2 May 2012

Home Retail Group plc
Full-Year Results

Home Retail Group, the UK's leading home and general merchandise retailer, 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.

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.

Oliver Stocken, Chairman of Home Retail Group, commented:

"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. 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."

Terry Duddy, Chief Executive of Home Retail Group, added:

"In a particularly difficult trading environment, we have managed our costs and cash effectively. While we remain cautious about the consumer outlook over the short term, we are well positioned operationally and we will continue to prioritise investment in our leading multi-channel capabilities to shape the future of shopping for our customers, ensuring we bring unrivalled convenience and value to customers' everyday lives, whether shopping at home or on the move.

"I would also like to take this opportunity to welcome John Walden to the Home Retail Group management team as the new Managing Director for Argos. John brings with him a wealth of multi-channel retail and technology related business experience. Furthermore, I would like to thank our Chairman, Oliver Stocken, who retires from the Board at our Annual General Meeting in July, for his significant contribution to the Group over many years. I look forward to working with John Coombe as he steps up to his new role as the Group's Chairman."

1. **Benchmark operating profit** is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases and exceptional items.

2. **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.

3. **Basic benchmark earnings per share (benchmark EPS)** is defined as benchmark PBT less taxation attributable to benchmark PBT, divided by the weighted average number of shares in issue (excluding shares held in Home Retail Group's share trusts net of vested but unexercised share awards).

Enquiries

Analysts and investors (Home Retail Group)

Richard Ashton	Finance Director	01908 600 291
Don Davis	Director of Investor Relations	

Media (Finsbury)

Rollo Head		020 7251 3801

There will be a presentation today at 9.30am to analysts and investors at the King Edward Hall, Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ. The presentation can be viewed live on the Home Retail Group website www.homeretailgroup.com. The supporting slides and an indexed replay will also be available on the website later in the day.

An Interim Management Statement, covering the 13 weeks from 4 March 2012 to 2 June 2012, will be published on 19 June 2012.

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 obligations	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 tables and those throughout this announcement have been prepared in accordance with Note 1 to the Financial Information on page 27.

CHIEF EXECUTIVE'S STATEMENT

Whilst the Group adopted a cautious trading approach during the year, spending in our markets declined further than our initial expectations with many customers facing pressures on the amount of disposable income they had available for the purchase of discretionary items.

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.

BUSINESS REVIEWS

Argos

52 weeks to £m	25 February 2012	26 February 2011
Sales	**3,872.6**	**4,194.3**
Benchmark operating profit	**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

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

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 product will be included in the 2012 Autumn/Winter catalogue.

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.

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 8 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.

Homebase

52 weeks to £m	25 February 2012	26 February 2011
Sales	**1,509.8**	**1,550.7**
Benchmark operating profit	**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

Homebase is a leading home enhancement retailer.

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.

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.

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.

Financial Services

52 weeks to £m	25 February 2012	26 February 2011
Sales	**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		
Store card gross receivables	535	
Provision	(78)	
Store card net receivables	457	
Provision % of gross receivables	14.7%	

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 for Home Retail Group.

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.

GROUP FINANCIAL REVIEW

As previously mentioned, 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).

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 deposits	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 Employee Share Trust	-	-	(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**

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.

Balance sheet

As at £m	3 March 2012	26 February 2011
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**

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 1 to the Financial Information on page 27.

The Group has identified certain measures that it believes provide additional useful information on the underlying performance of the Group. These measures are applied consistently but as they are not defined under GAAP they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are outlined in Note 2 to the Financial Information on page 27.

Principal risks and uncertainties
The Group will set out the principal risks and uncertainties which could impact its performance, together with examples of mitigating activity, in its 2012 Annual Report and Financial Statements; an unedited full text excerpt will also be included in the Regulatory Information Service announcement accompanying the publication of the 2012 Annual Report.

The Group operates a structured risk management process which identifies and evaluates risks and uncertainties and reviews mitigating activity. As previously disclosed, the main area of potential risk and uncertainty centres on the impact on sales volumes and thereby profitability in relation to economic conditions and overall consumer demand. Other potential risks and uncertainties around sales and/or profit growth include the cost of goods and services to the Group, competitor activity, seasonal weather patterns, failure to execute the strategy, reliance on key personnel, failure to meet customer expectations, currency exposures, product supply and other operational processes, infrastructure development, product safety, the regulatory environment and business interruption.

Annual report and annual general meeting
The 2012 Annual Report and Financial Statements is expected to be available at www.homeretailgroup.com and posted to shareholders on or around 1 June 2012. The Annual General Meeting will be held from 11.00am on Wednesday 4 July 2012 at the Jurys Inn Milton Keynes, Midsummer Boulevard, Milton Keynes MK9 2HP.

Appendix 1. Impact of 53rd week to income statement summary

£m	**52 weeks to 25 February 2012**	**Impact of 53rd week**	**53 weeks to 3 March 2012**
Argos	3,872.6	62.7	3,935.3
Homebase	1,509.8	26.6	1,536.4
Financial Services	109.1	2.0	111.1
Sales	**5,491.5**	**91.3**	**5,582.8**
Cost of goods	(3,464.1)	(57.0)	(3,521.1)
Gross margin	**2,027.4**	**34.3**	**2,061.7**
Group gross margin % rate	*36.9%*	*37.6%*	*36.9%*
Operating and distribution costs	(1,929.7)	(20.3)	(1,950.0)
Benchmark operating profit	**97.7**	**14.0**	**111.7**
Group operating margin % rate	*1.8%*	*15.3%*	*2.0%*
Net interest income	3.4	0.1	3.5
Share of post-tax results of joint ventures and associates	0.5	-	0.5
Benchmark PBT	**101.6**	**14.1**	**115.7**
Exceptional items	(20.3)	-	(20.3)
Financing fair value remeasurements	3.3	-	3.3
Financing impact on retirement benefit obligations	4.8	-	4.8
Discount unwind on non-benchmark items	(6.5)	(0.2)	(6.7)
Amortisation of acquisition intangibles	(1.2)	-	(1.2)
Onerous lease provision releases	8.5	-	8.5
Profit before tax	**90.2**	**13.9**	**104.1**
Taxation	(27.6)	(3.7)	(31.3)
Profit for the year	**62.6**	**10.2**	**72.8**

Appendix 2. Impact of 53rd week to cash flow and net cash position

£m	52 weeks to 25 February 2012	Impact of 53rd week	53 weeks to 3 March 2012
Benchmark operating profit	97.7	14.0	111.7
Exceptional items	(20.3)	-	(20.3)
Amortisation of acquisition intangibles	(1.2)	-	(1.2)
Onerous lease provision releases	8.5	-	8.5
Statutory operating profit	84.7	14.0	98.7
Depreciation and amortisation	125.7	0.8	126.5
Movement in working capital	-	(0.6)	(0.6)
Financing costs charged to Financial Services	3.4	-	3.4
Cash flow impact of FY 09 restructuring charge	(3.8)	-	(3.8)
Other operating items	10.0	0.3	10.3
Cash flows from operating activities	**220.0**	**14.5**	**234.5**
Net capital expenditure	(130.7)	(0.3)	(131.0)
Acquisition of business	(24.5)	-	(24.5)
Taxation	(26.8)	-	(26.8)
Net interest	2.2	0.2	2.4
Net movement of term deposits	100.0	-	100.0
Other investments	(1.2)	(0.9)	(2.1)
Cash inflow before financing activities	**139.0**	**13.5**	**152.5**
Dividends paid	(117.5)	-	(117.5)
Other financing activities	0.1	-	0.1
Net increase in cash and cash equivalents	**21.6**	**13.5**	**35.1**
Add back: net movement of term deposits	(100.0)	-	(100.0)
Effect of foreign exchange rate changes	0.5	(0.6)	(0.1)
Decrease in financing net cash	**(77.9)**	**12.9**	**(65.0)**
Opening financing net cash	259.3	-	259.3
Closing financing net cash	**181.4**	**12.9**	**194.3**

Appendix 3. Trading statement comparables

	Q1 13 weeks to 28 May 2011
Argos	
Sales	£817m
Like-for-like change in sales	(9.6%)
Net new space contribution to sales change	1.5%
Total sales change	(8.1%)
Gross margin movement	Down c.75bps
Homebase	
Sales	£458m
Like-for-like change in sales	1.6%
Net new space contribution to sales change	(1.7%)
Total sales change	(0.1%)
Gross margin movement	Down c.50bps

	Q2 13 weeks to 27 Aug 2011	H1 26 weeks to 27 Aug 2011
Argos		
Sales	£859m	£1,676m
Like-for-like change in sales	(8.6%)	(9.1%)
Net new space contribution to sales change	1.5%	1.5%
Total sales change	(7.1%)	(7.6%)
Gross margin movement	Down c.100bps	Down c.75bps
Homebase		
Sales	£382m	£840m
Like-for-like change in sales	(3.1%)	(0.6%)
Net new space contribution to sales change	(0.7%)	(1.2%)
Total sales change	(3.8%)	(1.8%)
Gross margin movement	c.0bps	Down c.25bps

	Q3 18 weeks to 31 Dec 2011	YTD 44 weeks to 31 Dec 2011
Argos		
Sales	£1,717m	£3,393m
Like-for-like change in sales	(8.8%)	(8.9%)
Net new space contribution to sales change	1.0%	1.3%
Total sales change	(7.8%)	(7.6%)
Gross margin movement	Down c.50bps	Down c.75bps
Homebase		
Sales	£475m	£1,315m
Like-for-like change in sales	(2.6%)	(1.3%)
Net new space contribution to sales change	0.1%	(0.8%)
Total sales change	(2.5%)	(2.1%)
Gross margin movement	Up c.25bps	Down c.25bps

	Q4 8 weeks to 25 Feb 2012	H2 26 weeks to 25 Feb 2012	FY 52 weeks to 25 Feb 2012
Argos			
Sales	£480m	£2,197m	£3,873m
Like-for-like change in sales	(8.5%)	(8.7%)	(8.9%)
Net new space contribution to sales change	0.8%	1.0%	1.2%
Total sales change	(7.7%)	(7.7%)	(7.7%)
Gross margin movement	c.0bps	Down c.50bps	Down c.50bps
Homebase			
Sales	£195m	£670m	£1,510m
Like-for-like change in sales	(6.5%)	(3.7%)	(2.0%)
Net new space contribution to sales change	0.3%	0.1%	(0.6%)
Total sales change	(6.2%)	(3.6%)	(2.6%)
Gross margin movement	Up c.175bps	Up c.50bps	c.0bps

Consolidated income statement
For the 53 weeks ended 3 March 2012

	Notes	53 weeks ended 3 March 2012 Before exceptional items £m	Exceptional items (note 3) £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		**(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	4	**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		**(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
Earnings per share				**pence**	pence
- Basic	6			**9.1**	23.1
- Diluted	6			**9.1**	23.0

	pence	pence
Proposed final dividend per share	**-**	10.0
Interim dividend per share	**4.7**	4.7
Proposed total dividend per share	**4.7**	14.7

Non-GAAP measures ***Reconciliation of profit before tax (PBT) to benchmark PBT***	*Notes*	***53 weeks ended 3 March 2012*** ***£m***	*52 weeks ended 26 February 2011* *£m*
Profit before tax		***104.1***	*265.2*
Adjusted for:			
Exceptional items	*3*	***20.3***	*-*
Financing fair value remeasurements	*4*	***(3.3)***	*(5.4)*
Financing impact on retirement benefit obligations	*4*	***(4.8)***	*(4.6)*
Discount unwind on non-benchmark items	*4*	***6.7***	*6.1*
Amortisation of acquisition intangibles		***1.2***	*-*
Onerous lease provision releases	*7*	***(8.5)***	*(7.2)*
Benchmark PBT		***115.7***	*254.1*
Benchmark earnings per share		***pence***	*pence*
- Basic	*6*	***10.0***	*21.3*
- Diluted	*6*	***10.0***	*21.2*

Consolidated statement of comprehensive income

For the 53 weeks ended 3 March 2012

	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	**(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	**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		**1,543.9**	1,541.0
Other intangible assets		**137.1**	107.8
Property, plant and equipment		**516.3**	523.4
Investment in joint ventures and associates		**8.3**	8.0
Deferred tax assets		**50.6**	39.4
Trade and other receivables		**3.8**	4.3
Other financial assets		**17.4**	15.2
Total non-current assets		**2,277.4**	2,239.1
Current assets			
Inventories		**933.2**	1,016.8
Trade and other receivables		**594.6**	610.3
Current tax assets		**0.8**	10.9
Other financial assets		**8.3**	1.4
Current asset investments		**-**	100.0
Cash and cash equivalents		**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		**(55.8)**	(58.7)
Provisions	7	**(187.5)**	(187.4)
Deferred tax liabilities		**(21.9)**	(24.5)
Retirement benefit obligations		**(115.3)**	(7.5)
Total non-current liabilities		**(380.5)**	(278.1)
Current liabilities			
Trade and other payables		**(944.9)**	(1,047.5)
Provisions	7	**(47.8)**	(20.4)
Other financial liabilities		**(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		**81.3**	81.3
Capital redemption reserve		**6.4**	6.4
Merger reserve		**(348.4)**	(348.4)
Other reserves		**8.6**	(5.6)
Retained earnings		**2,877.5**	3,007.5
Total equity		**2,625.4**	2,741.2

Consolidated statement of changes in equity

For the 53 weeks ended 3 March 2012

	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	-	-	-	-	8.9	8.9
Net movement in own shares	-	-	-	2.8	(2.7)	0.1
Equity dividends paid during the year	-	-	-	-	(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**

	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	-	-	-	-	11.9	11.9
Shares purchased for cancellation	(6.4)	6.4	-	-	(150.2)	(150.2)
Net movement in own shares	-	-	-	(3.1)	(3.2)	(6.3)
Equity dividends paid during the year	-	-	-	-	(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

Further details on equity movements are shown in note 8.

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	9	**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		**(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	8	**-**	(6.7)
Proceeds from disposal of shares held by Employee Share Trust		**0.1**	0.4
Dividends paid		**(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		**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		**194.3**	159.3

Analysis of net cash/(debt)

At 3 March 2012

Non-GAAP measures	**3 March 2012 £m**	*26 February 2011 £m*
Financing net cash:		
Cash and cash equivalents	***194.3***	*159.3*
Current asset investments	***-***	*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	***-***	*(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.

Notes

For the 53 weeks ended 3 March 2012

1. BASIS OF PREPARATION

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, is derived from the full Group consolidated financial statements for the 53 weeks to 3 March 2012 and does not constitute full accounts within the meaning of Section 435 (1) and (2) of the Companies Act 2006. The Group's Annual Report and Financial Statements 2012, on which the auditors have given an unqualified audit report and which does not contain a statement under Section 498 (2) or (3) of the Companies Act 2006, will be delivered to the Registrar of Companies in due course, and made available to shareholders in June 2012. The financial year represents the 53 weeks to 3 March 2012 (prior financial year 52 weeks to 26 February 2011).

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 consistent with those described in the Annual Report and Financial Statements 2011. These policies have been consistently applied to all the periods presented.

2. 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 profit before tax (benchmark PBT)

The Group uses the term benchmark PBT as a measure which is not formally recognised under IFRS. 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. This measure is considered useful in that it provides 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.

Notes
For the 53 weeks ended 3 March 2012

3. 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.

4. 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.

Notes

For the 53 weeks ended 3 March 2012

5. DIVIDENDS	**53 weeks ended 3 March 2012 £m**	52 weeks ended 26 February 2011 £m
Amounts recognised as distributions to equity holders		
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. 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

Notes

For the 53 weeks ended 3 March 2012

7. 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 revenue 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.

Notes

For the 53 weeks ended 3 March 2012

8. 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
Other reserves principally consist of shares held in trust, the hedging reserve and the translation reserve.

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.

9. 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

Notes
For the 53 weeks ended 3 March 2012

10. RELATED PARTIES

The Group's related parties are its associates, key management personnel and the Home Retail Group Pension Scheme.

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.

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.

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

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are required by law to give a true and fair view of the state of affairs and of the profit or loss of the Group for that year.

The preliminary results for the 53 weeks ended 3 March 2012 have been extracted from the annual report and the Group financial statements.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

By order of the Board

Terry Duddy	Richard Ashton
Chief Executive	Finance Director
2 May 2012	2 May 2012