Effect of foreign exchange rate changes	(0.1)	0.5	0.1
Decrease in financing net cash	**(65.0)**	**(77.9)**	**(154.7)**
Opening financing net cash	259.3	259.3	414.0
Closing financing net cash	**194.3**	**181.4**	**259.3**

Note:
1. Employee Share Trust.

Cash flow and net cash position

Cash flows from operating activities were £220.0m (2011: £278.8m). This £58.8m reduction was attributable predominantly to a reduced level of operating profit partially offset by an improved working capital position following the significant working capital outflow last year.

Net capital expenditure was £130.7m (2011: £142.7m), reflecting ongoing investment across the Group in the existing store chains and further multi-channel initiatives. The acquisition of the Habitat brand, including the UK website and three of its London stores, was completed for a total consideration of £24.5m. Tax paid was £26.8m (2011: £11.3m), with the increase principally being attributable to the non repeat of certain tax benefits received in the previous financial year in relation to the successful completion of a number of tax efficiency projects. Dividends paid to shareholders amounted to £117.5m (2011: £123.9m) with the reduction of £6.4m reflecting the impact of the share buy-back programme which was completed in the previous financial year.

The Group's financing net cash position at 25 February 2012, on a proforma 52-week basis, was £181.4m, a decrease of £77.9m. The Group's financing net cash position at 3 March 2012, on a 53-week statutory period basis, was £194.3m, a decrease of £65.0m.

Group financial review continued

BALANCE SHEET

As at	3 March 2012	26 February 2011
£m		
Goodwill	1,543.9	1,541.0
Other intangible assets	137.1	107.8
Property, plant and equipment	516.3	523.4
Inventories	933.2	1,016.8
Instalment receivables	456.7	456.1
Other assets	167.4	181.7
	3,754.6	3,826.8
Trade and other payables	(1,000.7)	(1,106.2)
Other liabilities	(235.3)	(207.8)
	(1,236.0)	(1,314.0)
Invested capital	**2,518.6**	**2,512.8**
Retirement benefit obligations	(115.3)	(7.5)
Net tax assets	24.7	4.6
Forward foreign exchange contracts	3.1	(28.0)
Financing net cash	194.3	259.3
Net assets	**2,625.4**	**2,741.2**

Balance sheet

Net assets as at 3 March 2012 were £2,625.4m, equivalent to 328p (2011: 344p) per share excluding shares held in Group share trusts. The year-on-year increase in invested capital was £5.8m, driven principally by a decrease in trade and other payables and an increase in other intangible assets attributable to the Habitat acquisition, partially offset by a reduction in inventories and an increase in other liabilities.

The reduction in net assets of £115.8m was driven by the £107.8m increase in retirement benefit obligations and the £65.0m reduction in financing net cash, partially offset by the £31.1m movement in forward foreign exchange contracts, the £20.1m increase in net tax assets and the increase in invested capital discussed above.

Retirement benefit obligations – IAS 19

The Group's pension arrangements are operated principally through the Home Retail Group Pension Scheme, a defined benefit scheme, together with the Home Retail Group Stakeholder Pension Scheme, a defined contribution scheme.

The IAS 19 valuation as at 3 March 2012 for the defined benefit pension schemes was a net deficit of £115.3m (2011: £7.5m). Scheme assets increased by £15.6m to £764.4m (2011: £748.8m). The present value of scheme liabilities increased by £123.4m to £879.7m (2011: £756.3m) driven principally by a reduction in the discount rate to 4.8% (2011: 5.7%).

The IAS 19 asset value has been reduced by approximately £45m as a result of a pensioner buy-in discussed below. This contrasts with the financially neutral impact assessed under the actuarial method because of the different methods of valuing the annuity contract required by accounting standards.

Retirement benefit obligations – pensioner buy-in

On 27 May 2011 the Trustees of the Group's defined benefit pension scheme signed an agreement with Prudential Retirement Income Limited (PRIL), a subsidiary of Prudential plc, for a bulk annuity policy covering existing pensioners in payment. The agreement entered into is generally referred to as a pensioner 'buy-in'.

Buy-ins of this nature are a common de-risking practice for defined benefit pension schemes. They eliminate the existing financial risks related to pensioners covered by the annuity policy, including exposure to investment, inflation and mortality risk. These risks are replaced with a continuing obligation from the insurer to meet the cash flows associated with all future payments to pensioners covered by the buy-in agreement.

To assume these risks, PRIL has been paid cash and assets equivalent to £278m from the assets of the defined benefit pension scheme. This amount was equal to the scheme's actuarially assessed value of the pensioner obligations and therefore the buy-in was financially neutral for both the pension scheme and the Group. There will be no impact on the Group's benchmark profitability or cash flow arising from the pensioner buy-in.

Group financing arrangements

The Group finances its operations through a combination of retained profits, property leases, a net cash position and through access to committed bank facilities where necessary. The Group's net cash balances averaged approximately £320m over the year and at 3 March 2012, the Group had £700m of undrawn, committed borrowing facilities, £685m of which does not expire until July 2013. These facilities, which remain undrawn, are in place to enable the Group to finance its working capital requirements and for general corporate purposes.

In addition, the Group's Financial Services business holds a net loan book balance of £457m as at 3 March 2012. The Group has the ability to monetise this loan book, for example by securitising it, should it wish to do so.

The Group has significant liabilities through its obligations to pay rents under operating leases; the operating lease charge for the 52-week period amounted to £363.6m (2011: £370.8m). Based upon an eight-times multiple of the operating lease charge the capitalised value of these liabilities is £2,909m (2011: £2,966m). Gross lease commitments stood at £3,285m at 3 March 2012 (2011: £3,668m) and, based upon the discounted cash flows of these expected future operating lease charges, the capitalised value of these liabilities is £2,702m (2011: £2,874m) utilising a discount rate of 3.4% (2011: 4.1%). In common with credit rating agencies and lenders, the Group treats its lease liabilities as debt when evaluating financial risk. Based upon Group EBITDAR of £586.3m, fixed charge cover is 1.6x and the ratio to adjusted net debt with lease cash flows discounted is 4.3x.

Counterparty credit risk management

The Group's exposure to credit risk with regard to treasury transactions is managed by dealing only with major banks and financial institutions with appropriate credit ratings and within limits set for each organisation. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis.

Interest rate risk management

The Group's principal objective is to manage the trade-off between the effective rate of interest and the credit risk associated with the counterparty bank or financial institution. The annual effective rate of interest earned on the Group's net cash balances increased slightly in the 2011/12 financial year to 0.8% (2011: 0.7%).

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 third of the Group's product costs are paid for in US dollars. The 2011/12 financial year has seen a relatively stable period of hedged rates as noted in the table below.

US dollar hedged rates	FY12	FY11	Change cents
First half	1.55	1.60	(5)
Second half	1.57	1.59	(2)
Full year	**1.56**	**1.59**	**(3)**

Share price and total shareholder return

The Group's share price ranged from a high of 228.5p to a low of 72.5p during the 2011/12 financial year. On 2 March 2012, the closing mid-market price was 104.3p, giving a market capitalisation of £0.8 billion.

Total shareholder return (the change in the value of a share including reinvested dividends) has declined by 48% over the year. This compares to an increase of 7% 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 53 weeks ended 3 March 2012. The basis of preparation is outlined in note 2 to the consolidated financial statements on page 58.

The Group has identified certain measures that it believes provide additional useful information on the underlying performance of the Group. These measures are applied consistently but as they are not defined under GAAP they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are outlined in note 3 to the consolidated financial statements on page 66.

Principal risks and uncertainties — We outline below the principal risks and uncertainties that could impact the Group's performance and our mitigating activities.

For further information on how we manage risk, see the business review and also page 36, within the corporate governance report. Specific financial risks are detailed on page 29 within the Group financial review.

AREA OF PRINCIPAL RISK AND UNCERTAINTY	DESCRIPTION AND EXAMPLES OF MITIGATING ACTIVITY
Trading environment Impact on sales, margins, costs, profit and cash of: ▪ Economic conditions ▪ Cost of raw material products, services and utilities ▪ Consumer preferences ▪ Competitor activity ▪ Seasonality and/or weather ▪ UK-centric store network ▪ Expansion and/or development of store network	As detailed in our chief executive's statement, the economic volatility experienced in recent years is expected to continue into the year ahead. Within the UK, consumers continue to adjust their spending patterns in response to fluctuations in their disposable income. This economic environment, including the response of other retailers to it, widens the possible forecasted outcomes of the Group's performance in respect of sales, costs, profit and cash generation. We intend to build on the considerable cost savings achieved over the last three years, recognising that further sustainable cost reduction opportunities may be more challenging to achieve, which, coupled with a level of underlying cost inflation, may see an increase in costs. **Other mitigating activities include:** ▪ Empowering customer choice by strengthening range architecture ▪ Price tracking versus our competition and dynamic pricing to ensure competitiveness is maintained ▪ Evaluating lease renewals (c.200 over next five years) to optimise the Group's store portfolio ▪ Introduction of clothing ranges, including the exclusive Emma Bunton collection
Business strategy ▪ Inappropriate direction ▪ Poor investment decisions ▪ Failure to execute	At every Plc and Operating Board meeting, strategic issues are discussed in addition to the time that is dedicated to strategic reviews at various Executive meetings across the Group. The Group maintains a clear vision to build successful businesses that bring unrivalled convenience and value to customers' everyday lives, whether shopping at home or on the move. The acquisition of Habitat brings a strong design heritage to the Group's portfolio. **Other mitigating activities include:** ▪ Monthly review of performance against strategic targets ▪ Comprehensive strategic debates with non-executive directors and advisers ▪ Communication with stakeholders; investors, colleagues, suppliers, government etc.
Our colleagues ▪ Reliance on key personnel ▪ Availability of specialist skills ▪ Pension obligations	The Group values its colleagues and their contribution to the success of the organisation. Internal training schemes and the graduate recruitment programme maintain the succession pool and actively encourage promotion from within. Additionally, in order to continue to improve our business and take advantage of opportunities, our existing capabilities are continually reviewed and strengthened if needed. We are committed to open communications with colleagues at all times and monitor employee satisfaction through listening groups and employee forums. **Other mitigating activities include:** ▪ Competitive remuneration packages, with oversight by the Remuneration Committee ▪ Twice-yearly comprehensive succession planning sessions, up to Operating Board level ▪ Strategies for recruitment/development of talent to deliver strategic priorities ▪ Regular review of pension trustee activities and plans to mitigate the fund deficit ▪ Suite of development programmes for high-potential colleagues at all levels of the organisation
Operations Failure to ensure appropriate processes are in place to manage the complexity of operations, including multi-channel and customer service	Our leading multi-channel capabilities provide the foundation for growth, building on the immediacy for customers of a wide range of products, coupled with the convenience of in-store collection of on-line products through our easy to use reservation services, The marketplace creates a dynamic retail environment that requires the Group to evolve continually its media and promotional strategies. Product availability remains a key priority as the Group mitigates complex supply chain risks through robust processes that ensure stock is in the right place at the right time to meet customer needs. **Other mitigating activities include:** ▪ Continuously improving the efficiency and effectiveness of presenting the Argos catalogue to our customers ▪ Re-structure of the Argos e-commerce teams to drive further innovation and capabilities ▪ Maintaining and extending Homebase's award-winning installation services for kitchens, bathrooms and bedroom furniture ▪ Targeted investment in customer service, through refits and colleague training

AREA OF PRINCIPAL RISK AND UNCERTAINTY	DESCRIPTION AND EXAMPLES OF MITIGATING ACTIVITY
Our customers ▪ Failing to meet expectations ▪ Consumer preferences ▪ Changing demographics	Our team of customer insight professionals ensure that we listen and respond to our customers to enhance continually the shopping experience. The award-winning 'Create Your Own Look' in Homebase is a great example of innovation which inspires customers. **Mitigating actions include:** ▪ Engaging with all customer demographics through social media developments ▪ Extended use of technology and innovations to give customers choice in how they shop with us ▪ Improving customer experience through Argos re-brand activity ▪ Understanding customer engagement and building on loyalty to our brands ▪ Continuous review of key customer metrics such as mystery shopping and exit interviews
Sourcing ▪ Strength of supplier relationships ▪ Purchase of products whose cost base of manufacture is in currencies other than sterling, principally the US dollar ▪ Sale of products in currencies other than sterling, principally the euro in the Republic of Ireland	Overseas sourcing capabilities continue to be leveraged to benefit customers in these difficult economic times, further extending the popular Value ranges in both Argos and Homebase. As with other retailers, this exposes the Group to fluctuations in freight costs. The volatility of the global economy continues to create a risk of exposure to fluctuations in currency rates as over a third of the products ranged by Argos and Homebase are imported, with the majority sourced from Asia in US dollars. **Mitigating actions include:** ▪ Treasury policies to hedge currencies over appropriate time periods ▪ Forward buying of freight commitments to secure competitive rates ▪ Adjustments to customer pricing to reflect movement in hedged currency rates ▪ Strong supplier associations bringing innovation to everyday living (eg Smart TVs, 3D TVs and a wide range of tablets) ▪ Seeking opportunities for further sourcing efficiencies
Infrastructure development/projects Delay or failure to manage and implement major business and infrastructure projects effectively	The Group is committed to extending its multi-channel leadership and maintaining a robust infrastructure. Strategic projects to replace or enhance key systems and infrastructure carry a degree of risk; however, we have dedicated project teams in place with strong governance frameworks to manage them. Projects to enhance systems within our contact centres for home delivery continue and investment is being made in enhancing the in-store systems that support complex showroom activities for 'Big Ticket' within Homebase. **Other mitigating activities include:** ▪ Detailed approval and planning process prior to project commencement ▪ Board review of status/progress of major change programmes ▪ Post project implementation reviews ▪ Internal audit attendance at steering group for key projects ▪ Management expertise in significant infrastructure/change programmes
Product safety Failure to manage supplier relationships and/or ensure appropriate quality checks are in place	The safety and quality of our products is of paramount importance to the Group. Suppliers are required to sign up to the Group's supply chain principles and to specific policies regarding products and their environmental impact. Argos and Homebase teams aim to work in conjunction with suppliers to ensure improvement opportunities are explored when failings are identified as a result of systematic checks. **Other mitigating activities include:** ▪ Rigorous quality/safety assessment programme for new products ▪ Imported products go through pre-shipment inspections by a third party and our own quality teams in the Far East ▪ Ongoing monitoring of quality/safety for goods on sale ▪ Supplier relationship protocols ▪ Robust risk-based approach to factory auditing ▪ Standard terms and conditions for all suppliers to meet required performance standards
Regulatory environment ▪ Changes in UK and overseas legislation and regulation, eg consumer protection, environmental regulation ▪ Changes in UK fiscal/employment policy, eg minimum wage	Good governance practices are important to the Group. In addition to ensuring compliance with existing requirements such as data protection, we are active in monitoring potential future developments. We also lobby, often with other retailers, to support and develop the industry and the interests of consumers. In the last year we have launched our anti-bribery policy following the introduction of the UK Bribery Act. Argos demonstrated sourcing strength in gaining accreditation from the Responsible Jewellery Council. Supporting our existing work with the World Wildlife Fund, we are now working towards compliance with the EU Timber Regulations. **Other mitigating activities include:** ▪ Membership of industry representative groups, including the British Retail Consortium ▪ Pro-active engagement with government and regulators such as Financial Services Authority, UK Department of Business, Innovation and Skills (BIS) and Trading Standards ▪ Dedicated working parties to manage operational change
Business interruption ▪ Acts of terrorism ▪ Failure or unavailability of operational and/or IT infrastructure ▪ Delay or interruption in service provided by third-party suppliers	A major incident could impact the ability of the Group to continue trading. We manage this risk by maintaining and routinely testing our business continuity plans. The transfer of the Group's data centre to a secure facility was completed during the year. The Group remains vigilant to supplier vulnerability and continues to work towards a sustainable outcome for all parties. The additional risks of the UK hosting the 2012 Olympic and Paralympic Games have been assessed and contingency plans enhanced as appropriate. **Other mitigating activities include:** ▪ Business continuity and recovery planning ▪ IT recovery plans including website resilience and penetration tests ▪ Third-party supplier management

Board of Directors and Operating Board

Oliver Stocken
Chairman

Terry Duddy
Chief Executive

Richard Ashton
Finance Director

John Coombe
Non-Executive Director

Mike Darcey
Non-Executive Director

Cath Keers
Non-Executive Director

Ian Durant
Non-Executive Director

Paul Loft
Managing Director, Homebase

John Walden
Managing Director, Argos

Greg Ball
Managing Director, Customer and Financial Services

Peter Connor
Information Systems Director

Maria Thompson
Commercial Director

David Guise
Human Resources Director

Gordon Bentley
Company Secretary

BOARD OF DIRECTORS' PROFILES

Oliver Stocken, *Chairman (70)*
Oliver was a director of NM Rothschild & Sons and held several roles within Barclays Group, culminating in his appointment as Group Finance Director of Barclays. He joined the GUS board in 2000, where he chaired the Audit Committee and subsequently the Remuneration Committee and became Chairman of Home Retail Group in October 2006. Oliver is a Non-Executive Director of Standard Chartered, Chairman of Stanhope, Chairman of the Trustees of the Natural History Museum and Chairman of the Marylebone Cricket Club.

Terry Duddy, *Chief Executive (56)*
Terry began his career at Letraset and joined Dixons Stores Group in 1984, holding positions including Sales Director of Currys, Product Marketing Director of Dixons Stores Group and Managing Director of PC World. He joined GUS in 1998 as Chief Executive of the newly acquired Argos, becoming a GUS director later that year. He was appointed Chief Executive of Argos Retail Group in 2000 and of Home Retail Group in October 2006. He is a Non-Executive Director of Hammerson.

Richard Ashton, *Finance Director (45)*
Richard started his career at PricewaterhouseCoopers, where he trained as a chartered accountant, and joined GE in 1994, spending eight years in a variety of positions including Chief Financial Officer of GE Capital's pan-European equipment-financing business, assistant to GE Capital's Chief Financial Officer in the US and various finance roles in the UK. He joined Argos Retail Group as Finance Director in 2001 and, in October 2006, became Finance Director of Home Retail Group.

John Coombe, *Non-Executive Director (67)*
John held a number of senior financial roles within Charterhouse Group and Charter Consolidated before joining Glaxo Holdings in 1986. Appointed to the board in 1992, he was ultimately Chief Financial Officer of GlaxoSmithKline for five years before retiring in 2005. He joined the GUS board in 2005 and became the Senior Independent Director of Home Retail Group in October 2006. He is a Non-Executive Director of HSBC Holdings, Chairman of Hogg Robinson Group and a former member of the Code Committee of the Panel of Takeover and Mergers and of the UK Accounting Standards Board.

Mike Darcey, *Non-Executive Director (46)*
Mike joined BSkyB in 1998 as Head of Strategic Planning before becoming Group Director of Strategy and then Chief Operating Officer. He sits on the boards of two channel joint ventures – National Geographic Channel (outside the USA) and Nickelodeon UK – and is Chairman of the Board of Trustees of the Royal Television Society. Mike joined Home Retail Group in April 2010.

Ian Durant, *Non-Executive Director (53)*
Ian is a former Finance Director of Liberty International (renamed Capital Shopping Centres Group) and is Chairman of Capital & Counties Properties and a Non-Executive Director of both Greene King and Greggs. In his earlier career he worked for Hanson and Jardine Matheson and was Finance Director of Hongkong Land, Dairy Farm International and Thistle Hotels and Chief Finance Officer of SeaContainers. He joined the Home Retail Group Board in July 2011.

Cath Keers, *Non-Executive Director (47)*
Cath started her retail career with Thorn EMI and, after marketing and business development roles at Sky TV, Avon and Next, joined the BT Group in 1996, holding a number of commercial roles, including Marketing Director O2, Chairman of Tesco Mobile and Customer Director O2. She is a Non-Executive Director of Telefonica O2 Europe, the Royal Mail Group and LV=. Cath joined the Home Retail Group Board in September 2011.

Biographies of members of the Operating Board can be found on our corporate website www.homeretailgroup.com.

BOARD COMMITTEES

Audit Committee:
John Coombe (Chairman), Mike Darcey, Ian Durant, Cath Keers

Remuneration Committee:
Mike Darcey (Chairman), John Coombe, Ian Durant, Cath Keers, Oliver Stocken

Nomination Committee:
Oliver Stocken (Chairman), John Coombe, Mike Darcey, Terry Duddy, Ian Durant, Cath Keers

Chairman's introduction — Good governance is essential for sustainable business success and long-term value creation and an effective board is at the heart of good governance.

At Home Retail Group, the effectiveness of the Board is underpinned by four important components:

- high calibre executive directors
- non-executive directors who possess the range of skills, knowledge, experience and independence to participate fully in setting strategy and assessing risks and to contribute to the development and long-term success of the Company
- non-executive directors who have a sound understanding of the business, its culture and values and the environment in which it operates
- succession planning to ensure the balance of skills, knowledge and experience continues to be appropriate

A number of changes have taken place in the Board over the last two years. At our Annual General Meeting in 2011, Penny Hughes decided not to seek re-election as a non-executive director due to the range of her other commitments. On behalf of the Board, I would like to thank Penny for her significant contribution to our business.

We have also welcomed several new directors. In 2010, Mike Darcey, Chief Operating Officer of BSkyB joined the Board. His wide-ranging experience of media and digital technology addresses a key area of focus for the development of our multi-channel retail business. In 2011, we were very pleased to appoint Ian Durant, Chairman of Capital & Counties Properties, and Cath Keers, a non-executive director of Telefonica O2 Europe, to the Board. Before commencing the external searches that resulted in these appointments, careful consideration was given by the Nomination Committee to the attributes, expertise and capabilities required by the Company. Ian has strong financial and accounting experience, combined with extensive knowledge of the retail sector and property investment and development. Cath has extensive marketing and business development experience, with particular emphasis on mobile applications and ecommerce. The expertise and insights of each of these appointees has added new perspectives to our discussions. Biographical details of these directors are set out on page 32.

Our arrangements to ensure that the non-executive directors are fully informed about the business are kept under review. Upon appointment each of our non-executive directors undertook a full induction programme, meeting the management team and visiting stores, distribution centres, contact centres and offices across the United Kingdom. Thereafter, Board members continue to spend time seeing the business in operation, hearing the views of colleagues from across the business and attending management conferences, and monitoring developments in both the market and with our competitors. We find it particularly helpful for each of our non-executive directors to serve on each of the three main Board committees: audit, remuneration and nomination. This not only facilitates the provision of information to the Board and better communication, but also enables Board members to have direct involvement in the key areas of governance and to take full account of the relationships between the work of these committees. I am grateful to the members of the Board for the commitment and diligence they show to their responsibilities.

During the year, Lord Davies published his review on Women on Boards. At Home Retail Group, diversity (including gender diversity) is integral to how we do business. As at 3 March 2012, women comprised 14% of our Board, 23% of our senior executive positions and 51% of our total employees. We will continue to support, encourage and increase diversity across all parts of our business.

Oliver Stocken
Chairman

Corporate governance report

For the period under review, Home Retail Group plc has complied fully with the main and supporting principles set out in the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in June 2010 ('the Code') except that there were only two independent non-executive directors who were members of the audit and remuneration committees from 1 July 2011 until 6 July 2011, the period between the resignation of Penny Hughes and the appointment of Ian Durant. This statement, together with the directors' report and the directors' remuneration report, provides a summary of the Group's procedures for applying the principles of the Code and the extent to which such principles have been applied. The Company has applied the principles of the Code as follows:

The Board

The Board consists of the chairman, Oliver Stocken; chief executive, Terry Duddy; finance director, Richard Ashton; and four non-executive directors: John Coombe (the senior independent director), Mike Darcey, Ian Durant (from 6 July 2011) and Cath Keers (from 1 September 2011).

The four non-executive directors are determined by the Board to be independent and there are no relationships or circumstances which could affect, or appear to affect, a non-executive director's judgement. The Company has in place formal procedures regarding conflicts of interest, which are reviewed on an annual basis.

The Board has a programme of scheduled meetings and telephone conferences each year and meets more frequently, as required. There is a formal schedule of matters specifically reserved for the Board, including responsibility for:

- the overall management of the Group, approval of the Group's long-term objectives and commercial strategy, and the review of performance;
- determining the nature and extent of significant risks it is willing for the Group to take in achieving its strategic objectives;
- the approval of interim management statements, announcements of half-year and full-year results, including dividends, and the annual report and accounts;
- the approval of documentation to be put forward to shareholders at general meetings and all circulars and prospectuses other than routine documents; and
- the approval of all appointments to the Board and of the company secretary and ensuring adequate succession planning for the Board and senior management.

During the period under review, matters considered by the Board included the Habitat acquisition; the Chinese joint venture; Competition Law and the Office of Fair Trade's guidance for Directors; the Bribery Act 2010; business continuity arrangements; and the recommendations of the Davies Review on Women on Boards. The company secretary ensures that the Board receives regular briefings on corporate governance matters and company legislation.

The chairman is responsible for the leadership and effectiveness of the Board, for efficient communication with shareholders and for facilitating the contribution of the non-executive directors and their constructive relationship with the executive directors. During the period under review the chairman met with the non-executive directors without the executive directors present. The chief executive is responsible for the day-to-day business of the Group, and is supported by the Operating Board, which includes the finance director and the managing directors of the main businesses and shared service functions.

Each month, the Board received a management information pack that provided detailed information on the performance of the Group's businesses. In advance of each scheduled meeting, the Board received a comprehensive management report that covers the trading and operational performance of each of the Group's businesses, the Group's financial performance, current market expectations of financial performance and any significant developments. The Board met informally on the evening before most scheduled Board meetings and members of the Operating Board were invited to join these discussions on a regular basis and to provide updates on their areas of responsibility.

An externally facilitated evaluation of the performance of the Board took place in 2010. During the year under review, the formal evaluation of the performance of the Board and its committees was conducted internally. A questionnaire was provided to Board members as a guide to the range of issues to consider. The chairman discussed Board and committee performance individually with each Board member and there was discussion of feedback at a Nomination Committee meeting and at a Board meeting. The Board and its committees were considered to be operating effectively, with good access for non-executive directors to members of the Operating Board and senior management. There had also been a comprehensive induction process for new non-executive directors. Areas to enhance the effectiveness of the Board were agreed and are being addressed. Individual appraisals of directors have been undertaken by the chairman. Under the leadership of the senior independent director, the non-executive directors met without the chairman present to appraise the chairman's performance, taking account of any views expressed by the executive directors. In line with the requirements of the Code, all directors are required to submit themselves for re-election each year.

Board committees

The Board has appointed the following committees: Remuneration Committee, Nomination Committee and Audit Committee. The terms of reference of each of these committees are available on the Company's website at www.homeretailgroup.com.

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

Board member	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Terry Duddy	12/12	–	–	4/4
Richard Ashton	12/12	–	–	–
Oliver Stocken	12/12	–	6/6	4/4
John Coombe	12/12	4/4	6/6	4/4
Mike Darcey	12/12	4/4	6/6	4/4
Ian Durant*	6/7	3/3	4/4	4/4
Penny Hughes*	5/5	1/1	2/2	–
Cath Keers*	7/7	3/3	4/4	3/4

Note:

* Board changes during the period: Penny Hughes resigned 30 June 2011, Ian Durant appointed 6 July 2011, Cath Keers appointed 1 September 2011.

Remuneration Committee

Mike Darcey is chairman of the Remuneration Committee. Mike succeeded Penny Hughes as chairman of the committee on 1 July 2011. The other members of the committee are John Coombe, Ian Durant (from July 2011), Cath Keers (from September 2011) and Oliver Stocken. Terry Duddy attends meetings of the committee at the request of the committee chairman. The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy on the remuneration of the Operating Board, as well as the specific remuneration packages for each of the executive directors and other members of the Operating Board. Details of how the committee has fulfilled its responsibilities and of compliance with Section D of the Code regarding remuneration are set out in the directors' remuneration report on pages 38 to 46.

Nomination Committee

The Nomination Committee is chaired by Oliver Stocken and its other members are John Coombe, Mike Darcy, Terry Duddy, Ian Durant and Cath Keers. The Nomination Committee has responsibility for making recommendations to the Board on the composition of the Board and its committees, on retirements, appointments of additional and replacement directors and on succession planning. The committee led the process that resulted in the appointments of two non-executive directors in 2011. As part of that process, the committee evaluated the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepared a specification of the capabilities required for the appointments, including an assessment of the time commitment expected. An external search consultancy was appointed to facilitate the search for suitable candidates. Following this process, Ian Durant and Cath Keers were recommended to the Board for appointment. The committee also oversaw the selection process that resulted in the appointment of John Walden as the managing director of Argos.

The Nomination Committee had responsibility for nominating the candidate to succeed Oliver Stocken as chairman of the Board. For this purpose the Nomination Committee was chaired by Mike Darcey. The nomination of John Coombe for appointment as chairman, with effect from the conclusion of the Annual General Meeting on 4 July 2012, was approved by the Board and announced on 29 March 2012.

Before nominating John Coombe, the Nomination Committee considered the balance of skills, knowledge and experience required for the role. At a time of volatile economic conditions affecting the Group's customers and markets, the committee gave particular weight to the need, so far as practicable, to ensure that the successful candidate had an in-depth understanding of the Group and its businesses, including the Group's leadership position in UK multi-channel retailing, and of the markets in which it operates. The successful candidate also needed to have the knowledge and experience to support and complement the skills and experience of the chief executive and his management team. John Coombe offered exceptional skills and experience at board level of listed companies in a range of industries. This was complemented by his expertise and knowledge as senior independent director and chairman of the Audit Committee of Home Retail Group and a former member of the UK Accounting Standards Board. The committee was satisfied that John Coombe's other board appointments and commitments would not place constraints on his ability to fulfil properly the role of chairman of Home Retail Group. In the light of these considerations and the quality of John Coombe as the internal candidate, the position was not openly advertised and external search consultants were not instructed. Following the nomination of John Coombe for appointment as chairman, the committee recommended the appointments, with effect from the conclusion of the Annual General Meeting on 4 July 2012, of Mike Darcey as senior independent director, Ian Durant as chairman of the Audit Committee, Cath Keers as chairman of the Remuneration Committee, and John Coombe as chairman of the Nomination Committee. These appointments were approved by the Board and announced on 29 March 2012.

Audit Committee

The Audit Committee is chaired by John Coombe and its other members are Mike Darcey, Ian Durant and Cath Keers. John Coombe was formerly chief financial officer of GlaxoSmithKline and Ian Durant was formerly finance director of Liberty International. The Board considers that John and Ian each have recent and relevant financial experience. Oliver Stocken, Terry Duddy, Richard Ashton, the Group head of internal audit and the external auditors attend meetings of the committee at the request of the committee chairman.

The Audit Committee's principal responsibilities cover internal control and risk management, oversight of internal audit and external audit (including auditor independence) and financial reporting. The committee met with the external auditors and the head of internal audit after each of its meetings without the presence of executive directors or management.

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

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

Corporate governance report continued

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

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

The committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides. For the period under review, non-audit fees paid to the Company's auditors, PricewaterhouseCoopers LLP, did not exceed audit fees. The committee has established control procedures to safeguard the objectivity and independence of the external auditors and to ensure that the independence of the audit work undertaken by the external auditors is not compromised. Audit partner rotation forms part of the arrangements that support independence and objectivity and Neil Grimes was appointed in 2011 as a new lead audit engagement partner and Senior Statutory Auditor for the period under review.

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

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

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

The committee chairman's approval is required before the Company uses non-audit services that exceed financial limits set out in the policy. The committee receives half-yearly reports providing details of assignments and related fees carried out by the external auditors in addition to their normal work. Fees in respect of such assignments carried out in the period under review were:

	£m
Taxation services	0.2
All other services	0.2

Accountability and audit

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

The Board confirms there is in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, including risks relating to environmental, social and governance matters. This process was in place throughout the period under review and up to the date of approval of this annual report and meets the requirements of the FRC guidance entitled 'Internal Control: Revised Guidance for Directors on the Combined Code'.

This process is overseen by a risk committee chaired by the finance director and comprised of all divisional finance directors, the director of Group treasury and taxation, the company secretary, the risk assurance manager and the head of internal audit. The risk committee met six times in the period under review.

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

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

Risk assessment

- Risks were identified and reviewed by management followed by the review of the risk committee. This takes place on a bi-annual basis, facilitated by the risk assurance manager.
- The risks identified through this process were then reported to the Operating Board and Audit Committee, with particular focus on those risks classified as high-level risks by management. The schedule of high-level risks was used as the basis for the programme of internal audit and assurance.
- The Audit Committee has delegated responsibility from the Board for considering operational, financial and compliance risks on a regular basis and received its annual report on the controls over these risks. This included risks arising from environmental, social and governance matters.

Control environment and control activities

- The Group has established procedures for delegating authority, which ensures that decisions that are significant, either because of the value or the impact on other parts of the Group, are taken at an appropriate level.
- The Group has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include internal controls, insurance and specialised treasury instruments.
- The Group sets out principles, policies and standards to be adhered to. These include risk identification, management and reporting standards, ethical principles and practice and accounting policies. Data consolidated into the Group's financial statements is reconciled to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the true position and results of the Group are reflected through compliance with approved accounting policies.

Information and communication

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

Monitoring

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

Relations with shareholders

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

Although the majority of shareholder contact is with the chief executive and the finance director, supported by management specialising in investor relations, it is the responsibility of the Board as a whole, led by the chairman, to ensure that a satisfactory dialogue with shareholders takes place. Meetings with investors have been held following the full-year and half-year results announcements. Additionally during the year, the Board obtained an independent insight into the views of major shareholders by commissioning research from a third-party adviser across a balanced sample of the Company's investors. These shareholders controlled some 27% of the Company's issued share capital. The findings of the research were presented to the Board by the third-party adviser. Through these processes the Board is kept abreast of key issues. Shareholders also have a direct line of communication to the chairman, particularly if there are areas for concern, whether it be about performance, strategy or governance. The senior independent director is also available should shareholders have concerns which contact through the normal channels of the chairman, the chief executive and the finance director has failed to resolve, or for which such contact is inappropriate.

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

Directors' remuneration report

Dear Shareholder

I am pleased to present the report on directors' remuneration. This sets out the remuneration paid to directors over the 2011/12 financial year and the policy for the forthcoming year.

We aim to balance our executive remuneration policy between setting a meaningful incentive for management whilst aligning directors' interests with shareholders and not encouraging undue risk. To mitigate the risk inherent in the incentive policy, we set target ranges carefully each year and we expect directors to hold a significant number of shares, so that their interests are directly aligned with those of shareholders.

The committee is comfortable that the policy remains aligned to the business strategy outlined elsewhere in this annual report, which is to manage cash carefully and maximise profitability, whilst making the necessary investment in the Group's development of multi-channel capabilities all against the backdrop of an economic environment which continues to be challenging.

In relation to the annual bonus, benchmark profit before tax (PBT) and cashflow targets that are stretching in the current retail environment were set at the start of the year. The profit measure of the annual bonus did not achieve the threshold for payment. As mentioned elsewhere in the report, our net cash generation has been good and the cash generation measure of the annual bonus has achieved the threshold for payment, resulting in a bonus payout of 25.9% of base salary for executive directors.

Performance share plan (PSP) awards granted in 2008 with three-year performance targets based on total shareholder return lapsed during the year as Group performance was below the median of our comparator group over that period.

During the year the Committee undertook a review of our overall remuneration policy, specifically focusing on incentive arrangements. The Committee concluded that the structure of the incentive arrangements should remain unchanged. There were no increases to base salaries in April 2012.

The Committee has reviewed the target ranges for the annual bonus and our long-term incentive plan to ensure they remain appropriate. Targets for the annual bonus will remain focused on benchmark PBT and net cash generation, but the payout ranges for each have been made more stretching relative to the current retail environment.

For our long-term incentive plan, the PSP, we will retain a mix of earnings per share (EPS) and total shareholder return (TSR) targets. These will be unchanged from prior years; the EPS target represents a very significant stretch relative to analysts' forecasts for EPS in 2012/13, and the TSR range requires top decile performance for full vesting. As the competitor environment is changing we will also be reviewing the TSR comparator group.

Finally, from 2012 we have introduced a clawback provision into both the annual bonus and PSP.

There have been changes to the directors serving on the Remuneration Committee during the year as detailed on page 41. We believe that the Committee has a good mix of independent directors with different backgrounds and skills to ensure that decisions on remuneration are sensible.

Mike Darcey
Non-Executive Director

This report has been prepared by the Remuneration Committee on behalf of the Board. In writing it, the Committee has adopted the governance principles relating to directors' remuneration as set out in the Code.

This report complies with the Companies Act 2006, schedule 8 of the large and medium-sized companies and groups (accounts and reports) regulations 2008 and the listing rules of the Financial Services Authority.

Our remuneration policy for the year ahead (2012/13)

Over the year, all elements of the package for executive directors were reviewed by the Remuneration Committee. After careful consideration, no material changes have been recommended.

The individual elements have been reviewed in the context of our remuneration principles, which are:

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

More detail about the decisions and thinking on the individual elements is outlined below.

Salary, benefits and pension provision

- In 2012, in line with other senior managers, the Committee determined that salaries, benefits and pensions for executive directors should remain unchanged.

Annual bonus

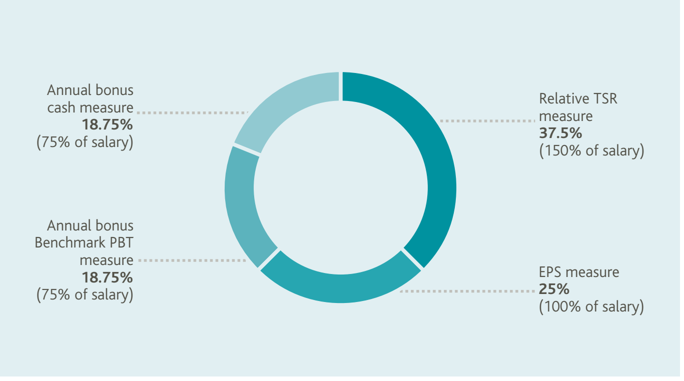
- The Committee reviewed the performance measures and considers that Benchmark PBT and cash generation remain the most important measures of performance for the Group.
- For 2012/13, bonus will start to be earned for performance above the target for each of the performance measures, rather than the previous approach which paid out 25% of bonus opportunity on achieving the target.
- The magnitude of the range is greater, giving a higher level of stretch from target to the maximum in the sliding scale for each bonus metric.
- The Committee will reserve the discretion to scale back any payout against the cash generation measure if the achievement of the Benchmark PBT measure is significantly less than the achievement of the cash generation measure.
- A clawback rule in relation to misstatement and misconduct will apply to the annual bonus plan for executive directors.

Long-term incentives

- The Committee undertook a broad review of long term incentives, which included performance measures, respective weightings, and took into account the movement in share price during the year and overall quantum of award.
- The Committee decided to maintain the reduced level of award at 250% rather than the normal policy of 300% of salary.
- The measures of relative TSR and EPS with a higher weighting towards TSR continue to be appropriate. This reflects the focus on long-term sustainable improvement in shareholder value.

- The EPS range was reviewed and the committee determined that the growth range of 5-10% per annum compound was still appropriate and considered to be highly stretching, particularly recognising analysts' forecasts for EPS in 2012/13.
- A clawback provision in relation to misstatement and misconduct will apply to awards made to executive directors.
- The Committee will also review the TSR comparator group to reflect the changing retail environment.

Weighting of incentive arrangements



Remuneration for the year under review (2011/12)

Salary and benefits

Salaries are generally reviewed in April to take account of movements in the employment market, the general economic environment and individual performance. In line with competitive practice, executive directors receive additional benefits that include a car or cash allowance, private health cover, pension and life insurance. In line with other senior managers, salaries for executive directors were increased in April 2011 as detailed in last year's Remuneration Report. This was the first increase to salaries since 2008.

Annual bonus

Stretching targets were set at the beginning of the year. Profit performance expectations fell during the year and the profit measure target was not met. As a result there will be no bonus payout against this measure.

Our cash performance during the year was good with robust management of working capital. As a result, the achievement against the cash generation measure exceeded the target and will pay out at 34.5% of the maximum for this half of the overall bonus opportunity (equivalent to 25.9% of salary).

Further details on Group financial performance are detailed on pages 25 to 29.

Performance share plan

In 2011, awards of 250% of salary were made to the executive directors in relation to the PSP, weighted 150% of salary (60% of award) for relative TSR and 100% of salary (40% of award) for EPS. Performance conditions are measured over three financial years.

The selection of the TSR comparator group is weighted to attach greater importance to companies that are closer comparators to Home Retail Group. In 2011 the group comprised:

Carphone Warehouse	J Sainsbury	Next
Debenhams	Kesa Electricals	Signet Group
Dixons Retail	Kingfisher	Travis Perkins
Dunelm	Marks & Spencer Group	Tesco
Game Group	Morrisons	Topps Tiles
Halfords Group	Mothercare	WH Smith

Awards vest to the extent that the performance test is achieved over a three-year period. 25% vests for median performance rising to 100% vesting for performance at the 90th percentile. TSR calculations are made by external advisers, using the average share price over the three-month period up to both the start and end of the performance period.

Any part of an award vesting by reference to the TSR performance condition is subject to satisfactory Group financial performance. This is reviewed by the Remuneration Committee and takes into account a range of factors including earnings and cash generation.

The EPS measure is subject to a sliding scale whereby 25% vests for achieving 5% EPS compound annual growth (CAGR) and full vesting for achieving 10% EPS CAGR.

Directors' remuneration report continued

All employee share plans

Employees are encouraged to become shareholders through the operation of all-employee share plans. In 2011, all eligible employees were invited to participate in a Save As You Earn (SAYE) plan approved by HMRC. This gave employees the opportunity to apply for options to acquire shares in the future. The option price was 80% of the marked value of a Home Retail Group share, calculated as the average price over three business days before the date of invitation, this being 171p. The number of shares over which the option was granted was determined by the amount committed by the employee under their savings contract.

Employees elected for a savings contract of either three or five years, with a maximum saving of £250 per month. Options can be exercised during the six months following the end of the contract. We intend to run a further invitation for employees in 2012.

Shareholding guidelines

Shareholding guidelines were introduced in 2010 which set the level of shareholding to be achieved over three and five years. Since the time of introduction, the chief executive and Group finance director have held shareholdings that exceed the five-year guideline of 150% and 100% of salary respectively.

Funding of awards

Share awards granted by Home Retail Group may be satisfied with newly issued shares, treasury shares or shares purchased in the market. Currently, share awards are satisfied with shares held in the Employee Share Trust. The policy for funding continues to be kept under review.

Pensions

Terry Duddy

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

Richard Ashton

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

Service contracts

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

Terry Duddy

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

Richard Ashton

Richard Ashton has a service contract dated 1 March 2005, under which the Group is required to provide 12 months' notice and he is required to provide six months' notice.

Chairman and non-executive directors

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

Outside appointments

Executive directors and members of senior management may be invited to become non-executive directors of other companies. These appointments provide an opportunity to gain broader experience outside Home Retail Group and therefore benefit Home Retail Group. Providing that appointments are not likely to lead to a conflict of interest, executive directors may accept non-executive appointments and retain the fees received. Terry Duddy is a non-executive director of Hammerson, for which he receives an annual fee of £57,000.

Non-executive directors

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

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

Fees are reviewed in the light of market practice of FTSE 250 companies, the anticipated number of days worked and individual responsibilities. Fees in 2012/13 will remain unchanged and will next be reviewed in April 2013.

	Cash fees £000	Fees to be used to purchase shares[1] £000
Chairman	200	50
Non-executive base fee	50	27
Senior independent director	10	–
Chair of audit/remuneration committee	25	–

Note:
1. The amount net of tax will be used to purchase shares.

Remuneration Committee

Role and membership

The committee met six times during the period under review. Attendance at these meetings is set out in the corporate governance report on page 34.

The key topics discussed during the year include:

- Annual bonus measures for 2011/12
- Long-term incentive plan and measures for the 2011/12 award
- Remuneration report
- Feedback from shareholder engagement
- Vesting of share plans – formal confirmation of performance conditions
- Review of Remuneration Committee terms of reference
- Future remuneration policy in relation to short and long-term incentives
- Clawback for future operation of annual bonus and long-term incentives
- BIS consultation
- Annual pay review

The Remuneration Committee is a committee of the Board and its membership comprises:
Penny Hughes (chairman until 1 July 2011)
Mike Darcey (appointed chairman 1 July 2011)
John Coombe
Oliver Stocken
Ian Durant (appointed 6 July 2011)
Cath Keers (appointed 1 September 2011)

The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy on the remuneration of the Operating Board as well as the specific remuneration packages for each of the executive directors and other members of the Operating Board, including pension rights and any compensation payments. The remuneration of the non-executive directors and the chairman is reserved for consideration by the Board as a whole. No director is involved in any discussions about his or her own remuneration.

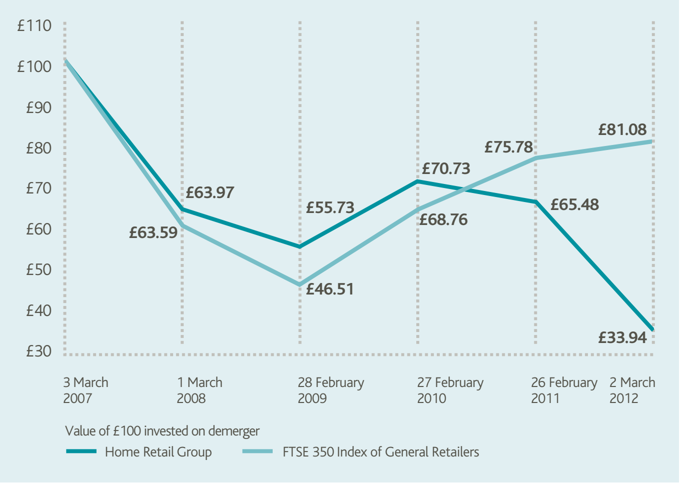
Advisers

At the invitation of the chairman of the Committee, the chief executive attended meetings to give background information on remuneration matters. During the period under review, New Bridge Street provided advice to the Remuneration Committee on matters relating to performance conditions for long-term incentive plans, executive remuneration issues and salary benchmarking data. They did not provide the Company with any other services. Linklaters LLP provided legal advice on share scheme rules. The Committee was also advised by David Guise, Group HR director and Paula Hayes, director of policy and reward. The secretary to the Committee was Gordon Bentley, company secretary.

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

Performance graph

The graph below compares the TSR for Home Retail Group against the FTSE 350 Index of General Retailers for a five-year period. The directors feel that the FTSE 350 Index of General Retailers is the most appropriate choice of index as it is a relevant comparator group for a retail business. The graph has been prepared in accordance with the assumptions contained in the relevant legislation.



Directors' remuneration report continued

The following sections are audited

Directors' emoluments

The value of the salary, annual bonus and benefits (excluding awards of options and restricted shares) of each director is set out in the following table. For the non-executive directors, this includes fees and shares as part payment for fees. At the end of the period under review the salary for Terry Duddy was £838,000 pa and for Richard Ashton was £480,000 pa.

	Period ended 3 March 2012				Period ended 26 February
£000	Base salary/ fees	Annual bonus	Taxable benefits	Total	2011 Total
Terry Duddy	836	217	46[1]	**1,099**	1,161
Richard Ashton	475	124	13[2]	**612**	587
Oliver Stocken	250	–	–	**250**	249
John Coombe	110	–	–	**110**	106
Mike Darcey[3]	86	–	–	**86**	58
Penny Hughes	32	–	–	**32**	96
Cath Keers[4]	39	–	–	**39**	–
Ian Durant[5]	51	–	–	**51**	–

Notes:
1. This includes benefits in kind of car, fuel, chauffeur, and private medical insurance.
2. This includes benefits in kind of car allowance and private medical insurance.
3. Mike Darcey was appointed as Remuneration Committee chair on 1 July 2011.
4. Cath Keers was appointed to the Board on 1 September 2011.
5. Ian Durant was appointed to the Board on 6 July 2011.

Current share plans

Long-term incentive plans

Home Retail Group performance share plan

A conditional award of shares was granted to executive directors in 2011 under the Home Retail Group PSP. These awards, along with vested and unvested awards under the rules of the PSP are included in the table below. The relative TSR performance condition for the 2008 award was not met and therefore the award lapsed. The 2009 award has also not met the TSR performance condition and therefore will lapse.

Original grant date	Plan shares at 27 February 2011[1]	Plan shares awarded during the period	Plan shares released during the period	Plan shares lapsed during the period	Total plan shares held at 3 March 2012	Share price on date of award[2]	Vesting date
Terry Duddy							
09/05/08	306,164	–	–	306,164	–	–	09/05/11
08/05/09	487,128	–	–	–	487,128	–	08/05/12
10/05/10	915,178	–	–	–	915,178	–	10/06/13
10/05/11	–	935,267	–	–	935,267	224.0p	10/05/14
Richard Ashton							
09/05/08	156,815	–	–	156,815	–	–	09/05/11
08/05/09	249,504	–	–	–	249,504	–	08/05/12
10/05/10	468,750	–	–	–	468,750	–	10/06/13
10/05/11	–	535,713	–	–	535,713	224.0p	10/05/14

Notes:
1. All awards are subject to the performance conditions outlined on page 39.
2. Share price rounded to one decimal point.

Directors' remuneration report continued

Deferred bonus plan
This plan operated for the financial year 2009/10 only. For this year, executive directors were entitled to participate in a deferred bonus plan. Subject to continued employment and satisfactory Group financial performance for the year in which performance was originally measured, 2009/10, shares are released 1/6th on the first anniversary of the award, 2/6th on the second anniversary of the award and 3/6th on the third anniversary of the award. The award was based on 2009/10 performance against a benchmark PBT and a Group net cash generation target and was 150% of salary.

Original grant date	Plan shares at 27 February 2011	Plan shares awarded during the period	Plan shares released during the period[2]	Total plan shares held at 3 March 2012	Share price on date of award[1]	Vesting date	Share price on date of release[1]	Value of shares on date of release
Terry Duddy								
10/05/10	76,265	–	76,265	–	–	10/05/11	224.8p	£171,470
10/05/10	152,530	–	–	152,530	–	10/05/12	–	–
10/05/10	228,794	–	–	228,794	–	10/05/13	–	–
Richard Ashton								
10/05/10	39,062	–	39,062	–	–	10/05/11	224.8p	£87,825
10/05/10	78,125	–	–	78,125	–	10/05/12	–	–
10/05/10	117,188	–	–	117,188	–	10/05/13	–	–

Notes:
1. Share price has been rounded to one decimal place.
2. Dividend equivalent payments were made. Terry Duddy received £11,211 and Richard Ashton received £5,742.

Home Retail Group Share Options
The following table shows the share options granted under the SAYE plan in 2008 and the approved share options granted under an HMRC approved amendment to the PSP plan. As outlined on page 39, at the time of vesting, to the extent that there is a gain on the approved options under the PSP, conditional awards to the same value will be forfeited, resulting in the same gross value as a conditional award only.

Original grant date	Plan	Number of options at 27 February 2011	Options granted during the period	Options exercised during the period	Options lapsed during the period	Total number of options at 3 March 2012	Exercise price[1]	Date from which exercisable	Expiry date
Terry Duddy									
01/07/08	SAYE	8,565	–	–	–	8,565	190.0p	01/09/13	01/03/14
10/06/10	PSP	12,599	–	–	–	12,599	238.1p	10/06/13	10/06/13
Richard Ashton									
01/07/08	SAYE	4,947	–	–	4,947	–	190.0p	01/09/11	01/03/12
10/06/10	PSP	12,599	–	–	–	12,599	238.1p	10/06/13	10/06/13
30/06/11	SAYE	–	5,277	–	–	5,277	171.0p	01/09/14	01/03/15

Note:
1. Share price has been rounded to one decimal place.

Home Retail Group share price

Details of the closing market price of Home Retail Group shares from 27 February 2011 to 3 March 2012 are shown in the table below:

At 3 March 2012	104.3p
Highest price during the period	228.5p
Lowest price during the period	72.5p

Legacy arrangements

This section includes legacy plans that are no longer operated along with some legacy rollover arrangements that are still in place in relation to GUS plc share plans. Where this is the case, reference is made to the previous GUS plc plan in the sections below. These plans have now all vested.

Share options

The Company granted the following rolled-over options over its shares following demerger. The options are governed by the rules of the GUS plc executive share option scheme. No options have been exercised during the year.

Original grant date	Number of options at 27 February 2011	Options granted during the period	Options exercised during the period	Options lapsed during the period	Total number of options at 3 March 2012	Exercise price[1]	Date from which exercisable[2]	Expiry date
Terry Duddy								
31/05/05	197,277	–	–	–	197,277	359.9p	31/05/08	30/05/15
Richard Ashton								
31/05/05	80,576	–	–	–	80,576	359.9p	31/05/08	30/05/15

Notes:
1. Share price has been rounded to one decimal place.
2. There was a performance test based on basic benchmark EPS growth, which was met.

Co-investment plan

Original grant date	Plan shares at 27 February 2011	Invested shares granted during period	Matching shares granted during period	Invested shares returned during period	Matching shares released during period	Matching shares lapsed during period	Total plan shares held at 3 March 2012	Share price on date of award	Vesting date	Share price on date of release	Value of matching shares on date of exercise
Terry Duddy											
09/05/08[1]	871,918	–	–	198,622	–	673,296	–	–	09/05/11	–	–
Richard Ashton											
09/05/08[1]	446,858	–	–	101,794	–	345,064	–	–	09/05/11	–	–

Note:
1. Matching awards made in 2008 are subject to performance against a basic benchmark EPS target and a return on invested capital target. If total basic benchmark EPS growth of 10% or above over the three-year period is achieved, matching shares vest as to one half of the 50% of the award that is subject to basic benchmark EPS, which increases to full vesting of that 50% when benchmark EPS growth reaches 25% or more over the performance period. The performance conditions were not met and therefore the matching award lapsed.

Directors' remuneration report continued

Re-investment plan

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

This one-off plan granted a matching award of Home Retail Group shares if participants agreed to re-invest the invested shares and/or matching awards from the 2004 and 2005 operation of the GUS plc co-investment plan. The receipt of the matching award was subject to satisfaction of performance conditions, the retention of re-invested awards and continued employment. The matching award is calculated on the basis of two Home Retail Group shares for each Home Retail Group share re-invested by the participant. The matching award was made in two equal portions. The first 50% of the award was time-based and vested on the third anniversary of the grant in 2009. The remaining 50% of the award was subject to satisfaction of TSR and ROIC performance conditions. The TSR performance condition was met and vested at 54.8% and the ROIC performance measure was also met and vested at 72.4%. This element was released in two equal tranches, the first vested on the fourth anniversary of the grant in October 2010, and the second vested on the fifth anniversary of the grant in October 2011.

	Plan shares at 27 February 2011	Re-invested shares released during the period	Matching shares released during the period[1]	Matching shares lapsed during the period	Total plan shares held at 3 March 2012	Vesting date	Share price on date of exercise[2]	Value of matching shares on date of exercise
Terry Duddy								
	399,712	–	254,216	145,496	–	17/10/11	98.8p	£251,075
Richard Ashton								
	127,807	–	81,285	46,522	–	17/10/11	98.8p	£80,281

Notes:
1. Dividend equivalent payments were made on matching shares released. Terry Duddy received £182,527 and Richard Ashton £58,363.
2. Share price has been rounded to one decimal place.

Pensions

The table set out below provides the disclosure of directors' pension entitlements.

	Accrued pension at 3 March 2012 per annum £000	Accrued pension at 26 February 2011 per annum £000	Transfer value at 3 March 2012 £000	Transfer value at 26 February 2011 £000	Changes in transfer values (less director's contributions) £000	Additional pension earned to 3 March 2012 (net of inflation per annum) £000	Transfer value of the increase (less director's contributions) £000
Terry Duddy							
	181	150	4,984	3,634	1,350	24	663
Richard Ashton							
	89	68	1,685	1,105	570	18	322

By order of the Board

Mike Darcey
Chairman – Remuneration Committee

Directors' report

The directors present their report and the audited financial statements for the 53 weeks ended 3 March 2012 (the 'period').

Principal activities and business review

Home Retail Group plc (the 'Company') is the ultimate parent company of Home Retail Group (the 'Group'), which operates in the UK and in the Republic of Ireland. A review of the activities of the Group, its financial performance during the period and its likely future business developments, including a description of the principal risks and uncertainties and key performance indicators, is provided within the review of the business and the corporate governance report, which are incorporated into this report by reference.

On 24 June 2011 the Group announced the acquisition of rights for the exclusive use of the Habitat brand, its brand designs and intellectual property in the UK and the Republic of Ireland, the Habitat UK website and three of its London stores.

Profit and dividends

The Group's consolidated income statement on page 52 shows a profit for the period of £89.8m. An interim dividend of 4.7p per ordinary share was paid on 18 January 2012. The Board has decided not to pay a final dividend. The full-year dividend is therefore represented by the interim dividend of 4.7p per ordinary share.

Directors

The names and biographical details of the directors are shown in the Board of Directors and Operating Board section on page 32. On 30 June 2011, Penny Hughes resigned from the Board as a non-executive director. On 6 July 2011, Ian Durant was appointed to the Board as a non-executive director and, on 1 September 2011, Cath Keers was appointed to the Board as a non-executive director. Particulars of directors' remuneration are shown in the directors' remuneration report on pages 38 to 46. Details of the service contracts of the directors, and how a change of control will affect the service contracts of the executive directors, are summarised within the directors' remuneration report. Neither contract for the executive directors provides for extended notice periods or compensation in the event of termination or a change of control.

During the period and up to the date of this report, the Group maintained liability insurance and third-party indemnification provisions for its directors under which the Company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company and any of its associated companies. These indemnities are Qualifying Third-Party Indemnity Provisions as defined in Section 234 of the Companies Act 2006 and copies are available for inspection at the registered office of the Company during business hours on any weekday except public holidays.

Directors' interests

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

	Number of ordinary shares at 3 March 2012
Terry Duddy	2,655,854
Richard Ashton	765,760
Oliver Stocken	164,493
John Coombe	85,001
Mike Darcey	19,036
Ian Durant	2,460
Cath Keers	0

There were no changes to the above interests as at 2 May 2012.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of directors and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the Company's website at www.homeretailgroup.com. In accordance with the Articles of Association, directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association must be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the directors may exercise all the powers of the Company and may delegate authorities to committees. Details of the main Board committees can be found in the corporate governance report on pages 34 to 36.

Share capital and control

As at 2 May 2012, the Company's issued share capital comprised a single class of shares, referred to as ordinary shares. Details of the ordinary share capital can be found in note 28 to the consolidated financial statements on page 91.

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

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

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

Purchase of own shares

At the Annual General Meeting of the Company held on 30 June 2011, authority was given for the Company to purchase, in the market, up to 81,000,000 ordinary shares of 10p each. At the Annual General Meeting to be held on 4 July 2012, shareholders will be asked to give the Company authority to purchase, in the market, up to 81,000,000 ordinary shares of 10p each, details of which are contained in the Notice of Meeting.

Details of the Company's interests in its own shares are set out in note 29 to the consolidated financial statements on page 91.

Substantial shareholdings

As at 2 May 2012, the Company had been notified under Rule 5 of the Financial Services Authority's Disclosure and Transparency Rules of the following holdings of voting rights in the issued share capital of the Company:

	Total number of voting rights (ordinary shares)	Percentage of total voting rights (%)
Schroders plc	139,003,166	17.09
Tradewinds Global Investors LLC	64,232,637	7.90
AXA S.A.	42,510,359	5.23
Sanderson	40,898,716	5.03
Citibank	37,392,176	4.60
Legal & General Group plc	34,590,018	4.25

Employees

The Group has in place measures to provide its employees with information on matters of concern to them as employees, including consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests. Various communication routes are made available to employees to give them awareness of the financial and economic factors affecting the performance of the Group and employees are also encouraged to be involved in the Group's performance through a Save as You Earn share scheme.

The Group has a policy in place for giving full and fair consideration to applications for employment by the Group made by disabled persons, having regard to their particular aptitudes and abilities, and for continuing the employment of, and for arranging appropriate training for, employees of the Group who have become disabled persons during the period when they were employed by the Group. The policy also covers the training, career development and promotion of disabled persons employed by the Group.

Employee share plans

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

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

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

Financial risk management

The financial risk management objectives and policies of the Group and the exposure of the Group to price, credit, liquidity and cash flow risk are set out in note 4 to the consolidated financial statements on pages 67 to 70.

Creditor payment

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

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

Trade creditor days of the Group at 3 March 2012 were 51 (2011: 50), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade suppliers. The Company has no trade creditors.

Political donations

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

Relevant audit information

As at 2 May 2012, so far as each director is aware, there is no relevant audit information of which the auditors are unaware and each director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to ensure that the auditors are aware of that information.

Going concern

The business and financial reviews on pages 10 to 29 contain information on the performance of the Group, its cash flow and net cash position, capital structure and liquidity and funding. Further information relating to the Group's financial risk management is set out in note 4 to the consolidated financial statements on pages 67 to 70 and the principal risks and uncertainties that could impact the Group's performance are set out on pages 30 and 31.

After making enquiries, the directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

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

Annual General Meeting

The Annual General Meeting of the Company will be held at the Jurys Inn Hotel, Midsummer Boulevard, Milton Keynes MK9 2HP, commencing at 11.00 am on Wednesday 4 July 2012. The Notice of Meeting is included in a separate circular to shareholders which accompanies this annual report. It is also available on the Company's website at www.homeretailgroup.com.

By order of the Board

Gordon Bentley
Secretary
2 May 2012

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

Company no. 5863533

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the 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 and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, 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 Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 32 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Independent auditors' report to the members of Home Retail Group plc – Group

We have audited the Group financial statements of Home Retail Group plc for the 53 weeks ended 3 March 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 3 March 2012 and of its profit and cash flows for the 53 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial period for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, in relation to going concern;
- the part of the corporate governance report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Home Retail Group plc for the 53 weeks ended 3 March 2012 and on the information in the directors' remuneration report that is described as having been audited.

Neil Grimes
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 May 2012

Consolidated income statement

For the 53 weeks ended 3 March 2012

	Notes	53 weeks ended 3 March 2012 Before exceptional items £m	Exceptional items £m	After exceptional items £m	52 weeks ended 26 February 2011 Total £m
Revenue		**5,582.8**	**–**	**5,582.8**	5,851.9
Cost of sales		**(3,794.0)**	**–**	**(3,794.0)**	(3,970.7)
Gross profit		**1,788.8**	**–**	**1,788.8**	1,881.2
Net operating expenses	7	**(1,669.8)**	**(20.3)**	**(1,690.1)**	(1,623.2)
Operating profit		**119.0**	**(20.3)**	**98.7**	258.0
– Finance income		**53.3**	**–**	**53.3**	57.3
– Finance expense		**(48.4)**	**–**	**(48.4)**	(50.2)
Net financing income	10	**4.9**	**–**	**4.9**	7.1
Share of post-tax profit of joint ventures and associates		**0.5**	**–**	**0.5**	0.1
Profit before tax		**124.4**	**(20.3)**	**104.1**	265.2
Taxation	11	**(34.6)**	**3.3**	**(31.3)**	(74.3)
Profit for the year attributable to equity holders of the Company		**89.8**	**(17.0)**	**72.8**	190.9
				pence	pence
Earnings per share					
– Basic	13			**9.1**	23.1
– Diluted	13			**9.1**	23.0

Non-GAAP measures	*Notes*	***53 weeks ended 3 March 2012 £m***	*52 weeks ended 26 February 2011 £m*
Reconciliation of profit before tax (PBT) to benchmark PBT			
Profit before tax		***104.1***	*265.2*
Adjusted for:			
Exceptional items	*9*	***20.3***	*–*
Financing fair value remeasurements	*10*	***(3.3)***	*(5.4)*
Financing impact on retirement benefit obligations	*10*	***(4.8)***	*(4.6)*
Discount unwind on non-benchmark items	*10*	***6.7***	*6.1*
Amortisation of acquisition intangibles		***1.2***	*–*
Onerous lease provision releases	*24*	***(8.5)***	*(7.2)*
Benchmark PBT		***115.7***	*254.1*
		pence	*pence*
Benchmark earnings per share			
– Basic	*13*	***10.0***	*21.3*
– Diluted	*13*	***10.0***	*21.2*

Consolidated statement of comprehensive income

For the 53 weeks ended 3 March 2012

	Notes	**53 weeks ended 3 March 2012 £m**	52 weeks ended 26 February 2011 £m
Profit for the year attributable to equity holders of the Company		**72.8**	190.9
Other comprehensive income			
Net change in fair value of cash flow hedges			
– Foreign currency forward exchange contracts		**10.8**	(43.3)
Net change in fair value of cash flow hedges transferred to inventory			
– Foreign currency forward exchange contracts		**9.3**	(15.9)
Actuarial (loss)/gain on defined benefit pension schemes	25	**(121.2)**	1.9
Fair value movements on available-for-sale financial assets		**0.2**	1.3
Currency translation differences		**(3.3)**	(6.1)
Tax credit in respect of items taken directly to equity	11	**24.7**	15.7
Other comprehensive income for the year, net of tax		**(79.5)**	(46.4)
Total comprehensive income for the year attributable to equity holders of the Company		**(6.7)**	144.5

Consolidated balance sheet

At 3 March 2012

	Notes	3 March 2012 £m	26 February 2011 £m
ASSETS			
Non-current assets			
Goodwill	15	**1,543.9**	1,541.0
Other intangible assets	16	**137.1**	107.8
Property, plant and equipment	17	**516.3**	523.4
Investments in joint ventures and associates	18	**8.3**	8.0
Deferred tax assets	27	**50.6**	39.4
Trade and other receivables	20	**3.8**	4.3
Other financial assets	26	**17.4**	15.2
Total non-current assets		**2,277.4**	2,239.1
Current assets			
Inventories	19	**933.2**	1,016.8
Trade and other receivables	20	**594.6**	610.3
Current tax assets		**0.8**	10.9
Other financial assets	26	**8.3**	1.4
Current asset investments	21	**–**	100.0
Cash and cash equivalents	22	**194.3**	159.3
Total current assets		**1,731.2**	1,898.7
Total assets		**4,008.6**	4,137.8
LIABILITIES			
Non-current liabilities			
Trade and other payables	23	**(55.8)**	(58.7)
Provisions	24	**(187.5)**	(187.4)
Deferred tax liabilities	27	**(21.9)**	(24.5)
Retirement benefit obligations	25	**(115.3)**	(7.5)
Total non-current liabilities		**(380.5)**	(278.1)
Current liabilities			
Trade and other payables	23	**(944.9)**	(1,047.5)
Provisions	24	**(47.8)**	(20.4)
Other financial liabilities	26	**(5.2)**	(29.4)
Current tax liabilities		**(4.8)**	(21.2)
Total current liabilities		**(1,002.7)**	(1,118.5)
Total liabilities		**(1,383.2)**	(1,396.6)
Net assets		**2,625.4**	2,741.2
EQUITY			
Share capital	28	**81.3**	81.3
Capital redemption reserve	29	**6.4**	6.4
Merger reserve	29	**(348.4)**	(348.4)
Other reserves	29	**8.6**	(5.6)
Retained earnings		**2,877.5**	3,007.5
Total equity		**2,625.4**	2,741.2

The financial statements on pages 52 to 96 were approved by the Board of Directors on 2 May 2012 and were signed on its behalf by:

Terry Duddy,
Chief Executive

Richard Ashton,
Finance Director

Consolidated statement of changes in equity

For the 53 weeks ended 3 March 2012

	Notes	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 27 February 2011		81.3	6.4	(348.4)	(5.6)	3,007.5	2,741.2
Profit for the year		–	–	–	–	72.8	72.8
Other comprehensive income		–	–	–	11.4	(90.9)	(79.5)
Total comprehensive income for the year ended 3 March 2012		–	–	–	11.4	(18.1)	(6.7)
Transactions with owners:							
Movement in share-based compensation reserve	30	–	–	–	–	8.9	8.9
Net movement in own shares	29	–	–	–	2.8	(2.7)	0.1
Equity dividends paid during the year	12	–	–	–	–	(117.5)	(117.5)
Other distributions		–	–	–	–	(0.6)	(0.6)
Total transactions with owners		–	–	–	2.8	(111.9)	(109.1)
Balance at 3 March 2012		**81.3**	**6.4**	**(348.4)**	**8.6**	**2,877.5**	**2,625.4**

	Notes	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 28 February 2010		87.7	–	(348.4)	46.6	3,080.7	2,866.6
Profit for the year		–	–	–	–	190.9	190.9
Other comprehensive income		–	–	–	(49.1)	2.7	(46.4)
Total comprehensive income for the year ended 26 February 2011		–	–	–	(49.1)	193.6	144.5
Transactions with owners:							
Movement in share-based compensation reserve	30	–	–	–	–	11.9	11.9
Shares purchased for cancellation	28, 29	(6.4)	6.4	–	–	(150.2)	(150.2)
Net movement in own shares	29	–	–	–	(3.1)	(3.2)	(6.3)
Equity dividends paid during the year	12	–	–	–	–	(123.9)	(123.9)
Other distributions		–	–	–	–	(1.4)	(1.4)
Total transactions with owners		(6.4)	6.4	–	(3.1)	(266.8)	(269.9)
Balance at 26 February 2011		81.3	6.4	(348.4)	(5.6)	3,007.5	2,741.2

Consolidated statement of cash flows

For the 53 weeks ended 3 March 2012

	Notes	**53 weeks ended 3 March 2012 £m**	52 weeks ended 26 February 2011 £m
Cash flows from operating activities			
Cash generated from operations	34	**234.5**	278.8
Tax paid		**(26.8)**	(11.3)
Net cash inflow from operating activities		**207.7**	267.5
Cash flows from investing activities			
Acquisition of business	14	**(24.5)**	–
Purchase of property, plant and equipment		**(97.1)**	(102.2)
Proceeds from the disposal of property, plant and equipment		**3.9**	3.4
Purchase of other intangible assets		**(37.8)**	(43.9)
Loans granted to joint ventures and associates		**(1.2)**	(0.4)
Purchase of investments		**(0.9)**	(151.4)
Disposal of investments		**100.0**	100.0
Interest received		**2.4**	2.6
Net cash used in investing activities		**(55.2)**	(191.9)
Cash flows from financing activities			
Repurchase of own shares		**–**	(150.2)
Purchase of shares for Employee Share Trust	29	**–**	(6.7)
Proceeds from disposal of shares held by Employee Share Trust		**0.1**	0.4
Dividends paid	12	**(117.5)**	(123.9)
Net cash used in financing activities		**(117.4)**	(280.4)
Net increase/(decrease) in cash and cash equivalents		**35.1**	(204.8)
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	22	**159.3**	364.0
Effect of foreign exchange rate changes		**(0.1)**	0.1
Net increase/(decrease) in cash and cash equivalents		**35.1**	(204.8)
Cash and cash equivalents at the end of the year	22	**194.3**	159.3

Analysis of net cash/(debt)

At 3 March 2012

Non-GAAP measures	*Notes*	***3 March 2012 £m***	*26 February 2011 £m*
Financing net cash:			
Cash and cash equivalents	*22*	***194.3***	*159.3*
Current asset investments	*21*	***–***	*100.0*
Total financing net cash		***194.3***	***259.3***
Operating net debt:			
Off balance sheet operating leases		***(2,701.7)***	*(2,874.1)*
Total operating net debt		***(2,701.7)***	***(2,874.1)***
Total net debt		***(2,507.4)***	***(2,614.8)***
Adjusted for:			
Off balance sheet operating leases		***2,701.7***	*2,874.1*
Current asset investments	*21*	***–***	*(100.0)*
Total cash and cash equivalents reflected in balance sheet		***194.3***	***159.3***

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 capitalised value of these leases is £2,701.7m (2011: £2,874.1m), based upon discounting the current rentals at the estimated current long-term cost of borrowing of 3.4% (2011: 4.1%).

Current asset investments in the comparative period comprised term cash deposits invested for initial terms of between six and nine months, which matured after the balance sheet date. There are no such investments at 3 March 2012. The analysis of net cash/(debt) forms part of the notes to the financial statements.

Notes to the financial statements

For the 53 weeks ended 3 March 2012

1. GENERAL INFORMATION

Home Retail Group plc (the Company), which is the ultimate parent company of Home Retail Group (the Group), is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and listed on the London Stock Exchange. The Group is a home and general merchandise retailer. These consolidated financial statements were authorised for issue by the Board of Directors on 2 May 2012.

The financial year represents the 53 weeks to 3 March 2012 (prior financial year 52 weeks to 26 February 2011).

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee interpretations (IFRICs) as adopted by the European Union. They also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

2. BASIS OF PREPARATION

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 applied in the preparation of these consolidated financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

Basis of consolidation

The Group financial statements consist of the financial statements of the ultimate parent company (Home Retail Group plc), entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates. The accounting policies of subsidiaries are consistent with the policies adopted by the Group for the purposes of the Group's consolidation.

Subsidiaries

A subsidiary is an entity whose operating and financing policies are controlled by the Group. Subsidiaries are consolidated from the date on which control was transferred to the Group. Subsidiaries cease to be consolidated from the date that the Group no longer has control. Intercompany transactions, balances and unrealised gains on transactions between Home Retail Group companies have been eliminated on consolidation.

Joint ventures and associates

Joint ventures are entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other interested parties under a contractual agreement. Associates are entities over which the Group has significant influence but not control. The equity method is used to account for investments in joint ventures and associates and investments are initially recognised at cost.

The Group's share of net assets of its joint ventures and associates is included on the Group balance sheet. The Group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in its income statement. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. The carrying amount of an investment in a joint venture or associate is tested for impairment by comparing its recoverable amount to its carrying amount whenever there is an indication that the investment may be impaired.

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method. The cost of business acquisitions is the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill.

Changes in accounting standards

There are no new standards, amendments to existing standards or interpretations that are effective for the first time for the current year that would be expected to have a material impact on the Group.

At the balance sheet date a number of new standards and amendments to existing standards were in issue but not yet effective:

- Amendment to IAS 19 (revised) – 'Employee Benefits': Amendment in June 2011 relating to recognition and measurement of defined benefit pension expense and termination benefits and disclosures for all employee benefits;
- IFRS 9 – 'Financial Instruments': addresses the classification, measurement and recognition of financial assets and financial liabilities;
- IFRS 10 – 'Consolidated Financial Statements': identifies the concept of control as the determining factor in whether an entity should be included within consolidated financial statements;
- IFRS 11 – 'Joint Arrangements': focuses on the rights and obligations of an arrangement rather than its legal form and classifies joint arrangements as either a joint operation or a joint venture;
- IFRS 12 – 'Disclosure of Interests in Other Entities': includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles; and
- IFRS 13 – 'Fair Value Measurement': provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Group has not early-adopted any of these new standards or amendments to existing standards. 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.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's best judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods where appropriate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Taxes

The Group is subject to taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective income tax and deferred tax provisions in the year in which such determination is made.

Post-employment benefits

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligations and net pension costs include the expected long-term rate of return on the relevant scheme assets and the discount rate. Any changes in these assumptions may impact the amounts disclosed in the Group's balance sheet and income statement.

The expected return on scheme assets is calculated by reference to the scheme investments at the year-end and is a weighted average of the expected returns on each main asset type (based on market yields available on these asset types at the year-end).

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

2. BASIS OF PREPARATION CONTINUED

The Group determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Group considers the market yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability. Other key assumptions for defined benefit obligations and pension costs are based in part on market conditions at the relevant year-ends and additional information is disclosed in note 25.

Impairment of goodwill

Goodwill is allocated to cash-generating units (CGUs) at the level of each business segment. The Group is required to assess whether goodwill has suffered any impairment loss on an annual basis, based on the recoverable amount, being the higher of the CGU's fair value less costs to sell and its value-in-use. The value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates as disclosed in note 15. Actual outcomes could vary from these estimates.

Impairment of assets

Assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. In the case of store assets, a CGU may represent a single store or a group of stores.

Assets (or CGUs) are written down to their recoverable amount, which is the higher of fair value less costs to sell and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. This includes estimates of both the expected cash flows and an appropriate discount rate which use management's assumptions and estimates of the future performance of the asset. Differences between expectations and the actual cash flows will result in differences in the level of impairment required.

A previously recognised impairment loss is reversed if there has been a significant change in the underlying assumptions used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Impairment of trade receivables

A trade receivable is impaired when there is objective evidence that events since the receivable was established have affected the expected cash flows from the receivable. The Group's impairment provision against trade receivables is established on a portfolio basis, taking into account the level of arrears, past loss experience and defaults based on portfolio trends. The future credit quality of the trade receivable portfolio is subject to uncertainties that could cause actual credit losses to differ materially from the reported impairment provision against trade receivables. These uncertainties include the economic environment, notably the unemployment level, payment behaviour and bankruptcy trends.

Provisions

Provisions have been estimated for onerous leases, insurance, restructuring and other liabilities. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular store or the incidence of insurance claims against the Group. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Inventory provisions

Inventory is carried at the lower of cost and net realisable value, which requires the estimation of the eventual sales price of goods to customers in the future. Net realisable value takes into account slow moving, obsolete and defective inventory. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised as follows:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods to be delivered is recognised when the customer receives delivery of the goods. The Group operates a variety of sales promotion schemes that give rise to goods being sold at a discount to the standard retail price. Revenue is shown net of value added tax, returns and discounts. Commissions receivable on the sale of services for which the Group acts as agent are included within revenue. A provision for estimated returns is made, representing the profit on goods sold during the year which will be returned and refunded after the year-end.

Interest income

Interest income on customer store card accounts and loans is recognised as revenue using the effective interest method.

Foreign currency translation

Functional and presentation currency

The consolidated financial information is presented in sterling, which is the Company's functional and the Group's presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement with the exception of differences on transactions that are subject to effective cash flow hedges. Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the income statement as appropriate.

Group companies

The results and financial position of overseas Home Retail Group entities are translated into sterling as follows:

- assets and liabilities are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at the average exchange rate for the period; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. Tax charges and credits attributable to those exchange differences are taken directly to equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors and Operating Board that makes strategic decisions.

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary, associate or joint venture acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment. Goodwill is stated at cost less any provision for impairment. Goodwill is not amortised and is tested at least annually for impairment. An impairment charge is recognised where the carrying value of goodwill exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Group's retail businesses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, allocated where necessary on the basis of relative fair value.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. Intangible assets acquired separately from the acquisition of a business are capitalised at cost. Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

The cost of other intangible assets with finite useful economic lives is amortised over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired, they are written down to the higher of fair value less costs to sell and value-in-use.

Brands

Acquired brands have a finite useful life and are initially recognised at fair value at the date of acquisition and subsequently held at cost less accumulated amortisation. Amortisation is calculated to spread the cost of the brands over their estimated useful lives of 10 years on a straight-line basis. This amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are held at cost and are amortised on a straight-line basis over three to five years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over 3 to 10 years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment

Property, plant and equipment are held at cost, being the purchase price and other costs directly attributable to bringing the asset into use less accumulated depreciation and any impairment in value. An impairment charge is recognised where the carrying value of the asset (or CGU to which the asset belongs) exceeds its recoverable amount, being the higher of the asset's fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Group's businesses.

Depreciation is charged on a straight-line basis as follows:

- freehold properties are depreciated over 50 years;
- leasehold premises are depreciated over the period of the lease;
- plant, vehicles and equipment are depreciated over 2 to 10 years according to the estimated life of the asset;
- land is not depreciated; and
- assets under the course of construction are not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Receivables

Trade

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade receivables recognised in the income statement immediately.

Financial services

The gross margin from the sale of a retail product on extended credit terms is recognised at the time of the sale of the retail product. Income under instalment agreements is credited to the income statement using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost bases in use within the Group are general retail goods valued on a standard cost or weighted average basis which approximates to actual cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventory include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to their purchase.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Current asset investments

Current asset investments includes cash on deposit held with banks, with original maturities of greater than three months.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within 12 months of the balance sheet date. They are recognised initially at fair value and subsequently remeasured at amortised cost.

Current and non-current tax

Current tax and non-current tax are based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Provisions are made for onerous lease contracts for stores that have closed or where a decision to close has been announced, and for those stores where the projected future trading income is insufficient to cover the lower of exit cost or value-in-use.

Provisions are also made for the estimated cost of insurance claims incurred by the Group but not settled at the balance sheet date, restructuring costs and other liabilities.

Insurance

Statutory classes of risk, such as employer liability and certain motor liability, are insured by the Group's captive insurer, Home Retail Group (Guernsey) LP. The Group self-insures other risks and the liabilities associated with these risks are held elsewhere within the Group. The Group accounts for all insurance costs as part of operating costs in these financial statements. Insurance premiums in respect of insurance placed with third parties are charged to the income statement in the period to which they relate.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the life of the lease.

Post-employment benefits

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligations are calculated annually by independent actuaries using the projected-unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution pension plans the Group and employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the year.

Catalogue costs
Costs incurred during the production of the Group's catalogues are deferred on the balance sheet net of any associated advertising revenue and marketing support until the catalogue is made available to the Group, at which point the net deferred cost is charged to the income statement.

Dividends
Dividends proposed by the Board of Directors and unpaid at the year-end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised in the financial statements when they are paid.

Financial instruments
The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value or, where fair value cannot be reliably measured, at cost less impairment. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Accounting for derivative financial instruments and hedging activities
Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as either cash flow hedges or fair value hedges.

The Group documents the relationship between hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in equity are shown in the Group statement of comprehensive income.

Cash flow hedges
The cash flow hedges are intended to hedge the foreign currency exposures of the future purchases of inventory. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to the ineffective portion would be recognised immediately in the income statement. The hedged cash flow is expected to occur up to 14 months into the future and will be transferred to the consolidated income statement via inventory carrying value as applicable.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of forward currency exchange contracts hedging the Group's exposure to foreign currency liabilities is recognised in the income statement within cost of sales.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

Fair value estimation

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price. The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the shares granted is recognised as an expense after taking into account the best estimate of the number of awards expected to vest. The Group revisits the vesting estimate at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes or Monte Carlo models, or closing market price is most appropriate to the award. Market-based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

Non-GAAP financial information

Exceptional items

Items which are both material and non-recurring 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 impairment charges, restructuring costs and the profits/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 before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases and exceptional items.
- Benchmark profit before tax (benchmark PBT) is defined as profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases, exceptional items, financing fair value remeasurements, financing impact on retirement 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.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

There are a number of financial risks and uncertainties which could impact the performance of the Group, being market risk (foreign exchange and interest rate risk), credit risk and liquidity risk. The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties. Further details of the principal risks and uncertainties that could impact the Group's performance, and the Group's mitigating activities, are set out in the principal risks and uncertainties section of the review of the business on pages 30 to 31.

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

Market risk – foreign exchange risk

The Group is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with external banks. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts. The key objective of the Group's foreign exchange transaction exposure management is to minimise potential volatility in profits which could arise as a result of exchange rate fluctuations whilst maintaining an appropriate relative position versus the Group's retail peers.

To achieve the above objectives, the Group will initially seek to hedge up to 90% of any foreign exchange transaction risks expected to arise as a result of uncertain, but probable, foreign currency cash flows up to 14 months forward. This subsequently increases to 100% as cash flows become certain.

Each subsidiary designates contracts as fair value hedges or cash flow hedges, as appropriate. External foreign exchange contracts are designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The cash flow hedges are intended to hedge the foreign currency exposure of future purchases of inventory. The hedged cash flows are expected to occur up to 14 months into the future and will be transferred to the consolidated income statement or inventory carrying value as applicable. The Group has foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is not hedged.

If on 3 March 2012, the last day of the financial year, sterling had been 5 cents, or approximately 3.2% (2011: approximately 3.1%), weaker/stronger against the US dollar, with all other variables held constant, post-tax profit would have been £0.5m lower/higher (2011: £0.4m lower/higher) mainly as a result of foreign exchange losses/gains arising on retranslation of US dollar denominated balances in subsidiary companies with a sterling functional currency. Equity would have been £12.6m higher/lower (2011: £9.6m higher/lower), arising mainly from the revaluation of US dollar forward currency contracts.

If on 3 March 2012, the last day of the financial year, sterling had been 5 cents, or approximately 4.2% (2011: approximately 4.3%), weaker/stronger against the euro, with all other variables held constant, post-tax profit would have been £0.2m lower/higher (2011: £6.4m lower/higher), mainly as a result of foreign exchange losses/gains on retranslation of sterling denominated cash balances in subsidiary companies with a euro functional currency. Equity would have been £0.6m lower/higher (2011: £0.8m lower/higher), arising mainly from the revaluation of euro forward currency contracts net of foreign exchange gains or losses on retranslation of euro-denominated net assets held by subsidiary companies with a euro functional currency.

Market risk – cash flow and fair value interest rate risk

Whilst the Group's Financial Services business has gross instalment receivable balances on fixed interest rates and floating rates, the Group's income and operating cash flows are still considered to be substantially independent of changes in market interest rates.

The Group currently holds a net cash position and has undrawn committed borrowing facilities.

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

4. FINANCIAL RISK MANAGEMENT CONTINUED

The Group's interest rate risk arises from the variance in market rate when deposits are made. This risk is managed by combining overnight deposits with term deposits. Interest rate risk also arises from any future long-term borrowings that it may incur. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The principal objective of the Group's interest rate risk management is to manage the trade-off between obtaining the most beneficial effective rates of interest whilst minimising the impact of interest rate volatility on profits before tax. The aim will normally be to manage interest rate risks by achieving a ratio of between 30% and 70% of net debt fixed rate.

The Group had no borrowings at any point during the year.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of financial services products are made to customers with an appropriate credit history. Customers are credit scored using an external credit agency. Sales to retail customers are made in cash, via major debit and credit cards or via in-house or third party operated financial products.

The Group's exposure to credit risk with regard to treasury transactions is managed by dealing only with major banks and financial institutions. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis. Foreign exchange counterparty limits are set for each organisation on a scale based on credit rating and maturity period.

Group policy is that cash is only deposited with major banks and financial institutions that satisfy the Group's credit requirements. These credit requirements are assessed by reference to published credit ratings and the extent of UK Government investment, and are applied in combination to determine both the maximum amount and the maximum duration of cash deposits. A minimum credit rating of AA- (Standard & Poor's) or Aa3 (Moody's) is required, unless the UK Government has a significant investment, in which case a minimum credit rating of A+ (Standard & Poor's) or A1 (Moody's) is required.

Each deposit made by the Group during the year was compliant with the policy that was effective at the date the deposit was made. Where a term deposit has been made and the counterparty ratings have subsequently reduced, each relevant position has been reviewed and any decision to maintain a position until the normal maturity date has been approved by the Board.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings as follows:

Cash and term deposits and current asset investments

Bank and institution rating at transaction date	Bank and institution rating at 3 March 2012	Maturity date	Cash and short-term cash deposits £m	Current asset investments £m
AAA	AAA	n/a	**94.3**	–
A+	A+	n/a	**100.0**	–
			194.3	–

Bank and institution rating at transaction date	Bank and institution rating at 26 February 2011	Maturity date	Cash and short-term cash deposits £m	Current asset investments £m
AAA	AAA	n/a	159.3	–
AA	AA	10 May 2011	–	50.0
A+	A+	23 August 2011	–	50.0
			159.3	100.0

The current asset investments comprised two term cash deposits, one invested for an initial period of six months and the other for nine months.

Marked to market forward foreign exchange contracts

Bank and institution rating at year end	2012 £m	2011 £m
AA	–	(9.1)
AA-	1.4	(3.0)
A+	0.6	(11.0)
A	0.9	(3.6)
A-	0.2	–
BB+	–	(0.7)
BB	–	(0.6)
	3.1	(28.0)

Of the £3.1m net asset (2011: £28.0m net liability) in respect of marked to market forward foreign exchange contracts held at the year-end, 36% (2011: 46%) will have matured within three months of the balance sheet date.

Liquidity risk
Home Retail Group manages its cash and committed borrowing facilities to maintain liquidity and funding flexibility. Liquidity is achieved through arranging funding ahead of requirements and maintaining sufficient undrawn committed facilities to meet short-term needs. At 3 March 2012, the Group had an undrawn committed borrowing facility available of £700m, £685m of which does not expire until July 2013. This facility includes a covenant related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent. The facility is in place to enable the Group to finance its working capital requirements and for general corporate purposes, should the need arise. The Group has not drawn down on the facility and has been in compliance with the requirements of the covenant throughout the year.

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	At 3 March 2012				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Trade and other payables	(539.5)	–	–	–	(539.5)

	At 26 February 2011				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Trade and other payables	(620.3)	–	–	–	(620.3)

When a forward foreign exchange contract matures, this requires an outflow of the currency being sold and an inflow of the currency being bought. The table below analyses the Group's outflow and inflow from derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	At 3 March 2012				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Forward foreign exchange contracts					
– outflow	(284.4)	(231.2)	(175.7)	(97.6)	(788.9)
– inflow	289.2	232.8	173.7	96.3	792.0

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

4. FINANCIAL RISK MANAGEMENT CONTINUED

	At 26 February 2011				
	Less than 3 months £m	3-6 months £m	6-9 months £m	9-12 months £m	Total £m
Forward foreign exchange contracts					
– outflow	(370.7)	(257.3)	(199.1)	(95.0)	(922.1)
– inflow	357.8	248.0	195.5	92.8	894.1

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal and efficient capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group finances its operations through a combination of retained profits, property leases and borrowing facilities where necessary. The Group has significant liabilities through its obligations to pay rents under property leases. The Group, in common with the credit rating agencies, treats its lease liabilities as debt when evaluating financial risk and investment returns. In addition, the Group's Financial Services business holds a net loan book balance of £457m as at 3 March 2012. The Group has the ability to monetise this loan book, for example by securitising it, should it wish to do so. The Group's net debt varies throughout the year due to trading seasonality, and the position as at 3 March 2012 is set out in the analysis of net cash/(debt) on page 57.

Foreign currency

The principal exchange rates used were as follows:

	Average		Closing	
	53 weeks ended 3 March 2012	52 weeks ended 26 February 2011	**3 March 2012**	26 February 2011
US dollar	**1.60**	1.55	**1.58**	1.61
Euro	**1.16**	1.17	**1.20**	1.17

Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level of the following measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the close of business on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprise investments in quoted managed indexed funds. As at 3 March 2012, these instruments, which are classified as available-for-sale financial assets, had a carrying value of £16.3m (2011: £15.2m).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at 3 March 2012, the fair value of derivative instruments used for hedging purposes was a net asset of £3.1m (2011: £28.0m net liability).

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group has no level 3 instruments to disclose.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices; and
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

5. SEGMENTAL INFORMATION

The Board of Directors and Operating Board review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports, which reflect the distinct retail brands and different risks associated with the different businesses. The Group is organised into three main business segments: Argos, Homebase and Financial Services together with Central Activities. The Board of Directors and Operating Board assess the performance of the operating segments based on a combination of revenue and benchmark operating profit. Benchmark operating profit is defined within note 3.

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Revenue		
Argos	**3,935.3**	4,194.3
Homebase	**1,536.4**	1,550.7
Financial Services	**111.1**	106.9
Central Activities	**–**	–
Total segment revenue	**5,582.8**	5,851.9
Benchmark operating profit		
Argos	**106.9**	219.0
Homebase	**23.8**	47.6
Financial Services	**6.1**	6.0
Central Activities	**(25.1)**	(21.8)
Total segment benchmark operating profit	**111.7**	250.8
Benchmark net financing income	**3.5**	3.2
Share of post-tax profit of joint ventures and associates	**0.5**	0.1
Benchmark profit before tax	**115.7**	254.1
Exceptional items	**(20.3)**	–
Financing fair value remeasurements	**3.3**	5.4
Financing impact on retirement benefit obligations	**4.8**	4.6
Discount unwind on non-benchmark items	**(6.7)**	(6.1)
Amortisation of acquisition intangibles	**(1.2)**	–
Onerous lease provision releases	**8.5**	7.2
Profit before tax	**104.1**	265.2
Taxation	**(31.3)**	(74.3)
Profit for the year attributable to equity holders of the Company	**72.8**	190.9

	2012 £m	2011 £m
Segment assets		
Argos	**2,299.0**	2,393.0
Homebase	**883.8**	891.9
Financial Services	**479.3**	480.4
Central Activities	**100.8**	62.9
Total segment assets	**3,762.9**	3,828.2
Tax assets	**51.4**	50.3
Current asset investments	**–**	100.0
Cash and cash equivalents	**194.3**	159.3
Total assets per balance sheet	**4,008.6**	4,137.8

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

5. SEGMENTAL INFORMATION CONTINUED

Segment assets include goodwill and other intangible assets, property, plant and equipment, investment in joint ventures and associates, inventories, trade and other receivables and other financial assets. Tax assets, current asset investments and cash and cash equivalents are not allocated to segments.

Central Activities' segment assets include £8.3m (2011: £8.0m) in respect of joint ventures and associates.

	2012 £m	2011 £m
Segment liabilities		
Argos	**(628.4)**	(720.8)
Homebase	**(477.6)**	(523.8)
Financial Services	**(34.4)**	(59.9)
Central Activities	**(100.8)**	(38.9)
Total segment liabilities	**(1,241.2)**	(1,343.4)
Tax liabilities	**(26.7)**	(45.7)
Retirement benefit obligations	**(115.3)**	(7.5)
Total liabilities per balance sheet	**(1,383.2)**	(1,396.6)

Segment liabilities include trade and other payables, provisions and other financial liabilities. Tax liabilities and retirement benefit obligations are not allocated to segments.

		53 weeks ended 3 March 2012				
Other segment items	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	17	**(52.2)**	**(42.6)**	**–**	**(4.8)**	**(99.6)**
Amortisation of intangible assets	16	**(21.8)**	**(3.2)**	**(0.7)**	**(1.2)**	**(26.9)**
Share-based payment expense	30	**(3.0)**	**(2.6)**	**(0.5)**	**(2.8)**	**(8.9)**
Additions to property, plant and equipment	17	**45.3**	**45.6**	**–**	**6.2**	**97.1**
Additions to other intangible assets	16	**31.0**	**4.7**	**0.2**	**1.9**	**37.8**

		52 weeks ended 26 February 2011				
Other segment items	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	17	(56.2)	(38.7)	–	(3.8)	(98.7)
Amortisation of intangible assets	16	(25.5)	(2.7)	(0.6)	–	(28.8)
Share-based payment expense	30	(4.6)	(2.7)	(0.5)	(4.1)	(11.9)
Additions to property, plant and equipment	17	37.6	39.2	–	25.4	102.2
Additions to other intangible assets	16	38.3	5.0	0.4	0.2	43.9

Geographical segments

The Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment net assets arise there.

6. ANALYSIS OF REVENUE BY CATEGORY

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Sale of goods	**5,471.7**	5,745.0
Provision of services by Financial Services	**111.1**	106.9
Total	**5,582.8**	5,851.9

7. NET OPERATING EXPENSES

	53 weeks ended 3 March 2012			52 weeks ended 26 February 2011
Expenses by function	Before exceptional items £m	Exceptional items £m	After exceptional items £m	Total £m
Net operating expenses comprise:				
Selling costs	**(1,399.2)**	**(19.8)**	**(1,419.0)**	(1,380.5)
Administrative costs	**(270.6)**	**(0.5)**	**(271.1)**	(242.7)
Total net operating expenses	**(1,669.8)**	**(20.3)**	**(1,690.1)**	(1,623.2)

	Notes	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Profit before tax is stated after charging:			
Operating lease rental expense		**(368.0)**	(370.8)
Cost of inventories recognised as an expense in cost of sales		**(3,677.0)**	(3,856.6)
Write down of inventories		**(117.0)**	(114.1)
Loss on sale of property, plant and equipment		**(1.8)**	(0.7)
Depreciation of property, plant and equipment	17	**(99.6)**	(98.7)
Amortisation of intangible assets	16	**(26.9)**	(28.8)
Employee benefit costs	8	**(691.2)**	(682.0)

Auditors' remuneration	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Audit services:		
Fees payable for the audit of the Company and the consolidated financial statements	**(0.8)**	(0.7)
Other services:		
Fees payable to the Company's auditors and its associates for other services		
– the audit of the Company's subsidiaries pursuant to legislation	**(0.1)**	(0.1)
– services relating to taxation	**(0.2)**	(0.4)
– all other services	**(0.2)**	–
Total fees payable to PricewaterhouseCoopers LLP	**(1.3)**	(1.2)

Notes to the financial statements continued

For the 53 weeks ended 3 March 2012

8. EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS

Employee costs	Notes	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Wages and salaries		**(619.8)**	(608.9)
Social security costs		**(38.4)**	(37.9)
Post-employment benefits	25	**(24.1)**	(23.3)
Share-based payments	30	**(8.9)**	(11.9)
		(691.2)	(682.0)

The basis of calculation of employee costs has been changed during the year ended 3 March 2012, and consequently the comparative employee costs have been represented for consistency. This change has had no impact on the income statement in either the current or prior year.

	53 weeks ended 3 March 2012		52 weeks ended 26 February 2011	
Average number of employees	Number of employees	Full time equivalent	Number of employees	Full time equivalent
Argos	**30,686**	**15,073**	32,296	15,707
Homebase	**19,002**	**10,242**	19,061	10,113
Financial Services	**513**	**448**	511	432
Central Activities	**53**	**53**	47	44
	50,254	**25,816**	51,915	26,296

Key management compensation	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Short-term employee benefits	**(3.4)**	(3.6)
Post-employment benefits	**(1.5)**	(1.4)
Share-based payments	**(1.7)**	(3.2)
	(6.6)	(8.2)

Key management consists of the members of the Home Retail Group plc Board and the managing directors of both retail businesses.

9. EXCEPTIONAL ITEMS

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Reorganisation and restructuring charges	**(20.3)**	–
Exceptional items in operating profit	**(20.3)**	–
Tax on exceptional items in profit before tax	**3.3**	–
Exceptional tax	**3.3**	–
Exceptional loss after tax for the year	**(17.0)**	–

Reorganisation and restructuring actions announced during the 53 weeks to 3 March 2012 include the closure of the Group's UK homewares trial format, HomeStore&More, and the proposed closure of one of the Group's distribution warehouses.

10. NET FINANCING INCOME

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Finance income:		
Bank deposits and other interest	**1.8**	2.6
Expected return on retirement benefit assets	**48.0**	46.9
Financing fair value remeasurements – net exchange gains	**3.5**	7.8
Total finance income	**53.3**	57.3
Finance expense:		
Unwinding of discounts	**(8.4)**	(8.7)
Financing fair value remeasurements – net exchange losses	**(0.2)**	(2.4)
Interest expense on retirement benefit liabilities	**(43.2)**	(42.3)
Total finance expense	**(51.8)**	(53.4)
Less: finance expense charged to Financial Services cost of sales	**3.4**	3.2
Total net finance expense	**(48.4)**	(50.2)
Net financing income	**4.9**	7.1

Included within unwinding of discounts is a £6.7m charge (2011: £6.1m) relating to the discount unwind on non-benchmark onerous lease provisions.

11. TAXATION

Analysis of charge in year	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Current tax:		
UK corporation tax	**(32.2)**	(71.3)
Double tax relief	**1.1**	1.8
Adjustments in respect of prior years	**13.1**	23.7
Total current UK tax charge	**(18.0)**	(45.8)
Overseas tax	**(2.4)**	(3.9)
Total current tax charge	**(20.4)**	(49.7)
Deferred tax:		
Origination and reversal of temporary differences	**(2.5)**	(5.9)
Adjustments in respect of prior years	**(8.3)**	(18.3)
Rate change impact	**(0.1)**	(0.4)
Total tax charge in income statement	**(31.3)**	(74.3)

Tax included in other comprehensive income	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Cash flow hedges	**(5.2)**	16.4
Retirement benefit obligations	**31.5**	(0.5)
Rate change impact	**(1.6)**	(0.2)
Total tax credit in other comprehensive income	**24.7**	15.7

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11. TAXATION CONTINUED

Factors affecting the tax charge

The effective tax rate for the year of 30.1% (2011: 28.0%), is higher than (2011: same as) the standard rate of corporation tax in the UK of 26.0% (2011: 28.0%). This is analysed below:

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Profit before tax	**104.1**	265.2
Profit before tax multiplied by the standard rate of corporation tax in the UK	**(27.1)**	(74.3)
Effects of:		
Benchmark:		
Expenses not deductible for tax purposes	**(7.0)**	(8.6)
Differences in effective tax rates on overseas earnings	**1.4**	2.3
Tax (charge)/credit on non-benchmark profit	**(2.8)**	3.1
Benchmark tax expense	**(35.5)**	(77.5)
Non-benchmark:		
Tax credit on exceptional items	**3.3**	–
Tax charge on non-benchmark items	**(3.8)**	(1.8)
Tax credit in respect of prior years	**4.8**	5.4
Rate change impact	**(0.1)**	(0.4)
Total tax charge in income statement	**(31.3)**	(74.3)

Factors that may affect future tax charges

In the foreseeable future, the Group's tax charge will continue to be influenced by the profile of profits earned in the different tax jurisdictions within the UK and the Republic of Ireland.

The income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 26.0% (2011: 28.0%). Overseas tax is calculated at the rates prevailing in the respective jurisdictions. The impact of the changes in statutory rates relates to the reduction of the UK corporation tax rate from 26.0% to 25.0% from 1 April 2012, the substantively enacted rate, which differs from the recently announced rate of 24.0%. This change has resulted in a deferred tax charge arising from the reduction in the balance sheet carrying value of the net deferred tax asset to reflect the enacted rate of tax at which those assets are expected to reverse.

12. DIVIDENDS

Amounts recognised as distributions to equity holders	**53 weeks ended 3 March 2012 £m**	52 weeks ended 26 February 2011 £m
Final dividend of 10.0p per share (2011: 10.0p) for the prior year	**(79.9)**	(85.8)
Interim dividend of 4.7p per share (2011: 4.7p) for the current year	**(37.6)**	(38.1)
Ordinary dividends on equity shares	**(117.5)**	(123.9)

The Board of Directors does not recommend a final dividend in respect of the year ended 3 March 2012. This would make a total dividend for the year of 4.7p per share, amounting to £37.6m. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends in the amount of £2.1m (2011: £1.9m).

13. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic earnings per share 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 earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares.

Earnings	**53 weeks ended 3 March 2012 £m**	52 weeks ended 26 February 2011 £m
Profit after tax for the financial year	**72.8**	190.9
Adjusted for:		
Exceptional items	**20.3**	–
Financing fair value remeasurements	**(3.3)**	(5.4)
Financing impact on retirement benefit obligations	**(4.8)**	(4.6)
Discount unwind on non-benchmark items	**6.7**	6.1
Amortisation of acquisition intangibles	**1.2**	–
Onerous lease provision releases	**(8.5)**	(7.2)
Attributable taxation	**0.5**	1.8
Non-benchmark tax credit in respect of prior years	**(4.8)**	(5.4)
Tax rate change	**0.1**	0.4
Benchmark profit after tax for the financial year	**80.2**	176.6

Weighted average number of shares	**millions**	millions
Number of ordinary shares for the purpose of basic EPS	**799.4**	827.4
Dilutive effect of share incentive awards	**3.9**	3.9
Number of ordinary shares for the purpose of diluted EPS	**803.3**	831.3

EPS	**pence**	pence
Basic EPS	**9.1**	23.1
Diluted EPS	**9.1**	23.0
Basic benchmark EPS	**10.0**	21.3
Diluted benchmark EPS	**10.0**	21.2

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For the 53 weeks ended 3 March 2012

14. BUSINESS COMBINATION

On 24 June 2011, the Group announced it had agreed to purchase the exclusive rights to the Habitat brand, its brand designs and intellectual property in the UK and the Republic of Ireland, along with the Habitat UK website, three of its London stores and a share of trading stock, for a total purchase price of £24.5m. The Group considers the acquisition to be a significant addition to the existing portfolio of own brands and expects to leverage the Group's multi-channel strength to develop the online proposition. Goodwill of £2.9m has been recognised on this transaction, which represents the synergies, assembled workforce and future growth potential of the business acquired.

	53 weeks ended 3 March 2012 £m
Recognised amounts of identifiable assets acquired and liabilities assumed	
Other intangible assets – brands	18.0
Other identifiable net assets	3.6
Total identifiable net assets	**21.6**
Goodwill (note 15)	2.9
Total consideration paid	**24.5**

The revenue and profit included in the consolidated income statement from the date of acquisition to 3 March 2012 are immaterial in the context of these accounts, so have not been disclosed.

15. GOODWILL

	Argos £m	Homebase £m	Other £m	Total £m
Cost				
At 27 February 2011	1,152.3	770.4	–	1,922.7
Additions (note 14)	–	–	2.9	2.9
At 3 March 2012	**1,152.3**	**770.4**	**2.9**	**1,925.6**
Accumulated impairment				
At 27 February 2011 and 3 March 2012	**–**	**(381.7)**	**–**	**(381.7)**
Net book value at 3 March 2012	**1,152.3**	**388.7**	**2.9**	**1,543.9**

	Argos £m	Homebase £m	Other £m	Total £m
Cost				
At 28 February 2010 and 26 February 2011	1,152.3	770.4	–	1,922.7
Accumulated impairment				
At 28 February 2010 and 26 February 2011	–	(381.7)	–	(381.7)
Net book value at 26 February 2011	1,152.3	388.7	–	1,541.0

Goodwill is allocated to cash-generating units (CGUs) at the level of each business segment. The recoverable amount of each of the business segments is determined as being the higher of its fair value less costs to sell and its value-in-use. These calculations use cash flow projections based on financial plans approved by management looking forward five years. Cash flows are extrapolated using a long-term growth rate beyond the five-year plan period. There are a significant number of inter-connected assumptions that underpin the value-in-use calculations, however the key assumptions, which management believes are appropriate for each business, are:

- a long-term growth rate of 2.0% (2011: 2.5%), which has been used to extrapolate cash flows beyond the five-year plan period. The growth rate is consistent with external forecasts and does not exceed the long-term average growth rate for the UK;
- a post-tax discount rate of 8.5% (2011: 8.5%), which equates to a pre-tax rate of approximately 11.5% (2011: 11.8%), has been estimated taking account of the specific risks inherent within the Group's retail businesses and has been applied to the cash flow projections; and
- benchmark operating profits for the current year, of £106.9m for Argos (2011: £219.0m) and £23.8m for Homebase (2011: £47.6m), have been adjusted into the plan period, incorporating assumptions in respect of sales growth, gross margin and operating costs.

The results of the Group's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above. Analysis of sensitivities to likely and potential changes in key assumptions has therefore been reviewed. At 3 March 2012, the estimated recoverable amount of the Argos business segment calculated on a value-in-use basis exceeded its carrying value by £327m. A decrease in the assumed long-term growth rate by 1.6% points or a decrease of 19% in benchmark operating profit in each and every year would cause the carrying value of the Argos business segment to equal its recoverable amount. Other than as discussed above, management believes that no reasonably possible change in any of the key assumptions would generate a different outcome to the impairment tests as performed.

16. OTHER INTANGIBLE ASSETS

	Computer software £m	Brands £m	Total £m
Cost			
At 27 February 2011	237.7	22.5	260.2
Acquired through business combination	0.5	18.0	18.5
Additions	37.8	–	37.8
Disposals	(29.9)	–	(29.9)
At 3 March 2012	**246.1**	**40.5**	**286.6**
Accumulated amortisation			
At 27 February 2011	(147.7)	(4.7)	(152.4)
Charge for the year	(23.5)	(3.4)	(26.9)
Disposals	29.8	–	29.8
At 3 March 2012	**(141.4)**	**(8.1)**	**(149.5)**
Net book value at 3 March 2012	**104.7**	**32.4**	**137.1**
Assets in the course of construction included above at 3 March 2012	14.6	–	14.6

	Computer software £m	Brands £m	Total £m
Cost			
At 28 February 2010	210.7	22.5	233.2
Additions	43.9	–	43.9
Disposals	(16.9)	–	(16.9)
At 26 February 2011	237.7	22.5	260.2
Accumulated amortisation			
At 28 February 2010	(138.1)	(2.4)	(140.5)
Charge for the year	(26.5)	(2.3)	(28.8)
Disposals	16.9	–	16.9
At 26 February 2011	(147.7)	(4.7)	(152.4)
Net book value at 26 February 2011	90.0	17.8	107.8
Net book value at 28 February 2010	72.6	20.1	92.7
Assets in the course of construction included above at 26 February 2011	19.4	–	19.4

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17. PROPERTY, PLANT AND EQUIPMENT

	Freehold properties £m	Leasehold properties Long leasehold £m	Leasehold properties Short leasehold £m	Plant & equipment £m	Total £m
Cost					
At 27 February 2011	129.8	1.7	341.3	949.4	1,422.2
Exchange differences	–	–	(0.5)	(1.3)	(1.8)
Acquired through business combination	–	–	–	1.4	1.4
Additions	–	–	17.8	79.3	97.1
Disposals	–	–	(7.9)	(50.5)	(58.4)
At 3 March 2012	**129.8**	**1.7**	**350.7**	**978.3**	**1,460.5**
Accumulated depreciation and impairment losses					
At 27 February 2011	(21.4)	(0.4)	(247.3)	(629.7)	(898.8)
Exchange differences	-	–	0.4	1.0	1.4
Charge for the year	(1.8)	–	(16.0)	(81.8)	(99.6)
Disposals	–	–	6.8	46.0	52.8
At 3 March 2012	**(23.2)**	**(0.4)**	**(256.1)**	**(664.5)**	**(944.2)**
Net book value at 3 March 2012	**106.6**	**1.3**	**94.6**	**313.8**	**516.3**
Assets in the course of construction included above at 3 March 2012	–	–	0.7	26.6	27.3

	Freehold properties £m	Leasehold properties Long leasehold £m	Leasehold properties Short leasehold £m	Plant & equipment £m	Total £m
Cost					
At 28 February 2010	108.5	1.7	337.7	923.7	1,371.6
Exchange differences	–	–	(0.9)	(2.3)	(3.2)
Additions	21.3	–	9.8	71.1	102.2
Disposals	–	–	(5.3)	(43.1)	(48.4)
At 26 February 2011	129.8	1.7	341.3	949.4	1,422.2
Accumulated depreciation and impairment losses					
At 28 February 2010	(19.8)	(0.4)	(236.9)	(589.4)	(846.5)
Exchange differences	–	–	0.5	1.6	2.1
Charge for the year	(1.6)	–	(15.7)	(81.4)	(98.7)
Disposals	–	–	4.8	39.5	44.3
At 26 February 2011	(21.4)	(0.4)	(247.3)	(629.7)	(898.8)
Net book value at 26 February 2011	108.4	1.3	94.0	319.7	523.4
Net book value at 28 February 2010	88.7	1.3	100.8	334.3	525.1
Assets in the course of construction included above at 26 February 2011	–	–	3.0	36.1	39.1

Store assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Store assets (or CGU to which the assets belong) are written down to the higher of fair value less costs to sell and value-in-use. The key assumptions for the value-in-use calculations are the same as those detailed for the goodwill impairment model in note 15. Management believes that no reasonably possible change in any of these key assumptions would cause the carrying value of store assets to materially exceed their recoverable amounts.

18. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2012 £m	2011 £m
At 27 February 2011	**8.0**	8.2
Exchange differences	**(0.2)**	(0.3)
Share of profit after tax	**0.5**	0.1
At 3 March 2012	**8.3**	8.0

The Group owns a 33% shareholding in Ogalas Limited (which trades as 'home store + more'), a company incorporated in the Republic of Ireland, and which is reported as an associate.

The Group's share of the revenue of Ogalas Limited for the 53 weeks ended 3 March 2012 is £11.6m (2011: £8.6m) and its share of the profit after tax is £0.5m (2011: £0.1m). At 3 March 2012, the Group's share of the net assets of Ogalas Limited amounted to £8.3m (2011: £8.0m), consisting of assets of £9.9m (2011: £9.2m), which includes goodwill of £4.6m (2011: £4.7m), and liabilities of £1.6m (2011: £1.2m).

In addition, on 19 October 2011, the Group announced that it had agreed to launch a joint venture company to develop a multi-channel, general merchandise retail business in China with Haier Group, one of the world's leading home appliance manufacturers. The Group owns a 49% holding in this venture, HH Retail Limited, which is reported as an associate. At the balance sheet date, HH Retail Limited has undertaken no material transactions. Details of the Group's commitment to invest equity and loans in HH Retail Limited are set out in note 32.

19. INVENTORIES

	2012 £m	2011 £m
Goods for resale	**933.2**	1,016.8

20. TRADE AND OTHER RECEIVABLES

	Current 2012 £m	Non-current 2012 £m	Current 2011 £m	Non-current 2011 £m
Trade receivables:				
– Instalment receivables	**535.2**	**–**	530.1	–
– Other trade receivables	**39.7**	**–**	53.4	–
	574.9	**–**	583.5	–
Less: provision for impairment of receivables	**(82.0)**	**–**	(75.8)	–
	492.9	**–**	507.7	–
Other receivables	**53.7**	**3.8**	55.3	4.3
Prepayments and accrued income	**48.0**	**–**	47.3	–
	594.6	**3.8**	610.3	4.3

The carrying values of current trade and other receivables are a reasonable approximation of their fair values due to their short-term nature. Long-term receivables have been discounted where the time value of money is material. All receivables due after more than one year are due within five years from the balance sheet date. There is no concentration of credit risk with respect to trade receivables, as the Group has a broad customer base. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

As at 3 March 2012, trade receivables of £71.2m (2011: £77.9m) were individually determined to be impaired. The impaired receivables mainly relate to store card holder balances on customer accounts on which indications of possible default have been identified. Provision for impairment of trade receivables is also made on a portfolio basis against trade receivables which are not individually determined to be impaired.

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20. TRADE AND OTHER RECEIVABLES CONTINUED

Movements in the provision for impairment of trade receivables are as follows:

	£m
At 26 February 2011	(75.8)
Charge for the year	(38.0)
Utilised	31.8
At 3 March 2012	**(82.0)**

As at 3 March 2012, trade receivables of £20.5m (2011: £22.9m) were past due but not impaired. These mainly relate to store card holders and corporate customer receivable balances. The ageing analysis of these trade receivables is as follows:

	2012 £m	2011 £m
Less than 3 months	**18.7**	20.2
3 to 6 months	**1.6**	2.2
6 to 9 months	**0.1**	0.3
9 to 12 months	**0.1**	0.2
	20.5	22.9

The other classes within trade and other receivables do not contain impaired assets.

21. CURRENT ASSET INVESTMENTS

	2012 £m	2011 £m
Term cash deposits	**–**	100.0

Current asset investments in the prior year comprised term cash deposits with original maturities of greater than three months.

22. CASH AND CASH EQUIVALENTS

	2012 £m	2011 £m
Cash at bank and in hand	**194.3**	159.3

The effective interest rate during the year ended 3 March 2012 for cash and cash equivalents was 0.8% (2011: 0.7%). The Group has provided letters of credit totalling £12.5m (2011: £12.5m) to Chartis Insurance UK Limited (formerly known as AIG Europe (UK) Limited) as part of their re-insurance agreement. These letters are secured by cash deposits.

23. TRADE AND OTHER PAYABLES

	Current 2012 £m	**Non-current 2012 £m**	Current 2011 £m	Non-current 2011 £m
Trade payables	**(475.5)**	**–**	(499.4)	–
Social security costs and other taxes	**(45.4)**	**–**	(58.7)	–
Accruals and deferred income	**(360.0)**	**(55.8)**	(368.5)	(58.7)
Other payables	**(64.0)**	**–**	(120.9)	–
	(944.9)	**(55.8)**	(1,047.5)	(58.7)

Trade and other payables are non-interest bearing and the fair values are not considered to differ materially from the recognised book values. Long-term payables have been discounted where the time value of money is material.

24. PROVISIONS

	Onerous leases £m	Insurance £m	Restructuring £m	Other £m	Total £m
At 27 February 2011	(157.9)	(31.9)	(7.8)	(10.2)	(207.8)
Transfer from accruals	–	(14.1)	–	–	(14.1)
Exchange differences	0.8	–	–	–	0.8
Charged to the income statement	–	(5.8)	(20.3)	(5.2)	(31.3)
Released to the income statement	8.5	–	–	1.0	9.5
Acquired through business combination	–	–	–	(0.5)	(0.5)
Utilised during the year	3.5	5.1	3.8	4.4	16.8
Discount unwind	(8.4)	–	–	(0.3)	(8.7)
At 3 March 2012	**(153.5)**	**(46.7)**	**(24.3)**	**(10.8)**	**(235.3)**

Analysed as:	2012 £m	2011 £m
Current	**(47.8)**	(20.4)
Non-current	**(187.5)**	(187.4)
	(235.3)	(207.8)

The onerous lease provision covers potential liabilities for onerous lease contracts for stores that have either closed, or where projected future trading income is insufficient to cover the lower of exit cost or value-in-use. Where the value-in-use calculation 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. The majority of this provision is expected to be utilised over the period to 2019.

Provision is made at the year-end for the estimated costs of insurance claims incurred by the Group but not 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 expenses to be incurred in settling claims. The majority of this provision is expected to be utilised over the period to 2017.

A number of organisational changes have been announced to improve the operational efficiency of the Group and drive further cost productivity. Actions announced during the 53 weeks to 3 March 2012 include the closure of the Group's UK homewares trial format, HomeStore&More, and the proposed closure of one of the Group's distribution warehouses. The majority of this provision is expected to be utilised within one year.

Other provisions include legal claims and other sundry provisions. The majority of this provision is expected to be utilised within one year.

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25. POST-EMPLOYMENT BENEFITS

The Group operates both defined benefit and defined contribution schemes. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution scheme is a pension scheme under which both the Group and employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the year.

Pension arrangements for UK employees are operated principally through a defined benefit scheme (the Home Retail Group Pension Scheme) and a defined contribution scheme (the Home Retail Group Stakeholder Pension Scheme). In other countries, benefits are determined in accordance with local practice and regulations and funding is provided accordingly.

Defined benefit schemes

The Home Retail Group Pension Scheme

The scheme has rules which specify the benefits to be paid and is financed accordingly with assets being held in independently administered funds. A full actuarial valuation of this scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the scheme was carried out as at 31 March 2009 by independent, qualified actuaries, Towers Watson, using the projected unit method and resulted in a deficit of £102m. The next full actuarial valuation of the scheme will be carried out as at 31 March 2012.

IAS 19 valuations

The valuations used for IAS 19 have been based on the most recent actuarial funding valuations and have been updated by Lane Clark & Peacock to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at the year end.

The movements during the year in the net obligations recognised in the balance sheet were as follows:

	2012 £m	2011 £m
At 27 February 2011	**(7.5)**	(24.9)
Total charge recognised in the consolidated income statement	**(12.4)**	(12.5)
Actuarial (loss)/gain recognised in the consolidated statement of comprehensive income	**(121.2)**	1.9
Contributions paid	**25.8**	28.0
At 3 March 2012	**(115.3)**	(7.5)

As part of the Group's risk management strategy for liabilities arising under the scheme, certain pensioner liabilities were subject to a buy-in arrangement on 27 May 2011. Under the terms of this arrangement, the scheme paid £278m to an insurance company and will in return receive annuity payments equal to the monthly pensions then in payment. This eliminates the scheme's exposure to the investment, inflation and mortality risks associated with these pensioner members.

The buy-in had no impact on the reported profits of the Group for the year to 3 March 2012, or the liabilities of the scheme as calculated in accordance with IAS 19. The income stream receivable under the insurance contract is an asset of the scheme with a value equal to the related liabilities as measured in accordance with IAS 19. As this asset was less than the cash cost of the buy-in, the transaction reduced the reported assets of the scheme by approximately £45m.

During the year, the Group has paid contributions totalling £25.8m (2011: £28.0m) to the Home Retail Group Pension Scheme including £10.0m (2011: £12.0m) as part of the deficit recovery plan agreed with the scheme trustees following the completion of the 31 March 2009 actuarial valuation. The estimated amount of contributions expected to be paid by the Group during the next financial year is £23m, including £8m as part of the deficit recovery plan.

The amounts recognised in the consolidated balance sheet are determined as follows:

	2012 £m	2011 £m
Fair value of scheme assets	**764.4**	748.8
Present value of funded scheme liabilities	**(861.6)**	(740.8)
(Deficit)/surplus in the funded scheme	**(97.2)**	8.0
Present value of unfunded pension arrangements	**(18.1)**	(15.5)
Retirement benefit obligations recognised in the balance sheet	**(115.3)**	(7.5)

The amounts recognised in the consolidated income statement were as follows:

	2012 £m	2011 £m
Current service cost	**(17.2)**	(17.1)
Discount unwind on scheme liabilities	**(43.2)**	(42.3)
Expected return on scheme assets	**48.0**	46.9
Total charge to consolidated income statement	**(12.4)**	(12.5)

The current service cost includes £1.7m (2011: £1.6m) in respect of unfunded pension arrangements.

The charge is recognised in the following line items in the consolidated income statement:

	2012 £m	2011 £m
Administrative costs	**(17.2)**	(17.1)
Finance expense (note 10)	**(43.2)**	(42.3)
Finance income (note 10)	**48.0**	46.9
Total charge to consolidated income statement	**(12.4)**	(12.5)

The principal actuarial assumptions used to calculate the present value of the defined benefit obligations were as follows:

	2012 %	2011 %
Rate of inflation	**3.1**	3.5
Rate of increase for salaries	**3.1**	4.0
Rate of increase for pensions in payment	**3.0**	3.4
Rate of increase for deferred pensions	**3.0**	3.4
Discount rate	**4.8**	5.7

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For the 53 weeks ended 3 March 2012

25. POST-EMPLOYMENT BENEFITS CONTINUED

The impact of changing material assumptions is as follows:

		2012		2011	
	Increase/ decrease in assumptions	**Indicative effect on scheme liabilities £m**	**Indicative effect on annual service cost £m**	Indicative effect on scheme liabilities £m	Indicative effect on annual service cost £m
Rate of inflation	0.1%	**+/-13.7**	**+/-0.6**	+/-14.5	+/-0.5
Rate of increase for salaries	0.1%	**+/-3.3**	**+/-0.2**	+/-2.9	+/-0.2
Rate of increase for pensions in payment	0.1%	**+/-6.2**	**+/-0.4**	+/-8.1	+/-0.3
Rate of increase for deferred pensions	0.1%	**+/-4.1**	**–**	+/-3.6	+/-0.1
Discount rate	0.1%	**-/+14.9**	**-/+0.6**	-/+15.6	-/+0.5
Life expectancy	1 year	**+/-17.5**	**+/-0.7**	+/-21.3	+/-0.7

The discount rate is based on market yields on high-quality corporate bonds of equivalent currency and term to the defined benefit obligations.

The IAS 19 valuation assumes that mortality will be in line with 'PA92 Series' tables with 'medium cohort' projections for mortality improvements up to the current year. The allowance for mortality improvements beyond the current year is based on medium cohort improvements with a 1% floor.

Based on these assumptions the average expectation of life on retirement in normal health is assumed to be:

- 23.3 years at age 65 for a male currently aged 65 (2011: 23.2)
- 25.7 years at age 65 for a female currently aged 65 (2011: 25.6)
- 24.7 years at age 65 for a male currently aged 50 (2011: 24.6)
- 27.2 years at age 65 for a female currently aged 50 (2011: 27.1)

The assets of the Home Retail Group Pension Scheme and the expected rates of return are summarised as follows:

	2012			2011		
	Fair value £m	**Percentage of scheme assets %**	**Expected long-term rate of return % pa**	Fair value £m	Percentage of scheme assets %	Expected long-term rate of return % pa
Market value of scheme assets:						
Equities	**272.7**	**36**	**6.9**	270.2	36	7.7
Fixed interest securities	**41.7**	**6**	**4.6**	285.7	38	4.8
Fund of hedge funds	**125.5**	**16**	**6.4**	130.4	17	7.2
Insurance policy	**247.7**	**32**	**4.7**[1]	–	–	–
Property	**56.5**	**7**	**5.4**	42.4	6	6.7
Cash and net current assets	**20.3**	**3**	**2.9**	20.1	3	4.2
	764.4	**100**	**5.8**	748.8	100	6.4

Note:
1. Based on the discount rate applicable to the pensioners' liabilities insured under the contract. This is 0.1% pa lower than the discount rate for the scheme as a whole because the duration of the pensioners' liabilities is around 15 years instead of 23 years and the average corporate bond yield net of inflation at this shorter duration was approximately 0.1% pa lower at 3 March 2012.

The overall expected rate of return on scheme assets is the weighted average of the best estimate of the individual asset categories and their inherent expected rates of return.

Changes in the present value of the defined benefit liabilities are as follows:

	2012 £m	2011 £m
Opening defined benefit liabilities	**(756.3)**	(692.6)
Current service cost	**(17.2)**	(17.1)
Interest cost	**(43.2)**	(42.3)
Contributions paid by employees	**(5.2)**	(5.5)
Actuarial loss on liabilities recognised in the statement of comprehensive income	**(76.6)**	(13.4)
Benefits paid	**18.8**	14.6
Closing defined benefit liabilities	**(879.7)**	(756.3)

Changes in the market value of the scheme assets are as follows:

	2012 £m	2011 £m
Opening market value of scheme assets	**748.8**	667.7
Expected return	**48.0**	46.9
Actuarial (loss)/gain on assets recognised in the statement of comprehensive income	**(44.6)**	15.3
Contributions paid by the Group	**25.8**	28.0
Contributions paid by employees	**5.2**	5.5
Benefits paid	**(18.8)**	(14.6)
Closing market value of scheme assets	**764.4**	748.8
Cumulative actuarial loss included in the statement of comprehensive income	**(214.1)**	(92.9)

The actual return on scheme assets was a gain of £3.4m (2011: £62.2m).

The Group has in place arrangements which secure unfunded pension benefit arrangements for certain directors and senior managers by granting charges to an independent trustee over independently managed portfolios of marketable securities owned by the Group. The amount of assets charged in this way is adjusted annually to keep the ratio of assets charged to the discounted value of the accrued benefits secured in this way as close as possible to the corresponding ratio in the Home Retail Group Pension Scheme. The total value of the assets charged in this way at 3 March 2012 was £16.3m (2011: £15.2m). Further details of the pension arrangements for directors appear in the audited part of the directors' remuneration report.

History of experience gains and losses:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit liabilities	**(879.7)**	(756.3)	(692.6)	(550.8)	(562.8)
Fair value of scheme assets	**764.4**	748.8	667.7	504.4	646.5
Net (deficit)/surplus on the scheme	**(115.3)**	(7.5)	(24.9)	(46.4)	83.7
Experience gain/(loss) on scheme liabilities	**0.2**	8.1	(12.1)	1.5	(4.3)
Percentage of scheme liabilities	**–**	1.1%	(1.7%)	0.3%	(0.8%)
Experience (loss)/gain on scheme assets	**(44.6)**	15.3	107.7	(194.3)	(44.8)
Percentage of scheme assets	**(5.8%)**	2.0%	16.1%	(38.5%)	(6.9%)

Defined contribution schemes

The pension cost represents contributions payable by the Group to the defined contribution schemes and amounted to £6.9m (2011: £6.2m). Contributions totalling £0.6m (2011: £0.7m) were payable to the schemes at 3 March 2012 and are included within trade and other payables.

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For the 53 weeks ended 3 March 2012

26. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current 2012 £m	Non-current 2012 £m	Current 2011 £m	Non-current 2011 £m
Other financial assets				
Forward foreign exchange contracts – cash flow hedges	**6.5**	**–**	0.4	–
Forward foreign exchange contracts – fair value hedges	**1.8**	**–**	1.0	–
Available-for-sale financial assets	**–**	**17.4**	–	15.2
Total other financial assets	**8.3**	**17.4**	1.4	15.2
Other financial liabilities				
Forward foreign exchange contracts – cash flow hedges	**(5.2)**	**–**	(19.1)	–
Forward foreign exchange contracts – fair value hedges	**–**	**–**	(10.3)	–
Total other financial liabilities	**(5.2)**	**–**	(29.4)	–

Forward foreign exchange contracts

The forward foreign exchange contracts are intended to hedge the foreign currency exposures of future purchases of inventory. The hedged cash flows are expected to occur up to one year into the future.

Gains and losses recognised in the hedging reserve in shareholders' equity on forward foreign exchange contracts as at the year-end will be released within one year from the balance sheet date. The notional principal amounts of the outstanding forward foreign exchange contracts at 3 March 2012 were £788.9m (2011: £922.1m). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value or, where fair value cannot be reliably measured, at cost less impairment.

27. DEFERRED TAX

	2012 £m	2011 £m
The movements on the net deferred tax account are as follows:		
At 27 February 2011	**14.9**	23.8
Income statement charge (note 11)	**(10.8)**	(24.2)
Rate change impact	**(0.1)**	(0.4)
Tax credited to other comprehensive income	**24.7**	15.7
At 3 March 2012	**28.7**	14.9
The deferred tax amounts recognised are as follows:		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than one year	**50.6**	39.4
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than one year	**(21.9)**	(24.5)
Net deferred tax assets	**28.7**	14.9

Closing deferred tax has been calculated at the substantively enacted UK corporation tax rate of 25.0% (2011: 27.0%), which differs from the recently announced rate of 24.0%. The effect of the reduction in the UK corporation tax rate from 27.0% to 25.0% is a reduction in the net deferred tax asset at the end of 2012 of £1.7m. Of this £1.7m, £1.6m has been charged directly to the consolidated statement of comprehensive income.

The proposed reduction in the main rate of UK corporation tax by 1% per year to 22.0% is expected to be enacted separately each year. The impact of the future rate reductions on the net deferred tax asset are not material for each future year at the balance sheet date. The Group will assess the impact of the reduction in rate in line with its accounting policy in respect of deferred tax at each balance sheet date.

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Asset provisions £m	Accelerated tax depreciation £m	Other £m	Total £m
At 27 February 2011	**30.4**	**–**	**9.0**	**39.4**
Income statement charge	**(12.7)**	**–**	**(0.9)**	**(13.6)**
Tax credited to other comprehensive income	**–**	**–**	**24.7**	**24.7**
Transfer from deferred tax liabilities	**–**	**1.9**	**–**	**1.9**
Rate change impact	**(1.7)**	**–**	**(0.1)**	**(1.8)**
At 3 March 2012	**16.0**	**1.9**	**32.7**	**50.6**

Deferred tax assets	Asset provisions £m	Accelerated tax depreciation £m	Other £m	Total £m
At 28 February 2010	50.9	–	10.7	61.6
Income statement charge	(19.4)	–	(6.1)	(25.5)
Tax charged to other comprehensive income	–	–	(0.5)	(0.5)
Transfer from deferred tax liabilities	–	–	5.0	5.0
Rate change impact	(1.1)	–	(0.1)	(1.2)
At 26 February 2011	30.4	–	9.0	39.4

Other deferred tax assets consist of £29.8m (2011: £4.2m) in respect of defined benefit pension obligations and £2.9m (2011: £4.8m) in respect of other temporary differences.

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27. DEFERRED TAX CONTINUED

Deferred tax liabilities	**Property valuations £m**	**Accelerated tax depreciation £m**	**Other £m**	**Total £m**
At 27 February 2011	**(16.8)**	**(7.7)**	**–**	**(24.5)**
Income statement credit	**1.4**	**1.4**	**–**	**2.8**
Transfer to deferred tax assets	**–**	**(1.9)**	**–**	**(1.9)**
Rate change impact	**1.1**	**0.6**	**–**	**1.7**
At 3 March 2012	**(14.3)**	**(7.6)**	**–**	**(21.9)**

Deferred tax assets	Property valuations £m	Accelerated tax depreciation £m	Other £m	Total £m
At 28 February 2010	(18.9)	(7.7)	(11.2)	(37.8)
Income statement credit/(charge)	1.5	(0.2)	–	1.3
Tax credited to other comprehensive income	–	–	16.2	16.2
Transfer to deferred tax assets	–	–	(5.0)	(5.0)
Rate change impact	0.6	0.2	–	0.8
At 26 February 2011	(16.8)	(7.7)	–	(24.5)

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group has not recognised deferred tax assets of £1.0m (2011: £1.1m) in respect of all non-trading losses, which total £3.9m (2011: £3.9m), that can be carried forward against future taxable income. In addition, the Group has not recognised deferred tax assets of £27.4m (2011: £30.3m) in respect of capital losses, which total £109.6m (2011: £112.3m), that can be carried forward against future taxable gains. These losses are available indefinitely.

28. SHARE CAPITAL

	2012 Number of shares	2012 £m	2011 Number of shares	2011 £m
Authorised				
Ordinary share capital of 10p each	**2,000,500,000**	**200.1**	2,000,500,000	200.1
Allotted, called-up and fully paid				
Ordinary share capital of 10p each				
At 27 February 2011	**813,445,001**	**81.3**	877,445,001	87.7
Purchased for cancellation	**–**	**–**	(64,000,000)	(6.4)
At 3 March 2012	**813,445,001**	**81.3**	813,445,001	81.3

During the year-ended 26 February 2011 the Company purchased for cancellation 64,000,000 of its own ordinary shares of 10p each in the open market at a total cost of £150.2m (including commission and stamp duty).

29. NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Capital redemption reserve

The capital redemption reserve arose as a result of the share buy-back programme that was undertaken during the year-ended 26 February 2011.

Merger reserve

The merger reserve arose on the demerger of the Group from GUS plc during 2006.

Other reserves

	Treasury shares £m	**Hedging reserve £m**	**Translation reserve £m**	**Total other reserves £m**
Balance at 27 February 2011	(27.3)	(13.7)	35.4	(5.6)
Other comprehensive income	–	14.6	(3.2)	11.4
Net movement in own shares	2.8	–	–	2.8
Balance at 3 March 2012	**(24.5)**	**0.9**	**32.2**	**8.6**

	Treasury shares £m	Hedging reserve £m	Translation reserve £m	Total other reserves £m
Balance at 28 February 2010	(24.2)	29.3	41.5	46.6
Other comprehensive income	–	(43.0)	(6.1)	(49.1)
Net movement in own shares	(3.1)	–	–	(3.1)
Balance at 26 February 2011	(27.3)	(13.7)	35.4	(5.6)

The net credit arising on the movement in own shares of £2.8m (2011: debit of £3.1m) represents the utilisation or sale of shares held for the purpose of satisfying obligations arising from the Group's share-based compensation schemes net of the purchase of additional shares to satisfy awards vesting in the future. Shares in Home Retail Group plc are held in the following trusts which have been established since demerger:

Home Retail Group Employee Share Trust (EST)

The EST provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 3 March 2012, the EST held 13,525,067 (2011: 14,730,719) shares with a market value of £14.1m (2011: £32.7m). The shares in the EST are held within equity of the Group at a cost of £21.6m (2011: £23.5m). No shares were acquired during the year (2011: 3,000,000 at a cost of £6.7m). Dividends on these shares are waived.

Home Retail Group Share Incentive Scheme Trust

The Home Retail Group Share Incentive Scheme Trust provides for the issue of shares to Group employees under the Share Incentive Plan. At 3 March 2012, the Trust held 698,305 (2011: 910,832) shares with a market value of £0.7m (2011: £2.0m). These shares are held within equity of the Group at a cost of £2.9m (2011: £3.8m). No additional shares were purchased during the year.

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30. SHARE-BASED PAYMENT ARRANGEMENTS

The Group operates a number of share-based payment schemes. These can be analysed into three categories, being those rolled over from old GUS plc schemes as a result of the demerger from GUS on 11 October 2006, incentive schemes specifically related to the demerger (Demerger incentive schemes) and new Home Retail Group plc schemes subsequent to the demerger.

Prior to the demerger, a number of Home Retail Group plc employees participated in old GUS plc share-based payment schemes. As part of the demerger, some of these schemes had early vesting with vesting occurring prior to completion of the demerger, while others were modified by rolling them over to become Home Retail Group plc share-based payment schemes. Specifically, all executive share option schemes in operation following the demerger from GUS plc were rolled over from a GUS plc share option arrangement to a Home Retail Group plc arrangement. Under IFRS 2, these changes were treated as modifications to the schemes and hence revalued as at the demerger date.

Summary of the total cost of share-based compensation in respect of ordinary shares in the Company

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Share option awards	**(1.6)**	(2.4)
Share grant awards	**(7.3)**	(9.5)
Total expense recognised (all equity-settled)	**(8.9)**	(11.9)

Summary of share option and share award arrangements

During the year ended 3 March 2012, Home Retail Group plc had a number of share option and share award arrangements for its employees, all of which are equity-settled. Details of these arrangements are as follows:

Rolled over from old GUS plc schemes

Share options

The 1998 approved and non-approved executive share option schemes. Under these schemes, the exercise price of granted options was equal to the market price of the shares over the three dealing days preceding grant. The options became exercisable three years from the grant date, subject to the Group's EPS compound annual growth exceeding compound annual retail price inflation by 4% per annum over a continuous three-year period and the employee completing three years' service. The EPS growth target is not a market-based performance condition as defined by IFRS 2. The options have a maximum term of 10 years from grant. No new options have been granted under these schemes since demerger and all outstanding awards have vested.

Demerger incentive schemes

Share awards

The re-investment plan was a three-part scheme running over three, four and five years, under which participants were awarded matching shares. The matching shares are a nil consideration option and were classified as an award of shares because the nature of the award is the same. The percentage of the award distributed to participants is conditional upon continued service, ranking of total shareholder return relative to a comparator group and the achievement of specified performance targets related to the return on invested capital of the Group. The total shareholder return performance condition is considered a market-based performance condition under IFRS 2. Awards under this plan have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation. Awards under all three parts of this scheme have now vested.

The share incentive plan was a one-off free share grant to all employees at the time of the demerger. The shares were acquired by a trust on behalf of participants and will normally be forfeited if a participant's employment with the Group ceases within three years of the grant date. All awards under this plan vested after this initial three-year period in November 2009, at which point participants were able to withdraw their shares, and since November 2011 shares can be withdrawn free of tax. The shares continue to be held by the trust until they are either withdrawn by participants or the awards lapse.

New Home Retail Group plc schemes

Share options

The Home Retail Group plc Sharesave Plan permits the grant to employees of options over the Company's shares linked to a building society save-as-you-earn contract for a term of three or five years with contributions from employees of between £5 and £250 per month. Options are normally capable of being exercised at the end of the three or five-year period at an exercise price calculated at a 20% discount to market price over the three dealing days preceding invitation to participants. Options must be exercised within six months of the end of the three or five-year save-as-you-earn contract.

Share awards

The performance share plan. Awards made under this plan will normally vest three years after the date of grant for nil consideration. For all awards under this plan, vesting is conditional on participants' continued service. For those awards with performance conditions, the percentage of the award distributed to participants is determined either by ranking total shareholder return (TSR) relative to a comparator group or by reference to performance against other specific targets such as EPS growth. The TSR target is considered a market-based performance condition under IFRS 2, and the awards with this performance condition have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation. The EPS growth target is a non market-based performance condition, and the awards with this performance condition have been valued by reference to the share price at the date of grant. The plan was amended in 2010 to add an HM Revenue & Customs approved option to the share awards at no additional cost. The approved option is over the same number of shares as awarded under the normal PSP award, up to a maximum share value of £30,000. The two awards together give participants the same gross value as the normal PSP award only.

The deferred bonus plan permitted the award of a deferred bonus that was converted into a conditional award of shares and operated for the year ended 27 February 2010 only. The award was based on performance against a benchmark PBT and a Group net cash target and was made at the maximum of 150% of salary in May 2010. The grant date was the start of the financial year in which the performance stage was assessed, which was one year before the shares are awarded. Subject to continued employment the shares will vest and be released on a phased basis, for nil consideration. 1/6 vested on the first anniversary of the award, 2/6 will vest on the second anniversary and 3/6 on the third anniversary.

The deferred share plan is a discretionary award of deferred shares. This award has no performance conditions, other than a level of personal performance. Awards made under this plan vest on a phased basis for nil consideration; being 1/6 one year after the award is made, 2/6 two years after the award is made and 3/6 three years after the award is made. The executive directors did not participate in this plan.

Information relating to share option valuation techniques

The weighted average fair value of options granted during the year over the Company's shares under the Home Retail Group plc Sharesave Plan, determined using the Black-Scholes option pricing model, was £0.15 (2011: £0.27) per option. The significant inputs into the option pricing model were as follows:

	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Weighted average:		
Share price on grant date (£)	**1.64**	2.10
Exercise price (£)	**1.71**	2.00
Expected volatility	**43.6%**	46.3%
Expected dividend yield	**7.6%**	7.0%
Risk free interest rate	**1.7%**	2.0%
Expected option life to exercise	**3.4 years**	3.7 years

Expected volatility is a measure of expected fluctuations in the share price over the expected life of an option. For each financial year the measure of volatility used by the Company in its pricing model has been calculated by using implied volatility from market quoted prices of traded options over the Company's shares.

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30. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

Reconciliation of movement in the number of share options

	53 weeks ended 3 March 2012		52 weeks ended 26 February 2011	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Outstanding at beginning of year	**18,843,864**	**2.33**	19,663,411	2.41
Granted	**6,256,209**	**1.71**	3,097,096	2.00
Forfeited	**(9,687,576)**	**1.96**	(3,469,209)	2.44
Exercised	**(19,709)**	**1.90**	(184,091)	1.91
Expired	**(736,499)**	**3.73**	(263,343)	3.45
Outstanding at year-end	**14,656,289**	**2.26**	18,843,864	2.33
Exercisable at year-end	**3,102,350**	**3.54**	3,788,433	3.61

The weighted average share price for share options exercised during the year was £2.16 (2011: £2.40).

Share options outstanding at the end of the year

Share options at the end of the year had the following exercise prices and remaining contractual lives:

	As at 3 March 2012			
		Weighted average exercise price	Weighted average remaining lives	
Range of exercise prices £	Number of options	£	Expected years	Contractual years
1.00 – 1.99	**7,712,241**	**1.77**	**2.4**	**2.9**
2.00 – 2.99	**3,493,512**	**2.00**	**1.7**	**2.2**
3.00 – 3.99	**3,450,536**	**3.63**	**0.1**	**2.9**

	As at 26 February 2011			
		Weighted average exercise price	Weighted average remaining lives	
Range of exercise prices £	Number of options	£	Expected years	Contractual years
1.00 – 1.99	9,153,094	1.90	1.3	1.8
2.00 – 2.99	5,396,583	2.00	2.6	3.1
3.00 – 3.99	4,294,187	3.64	0.1	3.6

Information relating to share award valuation techniques

The value of the awards is determined as the observed market closing share price on the date awarded grants are issued to participants. For the deferred bonus plan, this occurs after the first year of performance is assessed. The performance share plan's and the re-investment plan's market-based performance condition is included in the fair value measurement on grant date and is not revised for actual performance.

All of the share awards are equity-settled. Under the share awards, the participants have an entitlement to either dividend equivalents or dividend distributions from issue date until point of vesting. The observed market share price on the day of valuation is considered inclusive of future dividend distributions.

There were 8,663,902 ordinary share awards (2011: 9,125,521) granted during the year with a weighted average fair value of £1.66 (2011: £1.88).

31. OPERATING LEASES

	2012 £m	2011 £m
Future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Less than one year	**(357.8)**	(364.7)
Between one and five years	**(1,248.7)**	(1,308.1)
More than five years	**(1,678.2)**	(1,994.9)
Total operating leases	**(3,284.7)**	(3,667.7)

The Group leases various retail stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses, contingent rentals and renewal rights.

32. COMMITMENTS

	2012 £m	2011 £m
Capital expenditure for which contracts have been placed:		
Property, plant and equipment	**(2.6)**	(13.1)
Intangible assets	**(2.0)**	(3.2)
Total commitments	**(4.6)**	(16.3)

In addition, the Group is committed to providing £9.1m to its associate, HH Retail Limited and its subsidiaries, by way of equity and loans with a further £12.8m becoming payable subject to the fulfilment of certain conditions.

33. CONTINGENT LIABILITIES

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Profit before tax	**104.1**	265.2
Adjustments for:		
Share of post-tax profit of joint ventures and associates	**(0.5)**	(0.1)
Net financing income	**(4.9)**	(7.1)
Operating profit	**98.7**	258.0
Loss on sale of property, plant and equipment	**1.8**	0.7
Depreciation and amortisation	**126.5**	127.5
Finance expense charged to Financial Services cost of sales	**3.4**	3.2
Decrease/(increase) in inventories	**85.8**	(81.4)
Decrease/(increase) in receivables	**16.1**	(27.5)
(Decrease)/increase in payables	**(102.5)**	19.0
Movement in working capital	**(0.6)**	(89.9)
Increase/(decrease) in provisions	**5.0**	(20.3)
Movement in retirement benefit obligations	**(8.6)**	(10.9)
Share-based payment expense (net of dividend equivalent payments)	**8.3**	10.5
Cash generated from operations	**234.5**	278.8

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35. RELATED PARTIES

The ultimate parent company of the Group is Home Retail Group plc. The principal subsidiary and associated undertakings at 3 March 2012 are shown in note 37. Transactions between Home Retail Group plc and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Transactions carried out with related parties in the normal course of business are summarised below:

Associates

The Group provided an amount of £1.2m by way of loan to its associate, Ogalas Limited. At 3 March 2012, the amount owed by Ogalas Limited to the Group was £1.1m. There were no other material transactions between the Group and its associates.

Key management personnel

Remuneration of key management personnel is disclosed in note 8. During the year, there were no material transactions or balances between the Group and its key management personnel or members of their close families.

36. POST BALANCE SHEET EVENTS

There are no material post balance sheet events.

37. PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	Description	Country of incorporation	Percentage of ordinary shares held
Home Retail Group (UK) Limited*	Group holding company	England	100
Argos Limited	General merchandise retailing	England	100
Argos Distributors (Ireland) Limited	General merchandise retailing	Republic of Ireland	100
Homebase Limited	Home enhancement retailing	England	100
Homebase House and Garden Centre Limited	Home enhancement retailing	Republic of Ireland	100
Hampden Group Limited	Home enhancement retailing	Northern Ireland	100
Home Retail Group Card Services Limited	Financial services	England	100
ARG Personal Loans Limited	Financial services	England	100
Argos Business Solutions Limited	Financial services	England	100
Home Retail Group Insurance Services Limited	Financial services	England	100
Home Retail Group (Hong Kong) Limited	Product sourcing for the Home Retail Group companies	Hong Kong	100

* Held directly by the Parent Company.

Details of interests in associated undertakings are given within note 18.

Independent auditors' report to the members of Home Retail Group plc – Parent

We have audited the Parent Company financial statements of Home Retail Group plc for the 53 weeks ended 3 March 2012 which comprise the Parent Company balance sheet, the Parent Company statement of changes in equity, the Parent Company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 3 March 2012 and of its cash flows for the 53 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial period for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Home Retail Group plc for the 53 weeks ended 3 March 2012.

Neil Grimes
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 May 2012

Parent Company balance sheet

At 3 March 2012

	Notes	3 March 2012 £m	26 February 2011 £m
ASSETS			
Non-current assets			
Investment in subsidiary	6	**2,895.6**	2,895.6
Total non-current assets		**2,895.6**	2,895.6
Current assets			
Trade and other receivables	7	**14.1**	25.5
Total current assets		**14.1**	25.5
Total assets		**2,909.7**	2,921.1
LIABILITIES			
Current liabilities			
Trade and other payables	8	**(767.7)**	(658.5)
Total current liabilities		**(767.7)**	(658.5)
Total liabilities		**(767.7)**	(658.5)
Net assets		**2,142.0**	2,262.6
EQUITY			
Share capital	9	**81.3**	81.3
Capital redemption reserve		**6.4**	6.4
Retained earnings		**2,054.3**	2,174.9
Total equity		**2,142.0**	2,262.6

The financial statements on pages 98 to 103 were approved by the Board of Directors on 2 May 2012 and were signed on its behalf by:

Terry Duddy,
Chief Executive

Richard Ashton,
Finance Director

Parent Company statement of changes in equity

For the 53 weeks ended 3 March 2012

		Attributable to equity holders of the Company			
	Notes	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 27 February 2011		81.3	6.4	2,174.9	2,262.6
Loss for the year	4	–	–	(11.4)	(11.4)
Other comprehensive income		–	–	–	–
Total comprehensive income for the year ended 3 March 2012		–	–	(11.4)	(11.4)
Transactions with owners:					
Movement in share-based compensation reserve	3	–	–	8.9	8.9
Equity dividends paid during the year	5	–	–	(117.5)	(117.5)
Other distributions		–	–	(0.6)	(0.6)
Total transactions with owners		–	–	(109.2)	(109.2)
Balance at 3 March 2012		**81.3**	**6.4**	**2,054.3**	**2,142.0**

		Attributable to equity holders of the Company			
	Notes	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 28 February 2010		87.7	–	2,450.0	2,537.7
Loss for the year	4	–	–	(11.5)	(11.5)
Other comprehensive income		–	–	–	–
Total comprehensive income for the year ended 26 February 2011		–	–	(11.5)	(11.5)
Transactions with owners:					
Movement in share-based compensation reserve	3	–	–	11.9	11.9
Shares purchased for cancellation	9	(6.4)	6.4	(150.2)	(150.2)
Equity dividends paid during the year	5	–	–	(123.9)	(123.9)
Other distributions		–	–	(1.4)	(1.4)
Total transactions with owners		(6.4)	6.4	(263.6)	(263.6)
Balance at 26 February 2011		81.3	6.4	2,174.9	2,262.6

Parent Company statement of cash flows

For the 53 weeks ended 3 March 2012

There were no cash movements during the year for the Company as any cash transactions were executed by other members of the Home Retail Group on behalf of the Company. As a result no statement of cash flows has been presented in these financial statements.

Notes to the Parent Company financial statements

For the 53 weeks ended 3 March 2012

1. GENERAL INFORMATION

Home Retail Group plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (the Act) and listed on the London Stock Exchange. The Company's registered number is 5863533 and the registered office of the Company is Avebury, 489 – 499 Avebury Boulevard, Milton Keynes MK9 2NW.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee interpretations (IFRICs) as adopted by the European Union. They also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

2. BASIS OF PREPARATION

These separate financial statements of the Company 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 and share-based payments.

The Company is the ultimate parent entity of Home Retail Group (the Group). The Company's financial statements are included in Home Retail Group plc's consolidated financial statements for the 53 weeks ended 3 March 2012. As permitted by section 408 of the Act, the Company has not presented its own income statement or statement of comprehensive income.

The investment in Home Retail Group (UK) Limited has also been recorded at the nominal value of shares issued, under the provisions of section 615 of the Act.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The Company's principal accounting policies are the same as those set out in note 3 of the Group financial statements, with the addition of those noted below. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

Investments

Investments are included in the balance sheet at their cost of acquisition. Where appropriate, a provision is made for any impairment in their value.

Loans and other payables

Loans from other Group undertakings and all other payables are initially recorded at fair value, which represents the proceeds received. They are then subsequently carried at amortised cost, less any provision for impairment as appropriate.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans. Awards are granted to employees of the Company's subsidiaries, and the Company is reimbursed by its subsidiaries for the fair value of the shares granted over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes or Monte Carlo models, or closing market price is most appropriate to the award. Market based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance. Further details of the Company's share-based compensation plans are set out in note 30 to the Group financial statements.

4. INCOME STATEMENT DISCLOSURES

The Company's retained loss for the financial year was £11.4m (2011: £11.5m).

The Company had no employees in either year, other than the Company directors. No directors received any remuneration from the Company during either year. Further information on directors' remuneration, which forms part of the audited Group financial statements, can be found in the directors' remuneration report on pages 42 to 46.

There were no non-audit services provided by the Company's auditors PricewaterhouseCoopers LLP.

5. DIVIDENDS

Amounts recognised as distributions to equity holders	53 weeks ended 3 March 2012 £m	52 weeks ended 26 February 2011 £m
Final dividend of 10.0p per share (2011: 10.0p) for the prior year	**(79.9)**	(85.8)
Interim dividend of 4.7p per share (2011: 4.7p) for the current year	**(37.6)**	(38.1)
Ordinary dividends on equity shares	**(117.5)**	(123.9)

The Board of Directors does not recommend a final dividend in respect of the year ended 3 March 2012. This would make a total dividend for the year of 4.7p per share, amounting to £37.6m. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends in the amount of £2.1m (2011: £1.9m).

6. INVESTMENT IN SUBSIDIARY

	2012 £m	2011 £m
Cost		
At beginning and end of the year	**2,895.6**	2,895.6

The Company's sole investment is in Home Retail Group (UK) Limited, which is a 100% owned subsidiary incorporated within the UK and is a Group holding company.

Details of indirectly held subsidiaries, joint ventures and associates are disclosed in note 37 of the Group financial statements.

Notes to the Parent Company financial statements continued

For the 53 weeks ended 3 March 2012

7. TRADE AND OTHER RECEIVABLES

	Current 2012 £m	Current 2011 £m
Amount owed by related party (note 11)	**14.1**	25.5

The amount owed by a related party was unsecured, repayable on demand and non-interest bearing. No balance owed by a related party is past due. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The amount owed by a related party of £14.1m (2011: £25.5m) is due from the Home Retail Group Employee Share Trust (EST). The Company advances funds to the EST by way of a loan, in order that the EST may acquire shares for the purpose of satisfying obligations arising from the Group's share-based compensation schemes. As the shares acquired by the EST are utilised to satisfy these obligations, at times for nil cash consideration, the EST will be unable to repay the loan in full. It is therefore disclosed net of a provision for impairment of £22.9m (2011: £11.5m).

Movements in the provision for impairment are as follows:

	£m
At 26 February 2011	(11.5)
Charge for the year	(11.4)
At 3 March 2012	**(22.9)**

8. TRADE AND OTHER PAYABLES

	Current 2012 £m	Current 2011 £m
Amounts owed to Group companies (note 11)	**(766.9)**	(657.8)
Other creditors	**(0.8)**	(0.7)
	(767.7)	(658.5)

All amounts owed to Group companies are unsecured, non-interest bearing and repayable on demand. The fair values of trade and other payables balances are not considered to differ materially from the recognised book values.

9. SHARE CAPITAL

	2012 Number of shares	2012 £m	2011 Number of shares	2011 £m
Authorised				
Ordinary share capital of 10p each	**2,000,500,000**	**200.1**	2,000,500,000	200.1
Allotted, called-up and fully paid				
Ordinary share capital of 10p each				
At 27 February 2011	**813,445,001**	**81.3**	877,445,001	87.7
Purchased for cancellation	**–**	**–**	(64,000,000)	(6.4)
At 3 March 2012	**813,445,001**	**81.3**	813,445,001	81.3

During the year-ended 26 February 2011 the Company purchased for cancellation 64,000,000 of its own ordinary shares of 10p each in the open market at a total cost of £150.2m (including commission and stamp duty).

10. COMMITMENTS

On 12 July 2006, Argos Limited, a subsidiary of the Company, entered into a five-year multi-currency revolving loan facility of £700m with a syndicated group of banks. This facility has since been extended by one year and then subsequently £685m of this facility has been extended a further year. On 27 October 2006 the Company acceded to this facility as a borrower and a guarantor. As at the balance sheet date there were no drawings made under this facility.

There are no capital or operating lease commitments.

11. RELATED PARTY TRANSACTIONS

The principal subsidiary undertakings of the Company are shown in note 37 of the Group financial statements. Transactions between the Company and its subsidiaries and the Home Retail Group Employee Share Trust (EST) are shown below. All transactions carried out with related parties are in the normal course of business.

	2012 £m	2011 £m
Transactions with subsidiary undertakings		
Recharge of costs	**8.9**	11.9
Transfer of cash to the EST by subsidiary undertakings on behalf of the Company	**–**	6.7
Settlement of liabilities by subsidiary undertakings on behalf of the Company	**118.1**	275.5
Amounts owed to subsidiary undertakings	**(766.9)**	(657.8)
Transactions with other related parties		
Amount owed by other related party – EST (note 7)	**14.1**	25.5

Group five-year summary

Income statement	52-week pro forma to 25 February 2012 £m	52-week period to 26 February 2011 £m	52-week period to 27 February 2010 £m	52-week period to 28 February 2009 £m	52-week period to 1 March 2008 £m
Argos	**3,872.6**	4,194.3	4,346.8	4,281.9	4,320.9
Homebase	**1,509.8**	1,550.7	1,571.9	1,513.2	1,568.5
Financial Services	**109.1**	106.9	104.0	102.3	95.4
Sales	**5,491.5**	5,851.9	6,022.7	5,897.4	5,984.8
Argos	**94.2**	219.0	266.2	303.6	376.2
Homebase	**22.8**	47.6	41.2	14.9	45.1
Financial Services	**6.0**	6.0	5.7	6.1	5.5
Central Activities	**(25.3)**	(21.8)	(23.4)	(24.2)	(28.8)
Benchmark operating profit	**97.7**	250.8	289.7	300.4	398.0
Net financing income	**3.4**	3.2	5.2	29.7	33.3
Share of post-tax profit/(loss) of joint ventures and associates	**0.5**	0.1	(2.0)	(2.4)	1.6
Benchmark PBT	**101.6**	254.1	292.9	327.7	432.9

Statistics

Argos	52-week pro forma to 25 February 2012	52-week period to 26 February 2011	52-week period to 27 February 2010	52-week period to 28 February 2009	52-week period to 1 March 2008
Like-for-like change in sales	**(8.9%)**	(5.6%)	(2.1%)	(4.8%)	0.7%
Net space contribution to sales change	**1.2%**	2.1%	3.6%	3.9%	3.1%
Total sales change	**(7.7%)**	(3.5%)	1.5%	(0.9%)	3.8%
Number of stores at year-end	**748**	751	745	730	707
Homebase					
Like-for-like change in sales	**(2.0%)**	(0.3%)	2.7%	(10.2%)	(4.1%)
Net space contribution to sales change	**(0.6%)**	(1.1%)	1.2%	6.7%	2.5%
Total sales change	**(2.6%)**	(1.4%)	3.9%	(3.5%)	(1.6%)
Number of stores at year-end	**341**	341	349	345	331
Of which contain a mezzanine floor	**187**	186	190	188	181

Financial Services	3 March 2012 £m	26 February 2011 £m	27 February 2010 £m	28 February 2009 £m	1 March 2008 £m
Store card net receivables	**457**	456	429	424	432

Balance sheet	3 March 2012 £m	26 February 2011 £m	27 February 2010 £m	28 February 2009 £m	1 March 2008 £m
Invested capital	**2,518.6**	2,512.8	2,377.7	2,435.5	3,138.0
Retirement benefit (obligations)/assets	**(115.3)**	(7.5)	(24.9)	(46.4)	83.7
Net tax assets/(liabilities)	**24.7**	4.6	52.1	32.7	(52.0)
Derivative financial instruments	**3.1**	(28.0)	47.7	52.2	1.5
Financing net cash	**194.3**	259.3	414.0	284.4	174.0
Reported net assets	**2,625.4**	2,741.2	2,866.6	2,758.4	3,345.2

Benchmark pre-tax return on invested capital	52-week pro forma to 25 February 2012 £m	52-week period to 26 February 2011 £m	52-week period to 27 February 2010 £m	52-week period to 28 February 2009 £m	52-week period to 1 March 2008 £m
Benchmark operating profit	**97.7**	250.8	289.7	300.4	398.0
Share of post-tax profit/(loss) of joint ventures and associates	**0.5**	0.1	(2.0)	(2.4)	1.6
Benchmark pre-tax return	**98.2**	250.9	287.7	298.0	399.6
Benchmark pre-tax return on invested capital	**3.9%**	10.0%	12.1%	12.2%	12.7%

Earnings and dividends	52-week pro forma to 25 February 2012	52-week period to 26 February 2011	52-week period to 27 February 2010	52-week period to 28 February 2009	52-week period to 1 March 2008
Basic benchmark EPS	**8.7p**	21.3p	23.4p	25.9p	33.9p
Dividends per share (interim paid and final proposed)	**4.7p**	14.7p	14.7p	14.7p	14.7p
Dividend cover	**1.85x**	1.45x	1.59x	1.76x	2.31x

The statutory 53-week period to 3 March 2012 comprises reported results that are non-comparable to the 52-week periods reported for other years. To assist with analysis and comparison, certain pro forma 52-week information has therefore been provided in respect of the Group's 2011/12 financial year to eliminate the distortion of a 53rd week on the performance of the Group.

Shareholder information

Who are the Group's shareholders?

The Group had 29,643 ordinary shareholders at 3 March 2012, comprising a mix of corporations and individuals. Their holdings can be analysed as follows:

	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares	Percentage of ordinary shares
Over 1,000,000	80	0.27	693,156,146	85.21
100,001 – 1,000,000	205	0.69	70,543,425	8.67
10,001 – 100,000	649	2.19	19,027,347	2.34
5,001 – 10,000	878	2.96	6,050,945	0.74
2,001 – 5,000	3,257	10.99	9,907,367	1.22
1 – 2,000	24,574	82.90	14,759,771	1.82
	29,643	**100.00**	**813,445,001**	**100.00**

	Number of shareholders	Percentage of total number of shareholders	Number of ordinary shares	Percentage of ordinary shares
Corporate	3,091	10.43	774,644,727	95.23
Individuals*	26,552	89.57	38,800,274	4.77
	29,643	**100.00**	**813,445,001**	**100.00**

* Employee shareholdings under the Group's share schemes are held in trust and are not therefore reflected in the number of individual shareholders.

I have an enquiry or want to update my details. Who should I contact?

For all enquiries and shareholder administration, please contact Capita Registrars:
Postal address: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
email: homeretailgroup@capitaregistrars.com

- Telephone: 0871 664 0437* (from abroad +44 208 639 3377)
- Text phone: 0871 664 0532* (from abroad +44 208 639 2062)
- Fax number: 01484 600914 (from abroad +44 1484 600914)

*Calls cost 10p per minute plus network extras. Lines are open 8:30am – 5:30pm, Monday – Friday.

Duplicate Share Register Accounts

If you are receiving more than one copy of our report, it could be your shares are registered in two or more accounts on our register of members. If that was not your intention, please contact Capita, who will be pleased to merge your accounts.

Can I choose to receive information by email?

Shareholders can register to receive reports and notifications by email, browse shareholder information and submit voting instructions at www.homeretailgroup-shares.com. This service is provided by Capita Registrars.

Does the Group have an investor relations website?

Investor relations information, such as webcasts of results presentations to analysts and investors and accompanying slides, is available at www.homeretailgroup.com.

Can I reinvest my dividends?

Shareholders can use their cash dividends to purchase further shares in the Group through the dividend reinvestment plan. To find out more or obtain a mandate form, please contact Capita Registrars.

Where can I find the Group's share price?
www.homeretailgroup.com.

Does the Group provide a share dealing facility?
Investors can buy or sell Group shares through Capita Share Dealing Services. Go to www.capitadeal.com or call 0871 664 0445 (calls cost 10p per minute plus network extras. Lines are open 8.00am – 4.30pm, Monday – Friday).

When are the next major events for shareholders?

Interim Management Statement	19 June 2012
Annual General Meeting	4 July 2012

When and where is this year's AGM?
The 2012 AGM will be held from 11.00 am on Wednesday 4 July 2012 at the Jurys Inn Milton Keynes, Midsummer Boulevard, Milton Keynes MK9 2HP.

Where is the registered office?
The registered office address is Home Retail Group plc, Avebury, 489-499 Avebury Boulevard, Milton Keynes MK9 2NW. The Company is registered in England and Wales, No. 5863533.

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FINANCIAL STATEMENTS

MORE INFORMATION

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