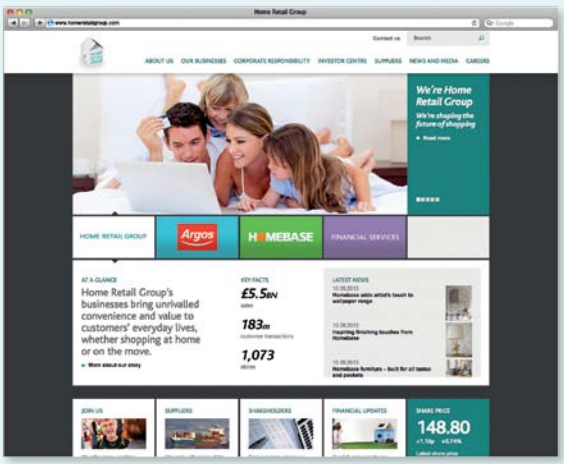
Annual Report and Financial Statements 2013

HOME RETAIL GROUP PLC

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 our corporate website is updated throughout the year, so this, especially, is a good way of keeping up to date.



Corporate website
Find our latest news, reports and images quickly and easily, along with information about our latest corporate responsibility activities.
www.homeretailgroup.com

Annual report
View an online version of the Annual Report and Financial Statements 2013 and download a full PDF version too.
www.homeretailgroup.com/ar/2013/

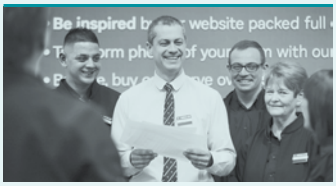
If you're a shareholder, you can receive information more quickly and help us save paper and money by registering for all future shareholder communications online at
www.homeretailgroup-shares.com

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 through digital retail leadership and multi-channel capability, expanding choice and developing both product ranges and services, ensuring we continue to build successful businesses that bring unrivalled convenience and value to customers' everyday lives, whether shopping at home or on the move.



48,000
colleagues are at the heart of everything we do

1,073
stores in the UK and Republic of Ireland (RoI) across the Argos and Homebase formats

67,000
products available across Argos and Homebase

183m
customer transactions last year

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

737
stores in UK and RoI

29,000
catalogue and internet-only products

51%
of sales are multi-channel

635m
website and app visits during the year

Homebase is a leading home enhancement retailer and offers a growing range of home improvement products in a differentiated store environment.

336
stores in UK and RoI

38,000
branded, own-brand and exclusive products

4 years
of consecutive GfK DIY shed market share gains

93%
average recommendation for our installation services

We have maintained our leading market positions despite these challenging times

Home Retail Group operates in the home and general merchandise market. Our overall market share increased despite a challenging market environment and we continue to maintain leading market positions.

Homebase now holds a market share of 24% of the DIY sheds market; its highest recorded share since GfK DIY sheds market research was launched in 2007.

Argos reported not only increased sales for this financial year, but also an overall market share gain across the total of its tracked market categories.

We have a strong portfolio of own brands

Argos and Homebase are two of the UK's leading retail brands and our acquisition of the Habitat UK brand has brought 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 also include Bush and Alba in consumer electronics, Chad Valley in toys and Schreiber and Hygena in furniture.

habitat

BUSH ALBA

CHAD VALLEY

SCHREIBER

hygena

We have plans in place for future growth

In October 2012 we announced our plans to reinvent Argos as a digital retail leader and to invest in Homebase store refits and multi-channel capability to deliver an enhanced customer proposition. Our strong financial position gives us the opportunity to deliver these growth plans.

Digital leadership and accelerating multi-channel

We're at the forefront of advances in technology that have brought about a fundamental and permanent shift in the way consumers shop. Our highly-successful internet and mobile channels help make us the market leader in multi-channel retailing.

New format development and store estate

Our portfolio of stores remains an essential part of our multi-channel offer. Argos' national chain of 'pick up points' complements its multi-channel offer and Homebase has continued the evolution of its new store proposition concept.

Product leadership and exclusive brands

We've expanded our range of own and exclusive brands to capture market share and enhanced convenience through extended product ranges and services.

Compelling customer offering

We ensure customers continue to receive excellent value and choice by maximising our buying scale and sourcing capabilities, particularly via direct import and direct sourcing of product.

Financial strength

The Group is in a strong financial position, with £396m of cash. This enables the Group to support growth through investment in the Argos transformation plan and the Homebase proposition.

Chairman's statement

This is my first opportunity to write formally to shareholders and I am fortunate to be able to do so at a time when the results of the Group are being seen in a better light having delivered a solid sales performance and very strong cash generation.

John Coombe
Chairman

This owes much to an improved sales and trading performance at Argos over the last year and to expectations of the transformation plan for the business outlined to the city in October 2012. Shareholders will recall that this is a five-year plan underpinned by a three-year investment programme. It is ambitious but achievable. Meanwhile, we continue also to focus on efforts to improve performance at Homebase and roll out its new proposition.

Benchmark profit before tax for the Group is £91m, 10% down on the previous year, reflecting a positive like-for-like sales performance at Argos offset somewhat by a weather-impacted result from Homebase. We have managed costs and cash very effectively and close the year with the ability to fund the Argos transformation plan and the development of Homebase from our own resources. While these plans are being delivered, we continue to introduce improvements to our multi-channel offering and to refine our Financial Services operation, which supports both businesses. The decision to end our participation in establishing a business in China and the closure of the Argos TV shopping channel are further evidence of our determination to focus on the job in hand, to deliver sustainable growth in the businesses and hence value for shareholders. Terry explains the results in more detail in his statement on the next page.

I am therefore happy to confirm that we are recommending a final dividend of 2.0p, taking the dividend for the year to 3.0p, reflecting our recognition of the need for an appropriate return for shareholders, balanced by the need for investment funding in the Group to develop its businesses.

The last few years have not been easy for many retailers and our focus on liquidity has been an important factor in building the financial strength of the Group. The economic outlook remains uncertain but Home Retail Group is in a sound financial position and is well-placed to take advantage of any economic upturn when it comes, enhancing the benefits from the business improvements we are making.

In these tough economic conditions, the contribution made by our colleagues throughout the business is vital. Customer contact, whether through the internet or face-to-face, is critical in making Argos and Homebase good places to shop. Our customer-facing colleagues, and those who work just as diligently elsewhere, can and do make a real difference to current and future performance. For that I thank them on behalf of the Board and the shareholders.

Colleagues also make a great contribution to the communities in which they work, through local and national voluntary activity. Shareholders will be interested to know that, having raised £4.7m for Teenage Cancer Trust in the last three years, energy is shifting to raise money for Alzheimer's Society, which was chosen by colleagues to be our next charity partner, and I am sure it will be a successful partnership.

In closing, as well as thanking my fellow Board members for their support, I wish to pay tribute to my predecessor as Chairman, Oliver Stocken. Oliver saw the Group through its separation from GUS in 2006 and set in motion the events which have led to the establishment of the Argos transformation plan. His contribution has been significant. I will also take this opportunity to welcome Jacqueline de Rojas to the Board. Jacqueline brings a wealth of expertise in the software technology sector and is a valuable addition to the mix of talent we have on the Board. My comments on other governance matters are set out in the corporate governance report on page 34.

My fellow directors and I are committed to working with all our colleagues for a successful future and I look forward to reporting on that in the next few years.

John Coombe
Chairman

Chief Executive's statement

Against a backdrop of subdued consumer spending, the Group has achieved a good outcome to what has been a challenging year.

Terry Duddy
Chief Executive

Both our businesses delivered market share growth, although their respective total markets declined further as customers continued to face pressure on their disposable incomes.

Argos delivered its first year of like-for-like sales growth in five years, supported by its multi-channel performance with sales growth in a number of categories, most notably consumer electronics. Homebase delivered a creditable performance in its peak trading period, given the adverse impact of record poor weather conditions on its seasonal product sales and the difficult market conditions in big ticket categories.

As the UK's leading home and general merchandise retailer, we have continued to strengthen our customer propositions in an environment where shopping behaviours are changing rapidly, with both businesses improving product choice and delivering further value for our customers. In addition, the Group's strong financial position has provided us with the opportunity to commence the major programmes of capital investment to deliver the growth plans in place for both businesses as they implement their respective strategies.

On the basis of a comprehensive business review, we identified clear opportunities to transform the Argos business through our highly successful internet and mobile commerce channels, and by building on our supply chain advantages and improving our customer offer. As a consequence, we announced in October 2012 plans to reinvent Argos as a digital retail leader over the next five years, underpinned by a three-year investment programme to reposition it from a catalogue-led to a digitally-led business.

There are four key elements to the Argos transformation plan:

- Reposition Argos' channels for a digital future;
- Provide more product choice, which is available to customers faster;
- Develop a customer offer that has universal appeal; and
- Operate a leaner and more flexible cost base.

We delivered a number of initiatives during the second half of the year. The website was refreshed in October 2012 and '1-click' Check & Reserve functionality has improved the customer journey. Trials began in January 2013 to test the 'hub and spoke' distribution model and a new Argos catalogue format. The latter enables immediate collection on a selection of lines and next day collection on an extended range of products which are available online. We are pleased with the progress that Argos has made so far on its transformation plan and further improvements will be delivered in the 2013/14 financial year.

Homebase has a clear agenda for growth, with plans for investment in refitting the majority of its stores combined with a major step forward in its multi-channel capability ensuring it improves the Homebase customer proposition. The latest concept stores in Ruislip and Solihull have begun to deliver strong financial results and customer feedback has been excellent, while improvements in multi-channel have seen sales penetration and website visits increase. We are pleased with the progress that Homebase has made so far on its enhanced proposition and further improvements will be delivered in the 2013/14 financial year.

Digital leadership and accelerating multi-channel

Home Retail Group has been at the forefront of advances in technology that have brought about a fundamental and permanent shift in the way consumers shop. Increasingly, they choose to shop online, or on the move through mobile devices, principally for pick-up in a local store but also for home delivery.

Argos continued to grow its multi-channel sales penetration in the year, such that it now represents £2.0bn or 51% of its total sales, up from 48% a year earlier. Internet sales grew 10% to reach 42% of Argos' total sales, with online Check & Reserve, at 31% of total sales, remaining the fastest growing channel. Argos' website and app visits increased by 24% with mobile commerce continuing to see a rapid rise in customer usage to represent 10% of Argos' total sales.

Chief Executive's statement continued

Homebase's internet sales participation has grown by 16% and now represents 5% of its total sales, driven principally by Reserve and Collect. Homebase released a refreshed website during the year to showcase its key brands, in particular the inclusion of Habitat. It also launched a transactional mobile website for home delivery items and store reservations.

New format development and store estate

Homebase has continued the evolution of its new store proposition which was initiated in Aylesford in 2011, with the refit of Ruislip and Solihull in 2012, which include Habitat and Laura Ashley concessions. Elsewhere, mezzanine and garden centre refits were undertaken to enhance further the big ticket and garden propositions.

The Group's store portfolio of 1,073 stores remains a core component of its multi-channel offer. The Argos national chain of 'pick up points' are complementary to its multi-channel offer with nearly 90% of all sales continuing to involve the store in some way. With around 345 store lease renewals or break clauses due over the next five years, representing about one-third of the store portfolio, the Group has ongoing flexibility to adjust the store portfolio to strategic and market conditions.

Product leadership and exclusive brands

During the year, Argos expanded its range of own brands with a further 700 lines included in the Spring/Summer 2013 catalogue. Furthermore, Argos has extended its range of tablet computers to capture market share and enhanced its convenience credentials through its in-store white goods offer.

Homebase's exclusive brand strategy, together with its differentiated proposition, has driven market-share gains for the fourth consecutive year. Habitat products are now available in over 200 Homebase stores and Homebase's market-leading installation services across kitchen, bathroom and bedroom furniture ranges continue to achieve a customer recommendation rate in excess of 90%.

Compelling customer offering

The Group ensures that customers continue to receive excellent service, 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 its price position is better than the competition on its highest sales volume lines. This is enhanced through 'WOW' offers and the Argos Value range. Social networks also present a good opportunity to engage with our customer base via Facebook or Twitter.

Homebase continues to use a range of promotions to drive customer loyalty with its Nectar customer base exceeding seven million active customers. Direct mail packs are also sent to customers to increase brand engagement and social media interaction via the Homebase Facebook app has seen Homebase posts viewed over 3.2 million times in the year.

Continued cost management

The Group has a strong track record of delivering significant organisational and infrastructure changes which improve the flexibility of our businesses and reduce costs, while maintaining or improving operational standards.

The Group's operational and distribution cost base peaked at £2,050m in the 2008/9 financial year. Since this time, underlying cost inflation has run at 1-2% per annum, adding approximately £125m to the Group's cost base over the last four years. We have more than offset this cost increase with cost savings over the same four-year period of approximately £267m, to achieve a reported cost reduction of £142m over the same four-year period, and a reported cost base of £1,908m in the 2012/13 financial year. These cost reductions have been achieved through a rationalisation of the distribution network, store-based management restructuring programmes, headcount reductions in central office and numerous other cost efficiency initiatives together with a lower level of unit volumes. We will continue to review and challenge the Group's cost base to ensure we maintain its low-cost operating model.

Financial strength

The Group has strong cash flow characteristics with £396m of net cash as at 2 March 2013. In addition, the Group has recently agreed a £165m committed borrowing facility which is undrawn and which expires in March 2016.

Outlook

Our view of the 2013/14 financial year is that it will remain similar to 2012/13 with consumer spending continuing to be impacted by ongoing inflationary pressures and low levels of consumer confidence. However, the Group's strong financial position enables us to deliver on the transformation plan to reinvent Argos as a digital retail leader and to invest in the rollout of the Homebase proposition, and as a result, ensure that the Group is well positioned for economic recovery.

Terry Duddy
Chief Executive

Our product markets

Home Retail Group operates in the home and general merchandise market. With £5.4bn of sales in this financial year, the Group saw its overall market share increase in spite of a challenging market environment and it continued to maintain leading market positions.

Homebase

Homebase trades within the DIY and home enhancement market, which in the UK is a very fragmented market comprising the DIY 'sheds' and 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 as measured by GfK, a third-party source. The DIY sheds market contains the UK's three DIY shed retailers, these being B&Q, Wickes and Homebase. All three DIY shed retailers subscribe to GfK which measures the sheds' relative market shares. It is against this metric that Homebase's sales performance has been compared to ascertain its market share.

In this financial year, both the overall DIY and home enhancement market and the DIY sheds market as measured by GfK, have continued to decline, with the overall market estimated to have declined by around 4% and the DIY sheds market estimated to have declined by around 6%. The DIY sheds market is divided into five product categories, these being DIY, decorating, home, big ticket and garden. For this financial year, each of these categories has recorded market declines. Over the same period, Homebase has continued to hold or gain market share in each of these five product categories, with the strongest market share gain seen in home and garden. Within this DIY sheds market, on a total basis Homebase has continued to increase its market share, with this latest gain being its fourth consecutive year of market-share growth.

Homebase now holds a market share of 24% of the DIY sheds market; its highest recorded share since GfK DIY sheds market research was launched in 2007.

Argos

Argos has a much wider and broader spectrum of product categories than Homebase, with no one single metric existing that measures market share performance across all its product categories. Instead, Argos collates the market data from various third-party sources, such as GfK and National Purchase Diary, to create what Argos refers to as its 'tracked markets'. It is against this tracked markets measure that Argos' sales performance has been compared to ascertain its market share.

Over this financial year, these tracked markets have indicated that Argos' total market has declined by about 2%, with categories being impacted by varying factors such as unseasonal weather, a housing market that continues to remain subdued and, in some cases, new product innovation. Argos has seen the consumer electronics market, as defined by GfK, decline by around 15%, which is an improvement on the decline seen the previous financial year of around 20%. This improvement has principally been driven by better television and audio markets, albeit they are still in decline. Additionally, the video gaming software (VGS) market continues to experience significant declines. It is therefore pleasing that Argos has grown its market share within the TV, audio and VGS categories, despite these continued market contractions.

In contrast to these market-declining categories within consumer electronics, there was considerable ongoing growth in tablets and e-readers; namely iPad, Kindle Fire and Kindle. Argos, due to its strong supplier relationships, was able to secure good product availability which, when combined with a strong range of product offers, saw a strong market share gain in this area. Other electricals, principally the large and small domestic appliances markets, also saw market growth during the year with Argos gaining significant market share in large domestic appliances, driven by the new initiative to increase the number of larger white good products available for in-store collection, allowing customers to pick up from around 450 larger stores while also holding market share in small domestic appliances.

Homewares, following growth last year, saw a contracting market this year as spend moved to other categories such as tablets and e-readers. Argos was however able to hold market share in this category. Nursery and toys and freetime categories also saw a declining market, with the latter impacted by unseasonably wet weather throughout 2012. Despite this, Argos was able to maintain market share in these categories also.

Overall, it was a much stronger year for Argos, reporting not only increased sales for this financial year, but also an overall market share gain across the total of its tracked market categories.

Group performance

Operating highlights

- Announced transformation plan which will reinvent Argos as a digital retail leader and reposition it from a catalogue-led to a digitally-led business
- Announced plans to invest in Homebase store refits and accelerated multi-channel capability to deliver an enhanced customer proposition
- Argos' multi-channel sales penetration increased to 51% of total sales. Internet sales grew 10% to reach 42% of Argos' total sales. Argos' website and app visits increased by 24% with mobile shopping now representing 10% of total sales
- Homebase's multi-channel sales penetration increased to 5% of total sales with Reserve and Collect sales growing by 27% and website visits increasing by 23%
- In a year of positive like-for-like sales growth, Argos returned to market-share growth whilst Homebase, despite a difficult trading environment, delivered its fourth consecutive year of market share gains
- Ongoing growth and development of both exclusive and own-brand products, including the introduction of Habitat product into both Argos and Homebase

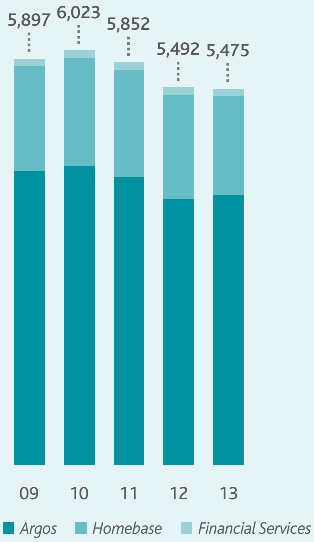
Financial highlights

- Sales broadly flat at £5,475m
- Cash gross margin down 1% to £2,002m
- Robust management of costs with operating and distribution costs reduced by a further £21m to £1,908m, as underlying cost inflation was more than offset by further cost savings
- Benchmark operating profit* up £6m at Argos and down £12m at Homebase
- Benchmark profit before tax* down 10% to £91m
- Basic benchmark earnings per share* down 11% to 7.7p
- Reported profit before tax of £130m; reported basic earnings per share of 11.7p
- Strong cash generation in the year of £202m, driven principally by a strong working capital performance, with a closing net cash position of £396m
- Full-year dividend of 3.0p (2012: 4.7p); final dividend of 2.0p recommended

* REFER TO PAGE 70 FOR DEFINITIONS OF BENCHMARK MEASURES.

The previous financial year comprised 53 weeks to 3 March 2012. We believe that in order to have a proper understanding of the performance of the business in the current financial year it is more appropriate to compare the 52 weeks of the 2012/13 financial year with the 52 weeks of the 2011/12 financial year (the 52 weeks to 25 February 2012). As such, all references to financial performance in respect of the income statement, cash flow and business reviews are made on this basis unless otherwise stated.

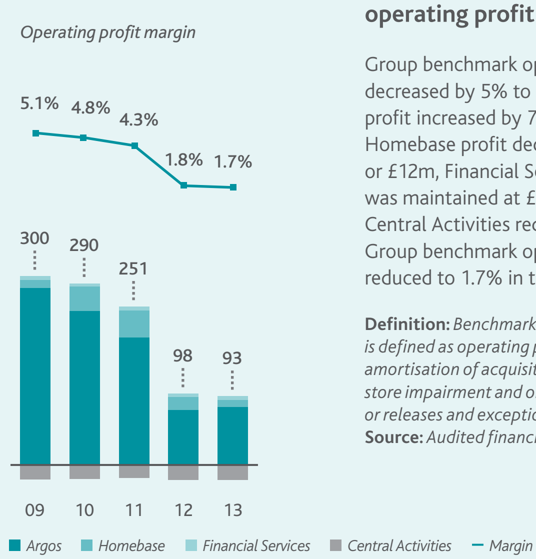
Group key performance indicators



Sales (£m)

Group sales decreased by 0.3% to £5,475m. Argos accounts for 72% of Group sales and increased by 1.5% or £58m in the year. Homebase accounts for 26% of Group sales and declined by 5.2% or £79m in the year. Financial Services accounts for the remaining 2% of Group sales and increased by 3.9% or £4m in the year.

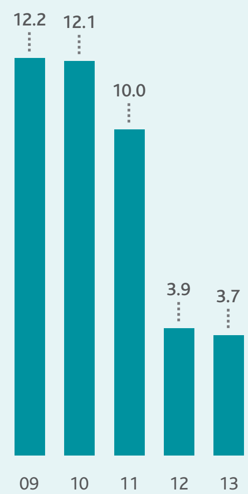
Definition: *Income received for goods and services.*
Source: *Audited financial statements.*



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

Group benchmark operating profit decreased by 5% to £93m. Argos profit increased by 7% or £6m, Homebase profit decreased by 52% or £12m, Financial Services profit was maintained at £6m and costs of Central Activities reduced by £1m. Group benchmark operating margin reduced to 1.7% in the year.

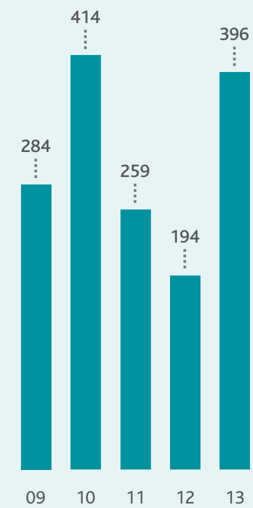
Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases and exceptional items.*
Source: *Audited financial statements.*



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

Benchmark operating profit plus share of post-tax results of joint ventures and associates was £87m, down 11% or £11m, with year-end invested capital down 6% on last year. This resulted in a pre-tax ROIC of 3.7%, down from 3.9% the year before.

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/debt.*
Source: *Audited financial statements.*

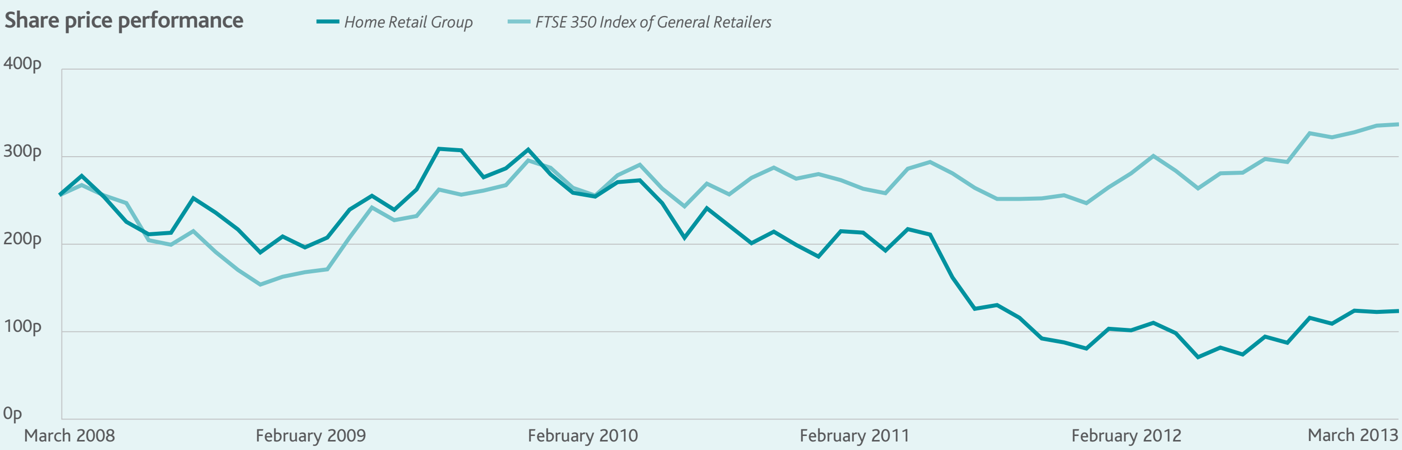


Financing net cash (£m)

The Group's year-end net cash position increased by £202m to £396m, attributable predominantly to a strong working capital performance.

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

Share price performance



FOR ALL CHARTS, 2012 IS ON A 52-WEEK PRO FORMA BASIS EXCEPT 'FINANCING NET CASH', WHICH IS ON A 53-WEEK BASIS ENDING 3 MARCH 2012.

Argos business review

Argos will undertake a three-year investment programme to reinvent itself as a digital retail leader.

Stores remain a key component of the Argos multi-channel model

Website and app visits increased by 24% compared to last year

A further 700 exclusive and own-brand lines are included in the latest catalogue

Argos outlined in October 2012 a five-year transformation plan designed to address its competitive challenges, exploit marketplace opportunities and restore it to sustainable growth. Under the plan Argos will undertake a three-year investment programme to reinvent itself as a digital retail leader, effectively moving from a catalogue-led to a digitally-led business. There are four key elements to the transformation plan:

- *Reposition Argos' channels for a digital future* – Argos will develop its online, mobile and tablet channels to be the primary channels for interacting and communicating with customers. Stores and catalogues will remain important but their roles will be adapted in order to support a digital offer;
- *Provide more product choice, which is available to customers faster* – Few companies in the UK can match Argos' ability to move as many non-food products, of all shapes and sizes, into local markets on a national scale in a fast and cost-efficient way. Argos is well positioned through its store estate and supply chain to offer same-day and next-day fulfilment on a wider range of products;
- *Develop a customer offer that has universal appeal* – Argos has a substantial opportunity to grow the business by expanding its customer reach with a more universally appealing offer, including extended ranges of branded and own-brand product; and
- *Operate a leaner and more flexible cost base* – Argos will maintain its focus on costs and it will target further cost reductions to help fund the investment in the transformation plan, while continuing to take the opportunity at store lease expiration to obtain reduced terms on leases it chooses to renew. Future lease renewals provide ongoing flexibility to adjust the store portfolio to strategic and market conditions.

Operational review

Reposition Argos' channels for a digital future

Multi-channel sales continue to grow and now represent £2.0bn or 51% of Argos' total sales, up from 48% last year. Total internet orders, including Check & Reserve, grew 10% to reach 42% of Argos' total sales, with the remaining 9% of multi-channel sales comprising products either ordered in-store for home delivery, or by telephone. The fastest growing channel continues to be online Check & Reserve, which grew 11% to represent 31% of total sales.

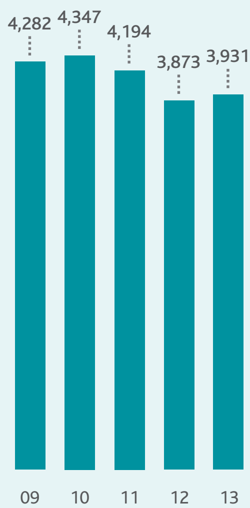
Total website and app visits increased by 24% compared to last year. The ease of access to Argos' website through mobile devices has been a significant driver of the increase in web visits, with visits to the website from mobile devices up 116%. The Argos Apple iPhone and Android apps continue to be a popular way to access Argos' products with over 1.6m downloads of the apps in the year. The high level of visits from mobile devices has led to a significant increase in the proportion of sales through the mobile channel which have doubled in the year and now represent 10% of Argos' total sales.

A number of projects were initiated during the year to begin repositioning our channels for a digital future. The website was relaunched in October 2012 to provide improved functionality, search ability and look and feel. A '1-click' Check & Reserve function was launched in October 2012 which improves the speed and convenience of reserving products for store collection. An improved mobile site and an iPad tablet app were also launched before Christmas 2012.

In January 2013, Argos commenced a trial of a different Argos catalogue format in the north east of England, with a catalogue with a reduced number of product lines, combined with extended product ranges available online for both immediate and next day store collection.

During the 2013/14 financial year, Argos expects to continue towards its strategic repositioning of its channels. It intends to develop a digital catalogue with the first one being launched before Christmas. A number of store trials will also start which will include more innovation with web-based browsers replacing catalogues, Wi-fi which will enable customers to use their smartphones and tablets in stores, and a fast-track collection service for goods purchased online or via a mobile device.

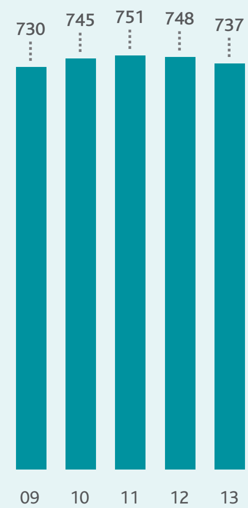
Argos key facts



Sales (£m)

Argos sales increased by 1.5% or £58m in total. This was driven predominantly by strong growth in tablets and e-readers. There was also strong growth in white goods and core electricals, which helped to offset declines in video games systems, photographic, homewares and seasonal categories.

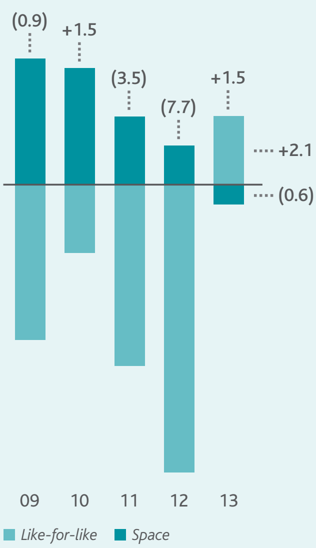
Definitions: *Income received from goods and services.*
Source: *Audited financial statements.*



Number of stores

During the year, 11 stores were closed, reducing the store portfolio to 737. Around 110 stores have been refurbished in the year bringing the total number of refurbished stores to date to 460. All 737 stores offer around 16,000 product lines for collection, with an additional 4,000 lines available to order from any store for home delivery.

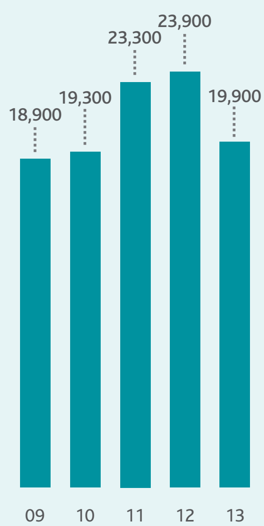
Definitions: *Total number of stores at year-end.*
Source: *Measured internally.*



Sales trends (% change)

Like-for-like sales increased by 2.1% in the year. Net closed space reduced sales by 0.6%.

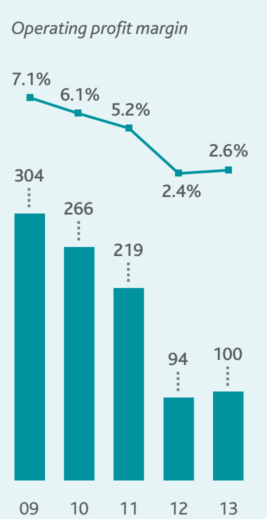
Definition: *Annual percentage change in sales. Like-for-like sales are calculated on stores that have been open for more than a year; and the contribution to sales from net space is the sales performances for the first 52 weeks trading of any newly opened stores less the sales performances for the last 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 19,900 lines, the Spring/Summer 2013 catalogue has decreased on last year by 17% or around 4,000 lines. This decrease has been primarily in the furniture and jewellery categories, partially offset by increases in nursery and toys and new categories such as health and beauty.

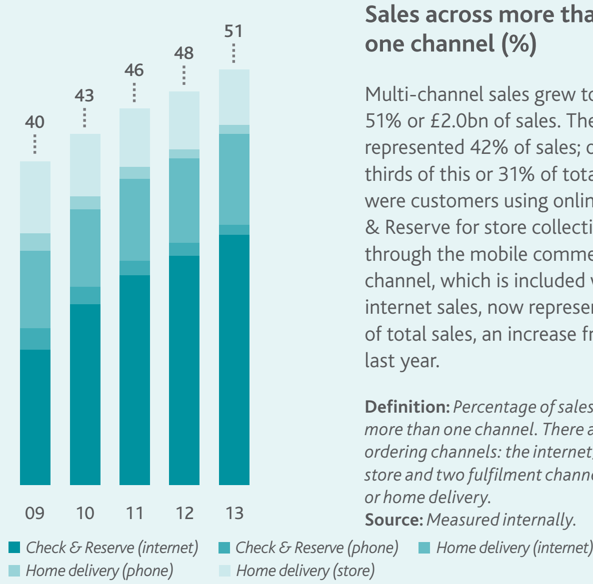
Definition: *Total number of lines in the main Spring/Summer Argos catalogue.*
Source: *Measured internally.*



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

Benchmark operating profit increased by 7% or £6m, to £100m. This recovery in profit was due to an improved level of sales, partially offset by a reduction in the gross margin rate. It was further supported by an overall cost base reduction of 2%.

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 51% or £2.0bn of sales. The internet represented 42% of sales; over two-thirds of this or 31% of total sales were customers using online Check & Reserve for store collection. Sales through the mobile commerce channel, which is included within internet sales, now represent 10% of total sales, an increase from 5% last year.

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

Provide more product choice, available to customers faster

Argos is well positioned to offer, cost effectively, a wide range of products for rapid fulfilment. The key to Argos' fulfilment advantage will be a 'hub and spoke' distribution model, utilising existing Argos stores and replenishment capabilities. This will enable Argos to offer market-leading immediacy of fulfilment on a wider range of products. Trials began in January 2013 to test both the operational and customer offer aspects of this new network.

Develop a customer offer that has universal appeal

Tablets were a strong driver of growth in the financial year, with Argos adding to its range of products to ensure a strong position in this competitive market. New devices from Apple, Samsung, Asus and Google have all been added to the range in the last year. Children's tablet devices from LeapPad and Vtech have also been a strong contributor to growth.

Argos has further enhanced its convenience credentials with an increased range of white goods available for in-store collection, following last year's successful trial, allowing customers to pick up a range of white goods from around 450 larger stores. Other categories which saw good growth during the year included core electricals and toys.

Argos' suite of 35 exclusive or own-brands continue to extend choice and offer great value to customers, with an increase of around 700 lines in the Spring/Summer 2013 catalogue compared to last year from its Alba, Bush, Chad Valley, Hygena, Schreiber and Habitat ranges.

Customer service levels continue to improve, with measures of customer experience strong throughout the year. Argos' Aliens TV advertising campaign continues to be well received by customers, achieving high recall scores in analysis following Christmas 2012 trading. Argos' Facebook page has increased in popularity with 630,000 'likes' and Twitter is a popular way for customers to find out about Argos' latest offers.

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' competitive price position is measured weekly using internet price comparisons to maintain a price position better than the competition on its highest volume lines. Argos offers around 900 'WOW' deals in the catalogue including some of the biggest consumer brand names.

Operate a leaner, more flexible cost base

Stores, which provide a national chain of 'pick up points', remain a key component of the Argos multi-channel model, with nearly 90% of all sales involving a store. Stores are also strategically important to Argos' transformation plan to become a digital retail leader. However, over the next five years Argos has around 275 store lease renewals or break clauses due. Using this flexibility, Argos will focus on improving its store network by relocating or closing some older stores and opening some new stores if attractive sites are identified. In the last financial year there were 11 store closures and two relocations, leading to a reduction in the store portfolio to 737 stores. This level of store closures was consistent with its plans at the start of the year. In the 2013/14 financial year, it is expected there will be around 10 store closures, where the lease has come to an end, alongside a number of additional stores that are likely to be relocated to better sites.

Financial review

Total sales in the 52 weeks to 2 March 2013 increased by 1.5% to £3,931m. Net space sales change reduced sales by 0.6% with 11 store closures reducing the store portfolio to 737. Like-for-like sales grew by 2.1%. Consumer electronics continued to deliver an improved sales performance driven by strong growth in tablets and e-readers, which together with good growth in white goods and core electricals more than offset the market-driven declines in the video gaming and photography categories and the weaker trading in homewares and seasonal products. Following a slight decline last year, Argos achieved an overall market-share gain across the total of its tracked market categories.

The gross margin rate was down by approximately 50 basis points. The negative drivers were an adverse sales mix, resulting from the improved performance in the margin-dilutive consumer electronics category, and ongoing price investment. These reductions were partially offset by the expected benefit from a lower level of stock clearance activity and the anticipated benefit of favourable currency and reduced shipping costs.

Since June 2011 Argos has been trialling a TV shopping channel concept. Following the announcement of the Argos transformation plan in October 2012, the decision has been taken to cease operation of the channel from May 2013.

Total operating and distribution costs decreased by £10m with the impact of underlying cost inflation pressures being more than offset by further cost savings. This was a particularly strong performance given the sales growth delivered during the financial year. Benchmark operating profit was £100.3m, a £6.1m or 6% increase on the previous year's £94.2m.

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

52 WEEKS TO	2 MARCH 2013	25 FEBRUARY 2012
Sales (£m)	**3,931.3**	**3,872.6**
Benchmark operating profit (£m)	**100.3**	**94.2**
Benchmark operating margin	**2.6%**	**2.4%**
Like-for-like sales change	2.1%	(8.9%)
Net space sales change	(0.6%)	1.2%
Total sales change	1.5%	(7.7%)
Gross margin rate movement	Down c.50bps	Down c.50bps
Benchmark operating profit change	6%	(57%)
Number of stores at year-end	737	748

Homebase business review

Homebase is to position itself as a clearly differentiated, multi-channel home enhancement retailer.

Homebase's new mobile website already accounts for 16% of total web visits


Our installation services continue to receive recommendation rates above 90%


Habitat products are now available in over 200 Homebase stores

The Homebase strategy is to position itself as a clearly differentiated multi-channel home enhancement retailer, creating both a store and online experience, with a softer, more stylish female-friendly proposition.

Homebase has commenced a trial of dramatically different store formats, supported by increased levels of staff service which creates a shopping experience where customers find ideas and inspiration for their homes and gardens. The in-store experience is supported by an enhanced multi-channel offer which improves product availability and a website which offers information, advice and inspiration. Homebase has developed a strong range of exclusive brands like Habitat, Laura Ashley, Odina, Schreiber and Qualcast, which give it a clear point of customer differentiation and competitive advantage. This will accelerate the development of Homebase as a destination for a broader range of home and garden projects, securing a larger share of customer spend and a higher frequency of visit.

Operational review

New format development

Following the success of the new store proposition in Aylesford, the next evolution of this concept was opened in the Ruislip store at the end of October 2012. The learnings from Aylesford were used to improve further the proposition and included both a Habitat and a Laura Ashley concession. In December, Solihull was refitted as part of a planned downsizing, and a Habitat concession was opened in the Ewell store.

Homebase completed seven further mezzanine refits and one midi refit during the year, all of which incorporated the premium Odina and Schreiber ranges. The total number of mezzanine refits now stands at 26.

The premium Odina range is now displayed in 28 stores, with a further four stores carrying the space-efficient, small-format solution. The Schreiber kitchen range was extended to 136 stores following a low-cost investment programme which includes an edited range on display or a carcass display showcasing construction, material quality and examples of the Schreiber range.

Homebase has continued its programme of garden centre refits, which incorporate inspirational garden displays to provide ideas, supported by practical advice from knowledgeable colleagues. Twelve refits were completed in the year, bringing the total number to 34.

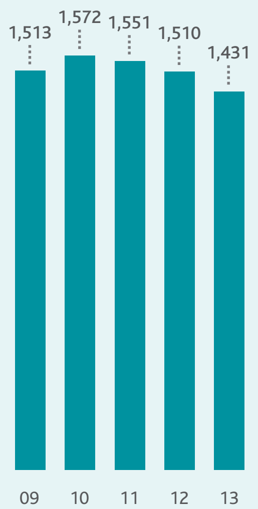
Accelerating multi-channel

Internet sales participation has grown by 16% year-on-year to almost 5% of Homebase's total sales. Within this, Reserve and Collect sales grew 27% to comprise 1.5% of Homebase's total sales while website visits increased by 23% over last year.

During the year, Homebase launched a refreshed website to showcase its exclusive brand strategy. In October 2012, Homebase launched a mobile website, which is transactional for both home-delivery items and store reservations and which already accounts for 16% of total web visits.

Homebase key facts

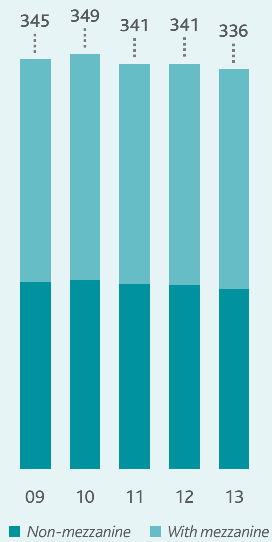
Sales (£m)



Homebase sales decreased by 5.2% or £79m in total. Seasonal categories accounted for the majority of the decline as a result of the inclement weather during Homebase's 2012 peak trading period. Big ticket sales were also lower reflecting a challenging market. Other categories were marginally down.

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

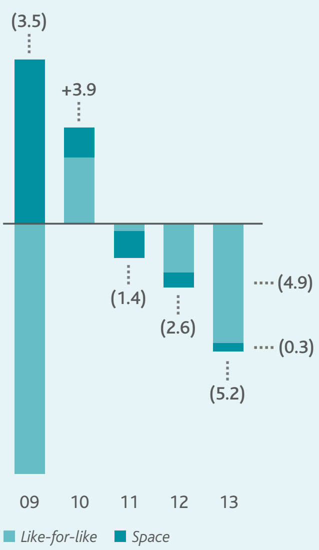
Number of stores



During the year, five stores were closed reducing the store portfolio to 336. Homebase completed seven further mezzanine refits and one midi refit during the year, all of which incorporated the premium Odina and Schreiber ranges. The total number of mezzanine refits now stands at 26.

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.*

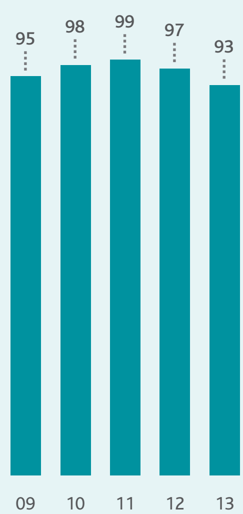
Sales trends (% change)



Like-for-like sales decreased by 4.9% in the year. Net closed space reduced sales by 0.3%.

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 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.*

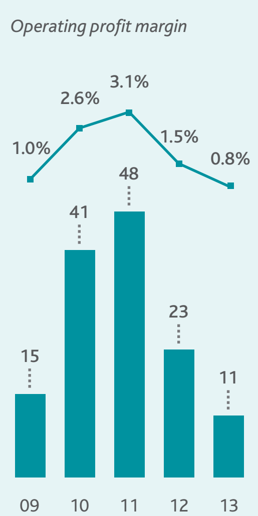
Sales per square foot (£)



Sales per square foot based on total year-end selling space decreased to £93. The reduction in the year was driven mainly by lower overall sales, due to the combination of poor seasonal sales throughout the first half of 2012 and a challenging big ticket market throughout the year.

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 £12m, to £11m. This decline in profit was as a result of the negative sales performance, partially offset by an improved gross margin rate and a cost base reduction of 2%.

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

Exclusive brands

A key differentiator for Homebase is its strong portfolio of exclusive brands, such as Habitat, Laura Ashley, Qualcast, Odina and Schreiber. During the year, Homebase has accelerated this strategy with Habitat and Laura Ashley concessions. The Qualcast brand has been extended into hand tools and watering products with sales growth approximately doubling year-on-year.

Habitat products are now available in over 200 Homebase stores, including ranges in furniture, paint, wallpaper and tiling. Habitat gives the Homebase customer greater choice with premium quality, contemporary styling, as well as some iconic designs that have been best sellers for many years.

Loyalty programme

Homebase connects with over seven million active Nectar customers and Nectar has a participation rate of more than 60% of Homebase's sales. During the year, promotional mechanics continued to be trialled through direct communication, targeting customers based upon their spending behaviour. Homebase continues to drive sales with events such as 'triple points' weekends and category-specific points promotions. Over 19 million direct mail packs were sent to customers to increase brand engagement resulting in significantly increased spend per customer.

As part of Homebase's social media development, in May 2012 the first ever Homebase Facebook app was launched, enabling customers to 'ask an expert a question'. Homebase posts on Facebook have been viewed over 3.2 million times in the year. Homebase has redesigned the new Homebase YouTube channel with over 1.2 million video views in the year.

Store estate

As part of Homebase's ongoing management of the store portfolio, in the last financial year there were five store closures, leading to a reduction in the store portfolio to 336 stores. This level of store closures was consistent with its plans at the start of the year. Homebase will continue to examine the opportunity for store closures, relocations or downsizes as either leases expire or lease break clauses occur. Over the next five years, Homebase has around 70 store lease renewals or break clauses due. In the 2013/14 financial year, it is expected there will be around 10 store closures.

Financial review

Total sales in the 52 weeks to 2 March 2013 decreased by 5.2% to £1,431m. Net space sales change reduced sales by 0.3% with five store closures reducing the store portfolio to 336. Like-for-like sales declined by 4.9%. Seasonal product sales were adversely impacted by record poor weather conditions, particularly in the first half of the year, while big ticket sales were lower overall, reflecting the continuing challenging market. Remaining categories were slightly down. Homebase continued to increase its market share in the DIY sheds market as reported by the independent third party, GfK, with this latest gain being its fourth consecutive year of market-share growth.

The gross margin rate improved by approximately 75 basis points. The key positive drivers were the anticipated benefit of favourable currency and reduced shipping costs, a beneficial sales mix over the year and a reduced level of customer participation of promotional offers. These benefits were partially offset by an increased level of seasonal stock clearance activity.

Total operating and distribution costs reduced by £17m with the impact of underlying cost inflation pressures being more than offset by further cost savings. Benchmark operating profit was £11.0m, a £11.8m or 52% decline on the previous year's £22.8m.

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

52 WEEKS TO	2 MARCH 2013	25 FEBRUARY 2012
Sales (£m)	**1,430.7**	**1,509.8**
Benchmark operating profit (£m)	**11.0**	**22.8**
Benchmark operating margin	**0.8%**	**1.5%**
Like-for-like sales change	(4.9%)	(2.0%)
Net space sales change	(0.3%)	(0.6%)
Total sales change	(5.2%)	(2.6%)
Gross margin rate movement	Up c.75bps	c.0bps
Benchmark operating profit change	(52%)	(52%)
Number of stores at year-end	336	341
Of which contain a mezzanine floor	186	187
Store selling space at year-end (million sq ft)	15.4	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 for Home Retail Group.

Operational review

In-house store card credit sales increased by 3% to £628m (2012: £611m) and represented 10.0% (2012: 9.7%) of Group retail sales. This increased level of credit sales and penetration is a result of specific product range support and sales increases in categories that have higher credit attachment rates such as tablets and white goods. In addition to credit sales placed on the Group's own store cards, credit offers for purchases at Homebase which are greater than £1,000 are now principally provided through product loans from a third-party provider. Including these product loans, total credit sales penetration increased to 11.0% (2012: 10.6%) of Group retail sales. Customer use of the online account management tools continues to grow with over 600,000 registered customers.

Financial review

Total sales in the 52 weeks to 2 March 2013 increased by 3.9% to £113.4m. Delinquency rates continued their trend of the last three years with a further reduction, resulting in a reduced bad debt cost. Financing costs were marginally down versus last year, with this internal recharge being based upon UK base rates with a corresponding credit being recognised in Group net interest income. These benefits were offset by an increase in operating costs resulting in benchmark operating profit being flat at £6.0m (2012: £6.0m).

Store card net receivables grew by £18m versus a year ago to £475m, principally as a result of the increase in credit sales. The Group finances these receivables internally with no third-party debt being required.

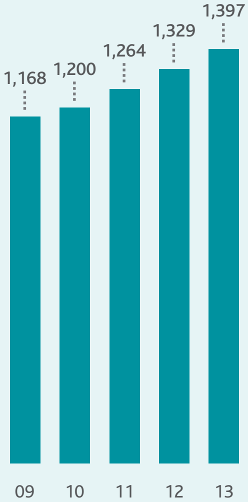
In-house store card credit sales now represent 10% of Group retail sales

600,000 customers have now registered to use our online account management tool

52 WEEKS TO	2 MARCH 2013	25 FEBRUARY 2012
Sales (£m)	**113.4**	**109.1**
Benchmark operating profit before financing costs	9.1	9.4
Financing costs	(3.1)	(3.4)
Benchmark operating profit	**6.0**	**6.0**

AS AT	2 MARCH 2013	3 MARCH 2012
Store card gross receivables	547	535
Provision	(72)	(78)
Store card net receivables	475	457
Provision % of gross receivables	13.2%	14.7%

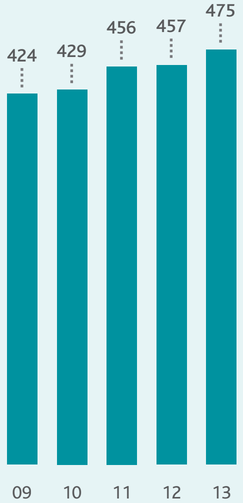
Financial Services key facts



Number of active store card holders ('000s)

The total number of active accounts grew to almost 1.4 million. The cards offer a revolving credit proposition together with a range of 'buy now pay later' plans. The offer is available through our stores and online 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.*

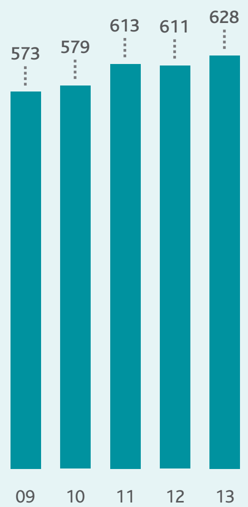


Net store card receivables (£m)

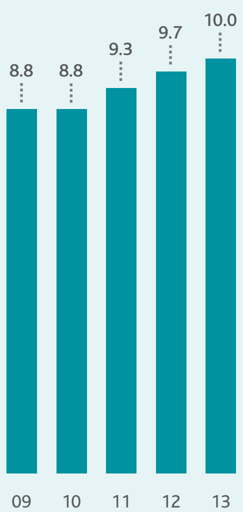
There was a £18m increase in net store card receivables in the year, driven by the continued success in the range of credit products offered.

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 £628m of Group retail sales, an increase of £17m or 2.8% on the previous year, representing 10.0% of sales. In addition to credit sales placed on the Group's in-house store cards, credit offers for purchases at Homebase of over £1,000 are principally 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

Acting responsibly is of course the right thing to do, but we believe it makes good business sense too. We call our approach 'the basis of good business'.

FTSE4Good

Dow Jones Sustainability Indexes
Member 2012/13

We continue to meet globally recognised standards in environmental, social and governance criteria

CR INDEX 2013 PLATINUM

We have achieved Platinum status for three successive years

PLATINUM AWARD 2013
PAYROLL GIVING

More than 10% of our colleagues participate in our payroll giving scheme

LBG

We use LBG's measurement model to assess the real value of our community investment

CRC Energy Efficiency Scheme

CARBON DISCLOSURE PROJECT

We are members of both the CRC Energy Efficiency Scheme and the Carbon Disclosure Project

The basis of good business helps us to be more efficient by reducing waste and controlling our energy consumption. Setting ourselves challenging targets encourages innovation and improvement in these areas.

We are delighted to have achieved a 14% absolute reduction in our carbon footprint since 2006 – a 31% reduction relative to selling space – and to be the highest ranked UK retailer in the latest carbon reduction commitment performance league table. We continue to reduce the amount of waste we generate and increase the amount of this waste that we are able to recycle, this year achieving a 92% recycling rate.

Despite the tough economic climate, the level of community support has continued to increase this year.

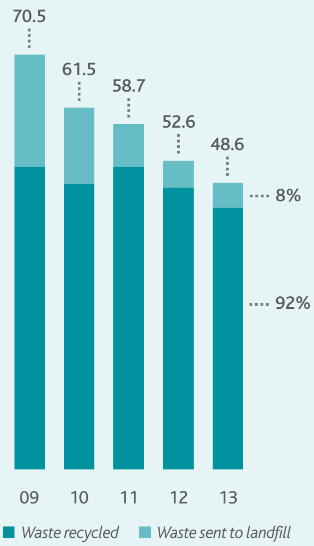
- Our 31-month partnership with Teenage Cancer Trust , which concluded at the end of February 2013, generated £4.7m of fundraising, far exceeding our initial expectations.
- The Argos Barnardo's toy exchange, which launched in autumn 2012, encouraged customers to return unwanted toys to our stores in exchange for a money-off voucher towards their own Christmas toy shopping. It raised over £700k for Barnardo's in its first year and is a great example of combining recycling and fundraising and increasing customer traffic to our stores.

You can find more information on our corporate responsibility activities in the CR section of our corporate website **www.homeretailgroup.com/cr/**

COMMUNITY SUPPORT

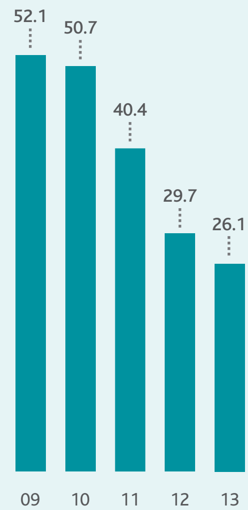
	2013	2012
£000		
Cash donations	505	652
Volunteering	288	206
Gifts in kind	286	81
Management resource	173	160
Company donations	**1,252**	**1,099**
Monies raised by colleagues		
– Payroll giving	380	405
– Colleague and customer fundraising	3,532	2,208
Donations from others	**3,912**	**2,613**
Total	**5,164**	**3,712**

Responsible retailing key facts



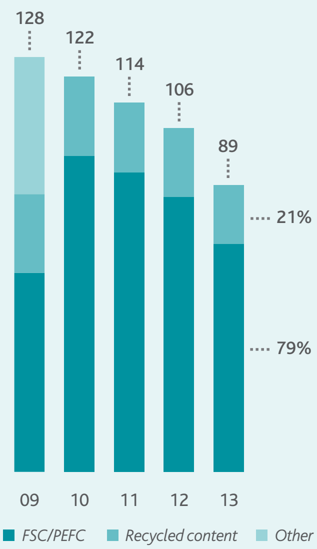
Waste management (k tonnes)

Group waste fell by 8% from 52.6k tonnes to 48.6k tonnes. As a result we achieved a recycling rate of 92% and only 4k tonnes went to landfill, a 17% reduction on the prior year.



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

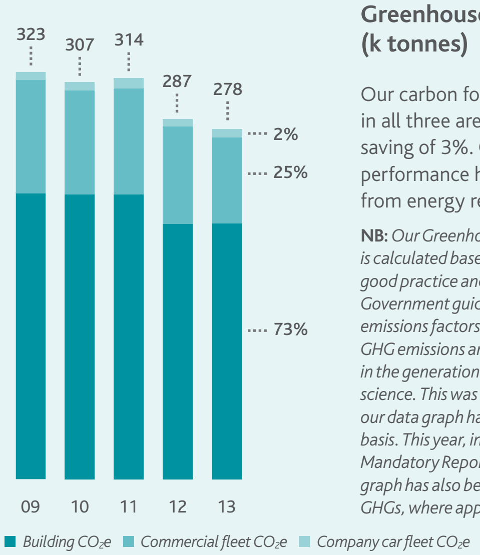
Total packaging (retail and transit) for own-brand and direct-sourced products has reduced by 12%, from 29.7k tonnes to 26.1k tonnes.



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

We have reduced our paper usage this year by 16%. All paper publications are printed on paper from certified sources or recycled paper.

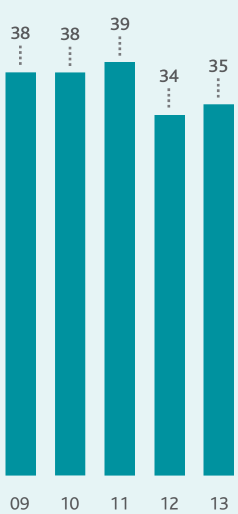
FSC: *Forest Stewardship Council*
PEFC: *Programme for the Endorsement of Forest Certification*



Greenhouse gas footprint (k tonnes)

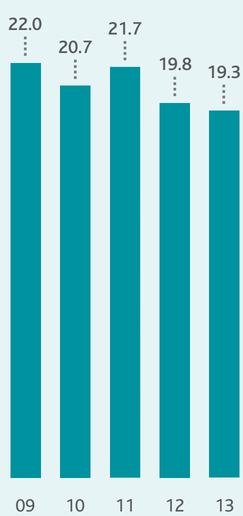
Our carbon footprint has reduced in all three areas, giving an overall saving of 3%. Our commercial fleet performance has continued to benefit from energy reduction measures.

NB: *Our Greenhouse Gas (GHG) footprint is calculated based on recommended good practice and in accordance with UK Government guidelines. Each year the emissions factors used to convert energy into GHG emissions are updated to reflect changes in the generation mix for electricity or better science. This was last done in May 2012 and our data graph has been restated on this basis. This year, in line with UK Government's Mandatory Reporting requirements, our data graph has also been restated to include all six GHGs, where applicable.*



Building energy use (kwh/sq ft)

Total energy consumed in buildings increased by 3%, attributable to the colder winter weather in the 2012/13 financial year. We have continued with 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 enabled us to reduce our carbon emissions by 2%, achieving our best energy performance relative to our shop floor selling space in the last six years.

Financial summary

£m	52 WEEKS TO 2 MARCH 2013	52 WEEKS TO 25 FEBRUARY 2012	53 WEEKS TO 3 MARCH 2012
Argos	3,931.3	3,872.6	3,935.3
Homebase	1,430.7	1,509.8	1,536.4
Financial Services	113.4	109.1	111.1
Sales	**5,475.4**	**5,491.5**	**5,582.8**
Cost of goods	(3,473.8)	(3,464.1)	(3,521.1)
Gross margin	**2,001.6**	**2,027.4**	**2,061.7**
Group gross margin % rate	*36.6%*	*36.9%*	*36.9%*
Operating and distribution costs	(1,908.3)	(1,929.7)	(1,950.0)
Argos	100.3	94.2	106.9
Homebase	11.0	22.8	23.8
Financial Services	6.0	6.0	6.1
Central Activities	(24.0)	(25.3)	(25.1)
Benchmark operating profit	**93.3**	**97.7**	**111.7**
Group operating margin % rate	*1.7%*	*1.8%*	*2.0%*
Net interest income (see below)	3.8	3.4	3.5
Share of post-tax results of associates	(6.0)	0.5	0.5
Benchmark PBT	**91.1**	**101.6**	**115.7**
Exceptional items	31.3	(20.3)	(20.3)
Financing fair value remeasurements	(1.1)	3.3	3.3
Financing impact on retirement benefit obligations	3.1	4.8	4.8
Discount unwind on non-benchmark items	(7.1)	(6.5)	(6.7)
Amortisation of acquisition intangibles	(1.8)	(1.2)	(1.2)
Net onerous lease provision releases	14.6	8.5	8.5
Profit before tax	**130.1**	**90.2**	**104.1**
Taxation	(36.1)	(27.6)	(31.3)
of which: taxation attributable to benchmark PBT	*(29.7)*	*(31.8)*	*(35.5)*
Benchmark effective tax % rate	*30.6%*	*31.5%*	*30.8%*
Profit for the year	**94.0**	**62.6**	**72.8**
Basic benchmark EPS	**7.7p**	**8.7p**	**10.0p**
Basic EPS	**11.7p**	**7.8p**	**9.1p**
Weighted average number of shares for basic EPS	800.6m	799.4m	799.4m
Full-year dividend	3.0p	4.7p	4.7p
Closing net cash position	396.0	181.4	194.3
Net interest reconciliation:			
Bank deposits and other interest	1.9	1.7	1.8
Financing costs charged to Financial Services	3.1	3.4	3.4
Discount unwind on benchmark items	(1.2)	(1.7)	(1.7)
Net interest income	**3.8**	**3.4**	**3.5**
Financing fair value remeasurements	(1.1)	3.3	3.3
Financing impact on retirement benefit obligations	3.1	4.8	4.8
Discount unwind on non-benchmark items	(7.1)	(6.5)	(6.7)
Income statement net financing (charge)/income	**(1.3)**	**5.0**	**4.9**

The above table has been prepared in accordance with note 2 to the consolidated financial statements on page 62.

Group financial review

The previous financial year comprised 53 weeks to 3 March 2012. We believe that in order to have a proper understanding of the performance of the business in the current financial year it is more appropriate to compare the 52 weeks of the 2012/13 financial year with the 52 weeks of the 2011/12 financial year (the 52 weeks to 25 February 2012). As such, all references to financial performance in respect of the income statement, cash flow and business reviews are made on this basis unless otherwise stated.

Sales and benchmark operating profit

Group sales were broadly flat at £5,475m (2012: £5,492m) while Group benchmark operating profit declined 4.5% to £93.3m (2012: £97.7m). 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 development opportunities. Costs for the year were 5% lower at £24.0m (2012: £25.3m), principally driven by the elimination of losses at the Group's UK homewares trial format, HomeStore&More, following its closure in the previous financial year, partially offset by the trading loss incurred at Habitat. Other central corporate costs were well controlled with underlying cost inflation being offset by cost saving initiatives.

Net interest income

Net interest income was £3.8m (2012: £3.4m). Within this, third-party interest income for the year increased to £1.9m (2012: £1.7m) as a consequence of a higher average cash balance more than offsetting marginally lower interest rates on deposits.

Financing costs charged within Financial Services' benchmark operating profit, together with the corresponding credit within net interest income, decreased to £3.1m (2012: £3.4m). This internal recharge is based upon UK base rates.

The charge within net interest income in relation to the discount unwind on benchmark items was £1.2m (2012: £1.7m). 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 associates

These amounted to a loss of £6.0m (2012: profit of £0.5m), principally reflecting losses from the Group's Chinese operation together with costs in respect of its closure.

On 8 March 2013, the Group sold its 33% associate stake in Ogalas Limited, which trades as 'home store + more' in the Republic of Ireland, for a cash consideration of £11m.

Benchmark PBT

Benchmark PBT for the year declined 10% to £91.1m (2012: £101.6m) driven by the factors discussed above.

Exceptional items

The exceptional credit recorded in the year was £31.3m (2012: charge of £20.3m). On 14 June 2012, the Group announced the closure of its defined benefit pension scheme to future accrual with effect from 31 January 2013. As a result of the closure, all active members of the scheme were treated as if they were deferred members, and have been offered entry into the Group's defined contribution pension scheme. A net exceptional gain of £31.3m has been recognised in the year. This includes a non-cash curtailment gain of £37.4m, arising from the one-off reduction in the scheme's liabilities as members are no longer entitled to pension benefits linked to future salary increases, offset by costs of £6.1m related to the closure of the scheme.

Financing fair value remeasurements

Certain foreign exchange movements are recognised in the income statement within net financing income. These amounted to a net loss of £1.1m (2012: gain of £3.3m), which arises principally as a result of translation differences on overseas subsidiary currency balances. The loss reflects the weakening of sterling against other currencies 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 £3.1m (2012: £4.8m). The current service cost, which the Group considers a more appropriate reflection of the cost of providing retirement benefits, is already reflected in benchmark operating profit.

Discount unwind on non-benchmark items

An expense of £7.1m (2012: £6.5m) 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.

Group financial review continued

Amortisation of acquisition intangibles
A charge of £1.8m was recorded in the year (2012: £1.2m), relating to the amortisation of the value of the brand which arose on the Habitat UK acquisition.

Net onerous lease provision releases
A net credit of £14.6m (2012: £8.5m) was recorded in the year, relating to net onerous lease provisions that are no longer required.

Profit before tax
The profit before tax for the year was £130.1m (2012: £90.2m).

Taxation
Taxation attributable to benchmark PBT was £29.7m (2012: £31.8m), representing an estimated effective tax rate (excluding associates) of 30.6% (2012: 31.5%). The lower effective tax rate reflects two opposing elements: the favourable impact of the 2% reduction in the UK corporation tax rate, partially offset by the adverse impact of a relatively fixed level of disallowable expenditure in comparison to a reduced level of benchmark profits.

Taxation attributable to non-benchmark items amounted to a charge of £6.4m (2012: credit of £4.2m). The total tax expense for the year was therefore £36.1m (2012: £27.6m).

Number of shares and earnings per share
The number of shares for the purpose of calculating basic earnings per share (EPS) was 800.6m (2012: 799.4m), representing the weighted average number of issued ordinary shares of 813.4m (2012: 813.4m), less an adjustment of 12.8m (2012: 14.0m) representing shares held in Group share trusts net of vested but unexercised share awards.

The calculation of diluted EPS reflects the potential dilutive effect of employee share incentive schemes. This increases the number of shares for diluted EPS purposes by 12.4m (2012: 3.9m) to 813.0m (2012: 803.3m). Basic benchmark EPS is 7.7p (2012: 8.7p), with diluted benchmark EPS of 7.6p (2012: 8.7p). Reported basic EPS is 11.7p (2012: 7.8p), with reported diluted EPS being 11.6p (2012: 7.8p).

Dividends
While basic benchmark EPS has reduced by 11%, the Group's strong financial position has resulted in a final dividend of 2.0p being recommended by the Board, taking the dividend for the year to 3.0p (2012: 4.7p). The Board is mindful of the investment needs of the Group and has set the full-year dividend at a level which it believes is both sustainable and which provides flexibility to grow the dividend as earnings increase over time. Based on basic benchmark EPS of 7.7p (2012: 8.7p), dividend cover is 2.57 times (2012: 1.85 times). The final dividend, subject to approval by shareholders at the AGM, will be paid on 24 July 2013 to shareholders on the register at the close of business on 24 May 2013.

As the Group's earnings profile is heavily weighted to the seasonal Christmas trading at Argos, and hence the second half of the Group's financial year, it is the Board's intention to hold the interim dividend for the year ending March 2014 at 1.0p and any potential increase in the full-year dividend will be reflected in the final dividend.

Cash flow and net cash position

Cash flows from operating activities were £322.1m (2012: £220.0m). This £102.1m increase was principally attributable to a significant trade working capital inflow partially offset by an outflow in the Financial Services loan book as a result of the increase in credit sales.

Net capital expenditure was £78.7m (2012: £130.7m), representing ongoing investment across the Group in the existing store chains and further multi-channel initiatives. Tax paid was £26.1m (2012: £26.8m). Other investments of £11.6m (2012: £1.2m) principally represent equity invested in and loans granted to the Group's Chinese operation. Dividends paid to shareholders amounted to £8.0m (2012: £117.5m) representing the interim dividend payment of 1.0 pence.

The Group strengthened its net cash position to £396.0m with a net cash generation of £201.7m in the year.

CASH FLOW AND NET CASH POSITION

£m	52 weeks to 2 March 2013	52 weeks to 25 February 2012	53 weeks to 3 March 2012
Benchmark operating profit	93.3	97.7	111.7
Exceptional items	31.3	(20.3)	(20.3)
Amortisation of acquisition intangibles	(1.8)	(1.2)	(1.2)
Net onerous lease provision releases	14.6	8.5	8.5
Statutory operating profit	137.4	84.7	98.7
Depreciation and amortisation	124.7	125.7	126.5
Movements in trade working capital	131.9	4.7	–
Movement in Financial Services loan book	(18.0)	(4.7)	(0.6)
Financing costs charged to Financial Services	3.1	3.4	3.4
Cash flow impact of restructuring charges	(9.0)	(3.8)	(3.8)
Pension scheme deficit recovery payments	(8.0)	(10.0)	(10.0)
Movement in retirement benefit obligations	(36.3)	1.4	1.4
Other operating items	(3.7)	18.6	18.9
Cash flows from operating activities	**322.1**	**220.0**	**234.5**
Net capital expenditure	(78.7)	(130.7)	(131.0)
Acquisition of business	–	(24.5)	(24.5)
Taxation	(26.1)	(26.8)	(26.8)
Net interest	1.7	2.2	2.4
Net movement of term deposits	–	100.0	100.0
Other investments	(11.6)	(1.2)	(2.1)
Cash inflow before financing activities	**207.4**	**139.0**	**152.5**
Dividends paid	(8.0)	(117.5)	(117.5)
Other financing activities	–	0.1	0.1
Net increase in cash and cash equivalents	**199.4**	**21.6**	**35.1**
Add back: net movement of term deposits	–	(100.0)	(100.0)
Effect of foreign exchange rate changes	2.3	0.5	(0.1)
Increase/(decrease) in financing net cash	**201.7**	**(77.9)**	**(65.0)**
Opening financing net cash	194.3	259.3	259.3
Closing financing net cash	**396.0**	**181.4**	**194.3**

Group financial review continued

Balance sheet

Net assets as at 2 March 2013 were £2,732.5m, equivalent to 342p (2012: 328p) per share excluding shares held in Group share trusts. Invested capital as at 2 March 2013 was £2,376.8m, a reduction of £141.8m versus the balance sheet as at 3 March 2012. This reduction in invested capital was driven by a decrease in property, plant and equipment and other intangible assets, which reflects a reduced level of capital expenditure in the year with the key drivers being no new store openings and a reduced level of investment in the existing store portfolio, together with an increase in trade and other payables, principally reflecting further improvements in supplier terms. These reductions in invested capital were partially offset by increases in inventories, the Financial Services loan book and other assets.

The reduction in invested capital of £141.8m was more than offset by the reduction in retirement benefit obligations, the increase in forward foreign exchange contracts and the significant increase in net cash, the result of which was an overall increase in net assets of £107.1m.

BALANCE SHEET

As at	2 March 2013	3 March 2012
£m		
Goodwill	1,543.9	1,543.9
Other intangible assets	129.2	137.1
Property, plant and equipment	474.9	516.3
Inventories	941.8	933.2
Financial Services loan book	474.7	456.7
Other assets	198.8	167.4
	3,763.3	3,754.6
Trade and other payables	(1,168.7)	(1,000.7)
Provisions	(217.8)	(235.3)
	(1,386.5)	(1,236.0)
Invested capital	**2,376.8**	**2,518.6**
Retirement benefit obligations	(85.1)	(115.3)
Net tax assets	10.7	24.7
Forward foreign exchange contracts	34.1	3.1
Net cash	396.0	194.3
Net assets	**2,732.5**	**2,625.4**

Group pension arrangements

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 Personal Pension Plan, a defined contribution scheme.

The IAS 19 valuation as at 2 March 2013 for the defined benefit pension schemes was a net deficit of £85.1m (2012: £115.3m). The reduction in the deficit of £30.2m was driven by an increase of £69.1m in the scheme assets to £833.5m (2012: £764.4m), partially offset by an increase of £38.9m in the present value of scheme liabilities to £918.6m (2012: £879.7m). The increase in the scheme liabilities was driven principally by an increase in the assumed rate of inflation to 3.4% (2012: 3.1%) partially offset by the curtailment gain of £37.4m which was discussed within the exceptional items section.

A full actuarial valuation of the defined benefit pension scheme is carried out on behalf of the scheme's Trustee every three years by independent, qualified actuaries. The latest valuation, as at 31 March 2012, has recently been completed by the Trustee and has resulted in a deficit of £158m being agreed with the Group. A schedule of deficit recovery payments has also been agreed with the Group, with the cash flow impact of the deficit recovery payments being £22m for the financial year ending 1 March 2014 and for each of the six subsequent years.

Group financing arrangements

The Group finances its operations through a combination of cash, property leases and through access to committed bank facilities where necessary. The Group's net cash balances averaged approximately £429m (2012: approximately £320m) over the year.

Post the year-end, on 27 March 2013 the Group agreed a £165m committed unsecured borrowing facility, which is currently undrawn and which expires in March 2016. This facility replaced the previous £685m facility which had been in place since October 2006 and had never been drawn. In addition, as at 2 March 2013, the Group's Financial Services business held a net loan book balance of £475m (2012: £457m).

The Group has additional liabilities through its obligations to pay rents under operating leases; the operating lease charge for the year amounted to £353.9m (2012: £363.6m). Total lease commitments stood at £2,962m at 2 March 2013 (2012: £3,285m), which is a £1,368m reduction from the peak total lease commitments of £4,330m held at 1 March 2008. The discounted cash flows of these expected future operating lease charges is £2,362m

(2012: £2,702m) based upon discounting them at the Group's estimated long-term cost of borrowing of 4.2% (2012: 3.4%).

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 decreased slightly in the 2012/13 financial year to 0.7% (2012: 0.8%).

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 2012/13 financial year has seen a relatively stable period of hedged rates as noted in the table below.

US dollar hedged rates	2013	2012	Change cents
First half	1.60	1.55	5
Second half	1.59	1.57	2
Full year	**1.59**	**1.56**	**3**

Share price and total shareholder return

The Group's share price ranged from a low of 69.2p to a high of 136.6p during the 2012/13 financial year. On 1 March 2013, the closing mid market price was 126.3p, giving a market capitalisation of £1.0 billion.

Total shareholder return (the change in the value of a share including reinvested dividends) increased by 22% over the year. This compares to an increase of 24% for the FTSE 350 General Retail index.

Accounting standards and use of non-GAAP measures

The Group has prepared its consolidated financial statements based on International Financial Reporting Standards for the 52 weeks ended 2 March 2013. The basis of preparation is outlined in note 2 to the consolidated financial statements on page 62.

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 70.

Principal risks and uncertainties

We discuss 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 reviews and also page 38 within the corporate governance report for a process overview of risk management. Specific financial risks are detailed on page 29 of the Group financial review.

AREA OF PRINCIPAL RISK AND UNCERTAINTY	DESCRIPTION AND EXAMPLES OF MITIGATING ACTIVITY
Business strategy ▪ Inappropriate direction ▪ Poor investment decisions ▪ Failure to execute	Last October we announced ambitious and exciting growth plans for both Argos and Homebase. Argos' transformation strategy will see it become a retail digital leader, building on market-leading capabilities in Check & Reserve, internet traffic and mobile expansion. The vision for Homebase enables a strong multi-channel platform alongside store refits which will create a customer-centric home-enhancement offer. To deliver these strategies we will make significant investment in both brands. At every Plc and Operating Board meeting, strategic issues are discussed in addition to the time dedicated to strategic reviews at various executive meetings across the Group. **Other mitigating activities include:** ▪ Monthly review of performance against strategic targets ▪ Comprehensive strategic debates with the Plc Board and advisers ▪ Communication with stakeholders: investors, colleagues, suppliers, government etc.
Trading environment Impact on sales, costs, profit and cash of: ▪ Economic conditions ▪ Cost of raw material products, services and utilities ▪ Competitor activity ▪ Seasonality and/or weather ▪ UK-centric store network ▪ Appraisal of store network	Our business review clearly demonstrates how macro-economic conditions remain challenging for our customers. We have a broad customer demographic appeal which we plan to build on as mitigation against the risk of a slow recovery of the UK economy. Sales across the Group are assisted by our in-house Financial Services business, making it easier for our customers to buy the products they want. We have robust planning processes; however, unseasonal or extreme weather events have the potential to create significant sales forecast deviations. **Other mitigating activities include:** ▪ Price tracking versus our competition and dynamic pricing to ensure competitiveness is maintained ▪ Empowering customer choice by continuing to strengthen range architecture ▪ Reflecting needs of customers in financial products ▪ Embedded disciplines to maintain strong generation of cash and management of working capital ▪ Evaluating store lease renewals (c.345 over next five years) to optimise the Group's store portfolio
Infrastructure development/projects Delay or failure to manage and implement major business and infrastructure projects effectively	Our strategic agenda requires us to exploit and further enhance our project management capabilities during the year ahead. Our governance frameworks will be instrumental in ensuring successful delivery of all aspects of the change programme. **Other mitigating activities include:** ▪ Detailed approval and planning process prior to project commencement ▪ Board review of status/progress of major change programmes ▪ Management expertise in significant infrastructure/change programmes ▪ Post-project implementation reviews
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, our existing talent base is continually reviewed and strengthened if required. 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 ▪ Suite of development programmes for high-potential colleagues at all levels of the organisation ▪ Deployment of pensions auto-enrolment, making saving into a defined contribution scheme accessible to all colleagues ▪ Closure of final salary pension scheme to future accrual to support sustainable reduction of fund deficit

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 ensures that we listen and respond to our customers to enhance continually the shopping experience. Both businesses continue to expand product choice and services which, combined with improved store and product presentation, will benefit our customers. **Mitigating actions include:** ▪ Extend use of technology platforms and innovations to give customers choice in how they shop with us ▪ Understanding customer engagement and building on loyalty to our brands ▪ Continuous review of key customer metrics such as mystery shopping and exit interviews ▪ Engaging with all customer demographics through social media developments
Sourcing ▪ Strength of supplier relationships ▪ Purchase of products whose cost base of manufacture is in currencies other than sterling, principally the US dollar	Overseas sourcing capabilities continue to be leveraged to benefit customers in these difficult economic times. With over a third of products imported, the volatility of the global economy exposes the Group to both currency fluctuations, particularly the US dollar, and changes in freight costs. **Mitigating actions include:** ▪ Strong supplier associations bringing innovation to everyday living ▪ Seeking opportunities for further sourcing efficiencies ▪ Treasury policies to hedge currencies over appropriate time periods ▪ Forward buying of freight commitments ▪ Adjustments to customer pricing to reflect movement in hedged currency rates and freight costs
Operations Failure to ensure appropriate processes are in place to manage the complexity of operations, including multi-channel and customer service	Within Argos, projects are progressing to redesign ways of working for a 'digital-led' future as business processes are currently dominated by our successful catalogue heritage. De-risking this significant change programme requires a blend of experienced colleagues and externally-sourced talent to ensure we retain our efficient supply chain capabilities. A programme of store refits will continue Homebase's evolution as a customer-centric home enhancement retailer. This will provide a compelling backdrop to showcase the exclusive brands that offer differentiation from others in the marketplace. Product availability remains a key priority as the Group mitigates complex supply chain risks through robust processes and new initiatives to enable immediacy on a wide range of products. **Other mitigating activities include:** ▪ Exploiting existing infrastructure to develop market-leading fulfilment options ▪ Actively testing alternatives to the traditional Argos catalogue format ▪ Maintaining and extending Homebase's award-winning installation services for kitchens, bathrooms and bedroom furniture ▪ Targeted investment in customer service
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:** ▪ Ongoing monitoring of quality/safety for goods on sale ▪ Rigorous quality/safety assessment programme for new products ▪ Pre-shipment inspection of imports by a third party and our own quality teams in the Far East ▪ 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. Home Retail Group is committed to high standards and is proud to have formed partnerships with regulatory bodies such as Trading Standards, Fire and Rescue services and Environmental Health. In 2012, Argos was the first UK retailer to promote free online safety software to customers ahead of the Government's proposed legislation to ensure protection for children from adult content on the internet. **Other mitigating activities include:** ▪ Membership of industry representative groups, including the British Retail Consortium ▪ Pro-active engagement with government and regulators such as Financial Conduct Authority, UK Department for 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 Group remains vigilant to supplier vulnerability and continues to work towards a sustainable outcome for all parties. **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

John Coombe
Chairman

Terry Duddy
Chief Executive

Richard Ashton
Finance Director

Mike Darcey
Non-Executive Director

Ian Durant
Non-Executive Director

Cath Keers
Non-Executive Director

Jacqueline de Rojas
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

Julie Elder
Human Resources Director

Gordon Bentley
Company Secretary

BOARD OF DIRECTORS' PROFILES

John Coombe, *Chairman (68)*
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 and Chairman in 2012. 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.

Terry Duddy, *Chief Executive (57)*
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 (46)*
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.

Mike Darcey, *Non-Executive Director (47)*
Mike took up the position of Chief Executive Officer of NI Group Ltd in January 2013 following 15 years with BSkyB, where he had been Chief Operating Officer since 2006. Prior to BSkyB Mike was an economic advisor with a number of consulting companies including Lexecon, Putnam Hayes & Bartlett and KPMG, working across a wide range of industries, with particular focus on entertainment and telecommunications. Mike joined Home Retail Group in April 2010 and was appointed Senior Independent Director in July 2012.

Ian Durant, *Non-Executive Director (54)*
Ian is a former Finance Director of Liberty International (renamed Intu Properties) 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 (48)*
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.

Jacqueline de Rojas,
Non-Executive Director (50)
Jacqueline is the Vice President and General Manager of CA United Kingdom & Ireland. She previously performed leadership roles at McAfee, Novell, Business Objects and Informix. She holds external positions as Advisor to the Board at Bazaarvoice Inc, a judge on Women in Technology awards 2012 and 2013 and Member of Prince's Trust Technology Leadership Group. Jacqueline was appointed to the Home Retail Group Board in December 2012.

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

BOARD COMMITTEES

Audit Committee:
Ian Durant (Chairman), Mike Darcey, Cath Keers, Jacqueline de Rojas

Remuneration Committee:
Cath Keers (Chairman), John Coombe, Mike Darcey, Ian Durant, Jacqueline de Rojas

Nomination Committee:
John Coombe (Chairman), Mike Darcey, Terry Duddy, Ian Durant, Cath Keers, Jacqueline de Rojas

Corporate governance report

Chairman's introduction

The Board is responsible for the long-term success of the Company – to provide strategic leadership and to monitor performance and the management of risk. In tough economic conditions, the role and effectiveness of boards come sharply into focus. Over the past year we have looked closely at how best we can ensure that the Board continues to fulfil its responsibilities. We have reviewed and updated the division of responsibilities between my role as chairman and the role of Terry Duddy as chief executive and we have undertaken an independent formal evaluation of the performance of the Board and its committees. The Remuneration Committee has reviewed our remuneration policy and incentive arrangements and implemented early many of the changes to reporting requirements being introduced by the UK Government's new legislation. The Audit Committee has reviewed and extended its section of the report in line with the Financial Reporting Council's changes to its Guidance for Audit Committees.

Under the chairmanship of Oliver Stocken, we began a process of appointing new non-executive directors with the skills, knowledge, experience and independence to contribute to the next phase of the Company's development. In 2011, we appointed Ian Durant and Cath Keers and we have continued with this process in the past year with the appointment of Jacqueline de Rojas in December. With her extensive experience in software technology, Jacqueline is a strong addition to our Board as Argos implements its transformation plan to become a digital retail leader and Homebase extends its online experience for customers.

How individual directors – both executive and non-executive – approach their responsibilities is also a key element for effective governance. I believe a culture of openness, challenge and debate is very important, supported by constructive relations between executive and non-executive directors and effective communication channels with other members of senior management. I am grateful to the members of the Board and senior management for their commitment to this culture and the diligence they show to their responsibilities. The size of our Board facilitates this process. Each of our non-executive directors serves on each of the three main Board committees: Audit, Remuneration and Nomination, and is able to have direct involvement in the key areas of governance and to take full account of the relationships between the work of these committees. These arrangements enable the Board to be kept fully informed about the business and also enable the business to benefit from the full range of capabilities, experience and expertise represented on the Board and in senior management.

Good governance does not of itself produce good results but it is essential to the creation of a responsible environment in which performance can flourish and deliver success. I believe we have that environment.

John Coombe
Chairman

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'). 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, John Coombe; chief executive, Terry Duddy; finance director, Richard Ashton; and four non-executive directors: Mike Darcey (the senior independent director), Ian Durant, Cath Keers and Jacqueline de Rojas (from 5 December 2012).

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.

As reported in the 2012 annual report, John Coombe succeeded Oliver Stocken as chairman at the conclusion of the 2012 Annual General Meeting. Following John Coombe's appointment, the Board reviewed and agreed updated statements of the role of the chairman and chief executive.

The chairman's responsibilities include:

- Providing leadership for and ensuring the effective operation of the Board in conformity with the highest standards of corporate governance;
- Supporting the chief executive in the development of strategy;
- Promoting and facilitating effective relationships and communications between non-executive directors and executive directors and members of senior management;
- Ensuring effective communication with the Group's stakeholders, including shareholders; and
- Chairing the Nomination Committee and building an effective and complementary Board, initiating change and planning succession on Board and senior management appointments.

The chief executive's responsibilities include:

- Developing the strategy of the Group in conjunction with the chairman and the Board and being responsible to the Board for the performance of the business, consistent with agreed plans, strategies and policies;
- Developing and maintaining an effective framework of internal controls over risk in relation to all business activities;
- Leading the Operating Board and senior executive team in the day-to-day running of the business;
- Ensuring that robust management succession and management development plans are in place; and
- Ensuring that financial results, business strategies and, where appropriate, targets and milestones are communicated to the investment community.

In fulfilling his responsibilities, the chief executive is supported by the Operating Board, which includes the finance director and the managing directors of the main businesses and shared service functions.

The Board has a programme of scheduled meetings and telephone conferences each year and meets more frequently as required. During the period under review, in accordance with established practice, the chairman met with the non-executive directors without the executive directors present and arrangements are in place for regular informal meetings with the non-executive directors. 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.

Arrangements to ensure that the non-executive directors are fully informed about the business are kept under review. As with each of the other non-executive directors, upon appointment, Jacqueline de Rojas undertook a full induction programme, meeting the management team and visiting stores, distribution centres and contact centres across the United Kingdom. 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. Each of the non-executive directors serves 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 it 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.

There is a formal schedule of matters specifically reserved for the Board, which is reviewed annually. These matters include 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.

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 covered 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.

During the period under review, the Board has focused on the review of the Argos strategy and the development and launch of the Argos transformation plan; the development of the Homebase proposition through the new store format, exclusive brands and multi-channel capability and the investment required to support these initiatives. Other matters considered by the Board included the launch of Habitat in Homebase; a review of the Chinese joint venture; a review of Argos TV; sale of the Group's shareholding in Ogalas Limited; closure of the Group's defined benefit pension scheme, implementation of auto-enrolment pension arrangements and agreement on the 2012 valuation of the pension scheme; renewal of the Group's revolving credit facility; health and safety; business continuity arrangements; and the Group's corporate responsibility strategy. The company secretary ensures that the Board receives regular briefings on corporate governance matters and company legislation.

During the period under review, an independent formal evaluation of the performance of the Board was undertaken by Geoffrey Shepheard of ICSA Board Evaluation. ICSA Board Evaluation has no connection with the Company. Mr. Shepheard met with each director and the managing directors of Argos and Homebase and discussed their views on key aspects of the Board's performance, including Board and Board committee responsibilities; oversight; Board meetings; support for the Board; Board composition; how the Board and individual directors work together; and outcomes and achievements. A summary of each discussion was reviewed by each interviewee and formed the basis for a report for the Board, including recommendations for actions. ICSA Board Evaluation presented the report at a Board meeting. Based on the interviewees' assessments of each topic, ISCA Board Evaluation assessed that, overall, the Board was performing well. The Board considered the findings and recommendations of the evaluation, including the role of the Board and the appropriate balance of involvement of the chairman and non-executives in operational issues and strategic matters. Actions to enhance the effectiveness of the Board were agreed and are being addressed, including certain adjustments to the timing of meetings and the process for refreshing directors' skills and knowledge.

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.

Corporate governance report continued

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	–	–	2/2
Richard Ashton	12/12	–	–	–
John Coombe	11/12	4/4	7/7	2/2
Mike Darcey	12/12	4/4	7/7	2/2
Jacqueline de Rojas*	4/4	1/1	2/2	2/2
Ian Durant	12/12	4/4	7/7	2/2
Cath Keers	11/12	2/4	6/7	1/2
Oliver Stocken*	4/4	–	2/3	–

Note:
* Board changes during the period: Oliver Stocken resigned 4 July 2012, Jacqueline de Rojas appointed 5 December 2012.

Remuneration Committee

The Remuneration Committee is chaired by Cath Keers. Cath succeeded Mike Darcey as chairman of the committee on 5 July 2012. The other members of the committee are John Coombe, Mike Darcey, Ian Durant and Jacqueline de Rojas (from 5 December 2012). 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 46 to 51.

Nomination Committee

The Nomination Committee is chaired by John Coombe and its other members are Mike Darcey, Terry Duddy, Ian Durant, Cath Keers and Jacqueline de Rojas (from 5 December 2012). John succeeded Oliver Stocken as chairman of the committee on 5 July 2012. 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 Nomination Committee keeps under review the balance of skills, experience, independence and knowledge on the Board. John Coombe, appointed in 2006, has an in-depth understanding of the Group and its businesses and exceptional experience at board level of listed companies in a range of industries and as a former member of the UK Accounting Standards Board. Mike Darcey, appointed in 2010, has worked across many industries, including telecommunications and entertainment, and has wide ranging experience of media and digital technology. Ian Durant, appointed in 2011, has strong financial and accounting experience combined with extensive knowledge of the retail sector and property investment and development. Cath Keers, appointed in 2011, has extensive marketing and business development experience, with particular emphasis on mobile applications and ecommerce.

The committee led the process that resulted in the appointment of Jacqueline de Rojas as a non-executive director in 2012. 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 appointment, including an assessment of the time commitment expected. An external search consultancy, Lygon Group, was appointed to facilitate the search for suitable candidates. Lygon Group has no other connection with the Company. Following this process, Jacqueline de Rojas was recommended to the Board for appointment. Jacqueline has extensive experience in software technology businesses.

In 2013, Lord Davies published his second annual progress report on his review on Women on Boards, setting out recommendations to facilitate further progress. These will be considered in the year ahead. One key recommendation is that FTSE 250 boards should aim for a minimum of 25% female representation by 2015. As at 2 March 2013, the Company had two female directors, representing 29% of the Board (2012: 14%). Diversity (including gender diversity) is integral to how the Group conducts its business and the Group will continue to support and encourage increased diversity across all parts of its business and at every management level of the organisation. As at 2 March 2013, 22% of Operating Board members were women (2012: 11%); 26% of senior executives were women (2012: 23%); and 52% of our total employees were women (2012: 51%). More information on our approach to diversity can be found in the corporate responsibility section of our website.

Audit Committee

The Audit Committee comprises all of the independent non-executive directors and is chaired by Ian Durant. Ian succeeded John Coombe as chairman of the committee on 5 July 2012. Ian was formerly finance director of Liberty International. The Board considers that Ian has recent and relevant financial experience. John Coombe, Terry Duddy and Richard Ashton attend committee meetings at the request of the committee chairman. This ensures that all Board members are made aware of how the committee discharges its responsibilities. The Group head of internal audit and the external auditors also attend meetings of the committee at the request of the committee chairman. 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 Audit Committee's principal responsibilities cover internal control and risk management, oversight of internal audit and external audit (including auditor independence) and financial reporting. During the period under review, the committee reviewed the Financial Reporting Council's changes to its Guidance for Audit Committees and has extended this section of the report in line with these changes.

The committee has a structured programme linked to the Group's financial calendar. The committee 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. Material issues considered by the committee included goodwill carrying values; provisions in respect of onerous leases and inventories; provisioning levels contained within the Group's Financial Services operation; tax; exceptional items; and a number of disclosures contained within the consolidated financial statements. To inform the Board's assessment of whether it was appropriate for the Company to adopt the going concern basis in preparing financial statements, at both the half year and full year, the committee considered detailed reviews, based on the Company's financial plans, in relation to funding and liquidity, taking into consideration the Group's cash position, credit facilities and store card receivables and a range of sensitivities.

In September 2012, the external auditors presented their strategy for FY13 to the Audit Committee including a risk assessment, an overview of the areas of focus and the planned audit response. Taking into consideration the audit strategy and proposed areas of work and the assessment of the effectiveness of the external audit for FY12, the Audit Committee discussed and approved the external auditors' audit fee proposal. In September 2012 and February 2013, the committee reviewed reports on the Group's risk management process and risk profile and discussed the most significant risks. In February 2013, the committee considered and approved internal audit's audit plan for FY14, taking into account the risk profile.

At each meeting, the committee 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 and reports on any material litigation or potential litigation involving Group companies. During the period under review, the committee also reviewed management of fraud risk and incidences of fraud including the Group's anti-bribery arrangements; 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; and reviewed the statement in the annual report on the system of internal control.

One of the primary responsibilities of the Audit Committee is to assess the effectiveness of the external audit process and make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors. The current external auditors, PricewaterhouseCoopers LLP, were appointed in 2006. In line with the changes to the Code introduced in 2012, it is expected that the audit will be re-tendered no later than FY17. To assist the Audit Committee, a review was undertaken by the Company's internal audit department of the effectiveness of the external audit for FY12. Effectiveness was assessed in relation to three areas: robustness of audit; quality of audit; and quality of people and service. A questionnaire was completed by management stakeholders, including managing directors of the main businesses, members of the risk committee and divisional finance directors. Respondents were required to "score" the external auditors' performance against a range of criteria and were also given the opportunity to provide comments and explanations. The results evidenced a positive evaluation of the work of the external auditors and that high standards had been maintained. The report also suggested areas where there may be potential opportunities for further enhancements in project management and communications. The committee reviewed and discussed the findings of the report with the head of internal audit and the lead audit engagement partner.

In addition to the effectiveness review, 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 also reviewed and discussed the key messages highlighted in the Public Report on the 2011/12 inspection of PricewaterhouseCoopers by the FRC's Audit Inspection Unit (AIU) and the findings highlighted for audit committees in the AIU's Annual Report for 2011/12.

External auditor independence is an essential part of the audit framework and the assurance it provides. 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. These procedures include a policy on the provision of non-audit services overseen by the Group finance director in consultation with the committee chairman; annual confirmation of independence in writing by the external auditors following a review of relevant areas including relationships and investment, services provided to the Group and gifts and hospitality; consideration of the external auditors' confirmation at a committee meeting; and half-yearly reports to the committee providing details of any assignments and related fees carried out by the external auditors in addition to their normal work. These control procedures are in addition to the Group's anti-bribery and gifts and hospitality policies. Audit partner rotation forms part of the arrangements that support independence and objectivity. Neil Grimes was appointed in 2011 as lead audit engagement partner and senior statutory auditor.

Corporate governance report continued

The Group's policy on the provision of non-audit services is that the external 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.

For the period under review, non-audit fees paid to the Company's auditors, PricewaterhouseCoopers LLP, did not exceed audit fees. The non-audit services provided by the external auditors related principally to a review in connection with the renewal of the revolving credit facility. The external auditors were engaged to undertake this assignment after discussion with the committee chairman because of their past experience in delivering similar services to the Company and their cost effectiveness. The fees in respect of assignments carried out by the external auditors in addition to their normal work in the period under review were:

	£m
Taxation services	–
All other services	0.2

Accountability and audit

The Board has overall responsibility for the Group's system of internal control. The system is designed to safeguard the assets of the Group and help ensure the reliability of internal and external financial reporting. The purpose of this system is to help manage and control risk rather than eliminate it. 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 five 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

- Current and longer-term emerging risks were identified and reviewed by management followed by the review of the risk committee and Operating Board. 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 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 foreign currency hedging.
- 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 has 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 in a number of ways, including the provision of information in the annual report and on the Company's website, 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 throughout the year with roadshow activity following the full-year and half-year results announcements. Following his appointment as chairman, John Coombe wrote to major shareholders to emphasise the importance placed on effective engagement and communication with shareholders and he has held meetings with a number of shareholders during the period under review.

Through these processes the Board is kept abreast of key issues. Shareholders 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 chairs 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

Cath Keers
Chair – Remuneration Committee

Introduction
I am pleased to present the report on directors' remuneration.

In anticipation of new legislation relating to the way directors' remuneration is to be disclosed and voted upon in UK listed companies, this report incorporates a number of the new disclosure requirements where it is practicable to do so, and where this does not conflict with the current legislative requirements. We believe that this adds clarity to our reporting in this area. Accordingly, this report is split into two sections: a policy section which describes our approach for the forthcoming year and an implementation section which sets out the remuneration paid to directors over the financial year under review.

Remuneration policy
As a matter of policy, on appointment we aim to position salary, benefits and pension at a broadly mid-market position, with a higher than mid-market opportunity for performance-linked variable pay, provided that stretching targets are achieved.

We aim to balance our executive remuneration policy between setting a meaningful incentive for our leadership team, 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. In the continuing challenging economic environment, the priority remains to maximise profitability and manage cash carefully, whilst making the necessary investment to deliver the transformation plan to reinvent Argos as a digital retail leader and deliver the rollout of the Homebase proposition.

Performance against existing plans
In relation to annual bonus payments for the year under review, the committee set targets for both benchmark PBT and adjusted cashflow. As outlined elsewhere in this annual report, performance has been good against both these metrics in what has been a challenging year generally for retailers. Benchmark PBT was at the mid-point of the target range and adjusted cashflow exceeded the top end of the target range. This performance has generated a bonus payout of 118.5% of base salary for the executive directors out of the maximum opportunity of 150% of base salary. However, in consideration of the alignment of the level of reward with overall Group performance, the executive directors agreed with the committee that the bonus payment would be reduced by one third to 79% of salary. In addition, Terry Duddy has agreed that his full bonus payment be deferred in shares for three years.

Performance Share Plan (PSP or 'the Plan') awards granted in 2010 with three-year performance targets based on total shareholder return have lapsed, as Group performance was below the median of our comparator group over that period. That said, in the last year we have seen an improvement in our relative total shareholder return (TSR) performance.

Decisions taken during the year
During the year, the Group decided to change pension arrangements by closing the existing final salary pension arrangements to future accrual and moving to a defined contribution scheme or cash supplements.

Turning to our policy for 2013/14, for the second year running, there will be no increases to base salaries for executive directors in April 2013.

2013/14 annual bonus and Performance Share Plan awards
During the year the committee reviewed the performance conditions for the annual bonus and long-term incentive. The 2013/14 annual bonus will remain unchanged in terms of overall opportunity and performance targets will remain based on benchmark PBT and adjusted cashflow. The range set for each metric for the 2013/14 financial year has been set in line with the Group's annual budget.

For our long-term incentive plan, the value of performance shares awarded will remain at 250% of base salary – below our normal policy of 300% of base salary – and the performance conditions will remain based on benchmark EPS and TSR. The proportionate mix between benchmark EPS and TSR will be changed from 40:60 (as applied to last year's awards) to 60:40 so as to provide a closer link to our growth strategy, and coincident with setting significantly higher benchmark EPS growth targets. The benchmark EPS target range is significantly higher than the range set for last year's awards and represents a significant stretch relative to analysts' forecasts. The TSR range requires top decile performance against an unchanged comparator group of retailers for full vesting.

I hope that shareholders will be supportive of the resolution to approve the directors' remuneration report and I will be available at the AGM to answer any questions.

Cath Keers
Chair – Remuneration Committee

Directors' remuneration report for the year ended 2013

The directors' remuneration report has been prepared in accordance with the requirements of Schedule 8 of the Companies Act 2006, the principles of the UK Corporate Governance Code and best practice guidelines. Furthermore, in response to the UK Government's new legislation regarding the reporting of directors' remuneration and changes to the voting rights, we have incorporated a number of the revised reporting requirements into this year's report and will also be putting both the policy report and the implementation report to an advisory vote in 2013, a year before these will be required by legislation.

The most visible change for shareholders is that the report has been divided into two sections. In the new policy report we describe the Remuneration Committee's policy on executive director remuneration. This explains the framework in which decisions on executive director remuneration will be taken in the coming year. In the implementation report we describe how the policy was operated during the year being reported on, including how much each executive director was actually paid and what their future entitlements might be in respect of outstanding awards under the Group's long-term incentive plans.

Policy report

This part of the directors' remuneration report sets out the remuneration policy for the year ahead as applicable to executive directors.

How the Remuneration Committee operates to set the remuneration policy

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 to the policy. However, the committee has reviewed the policy for executive directors in the context of the Operating Board (comprising the nine most senior executives, including the executive directors) and the broader employee group generally. A number of principles have been clarified, as follows:

- Remuneration arrangements for the Operating Board should align the interests of shareholders and senior executives by using performance metrics that provide a strong link to the business strategy and support the creation of shareholder value.
- Share ownership guidelines for the Operating Board should encourage the acquisition and retention of Home Retail Group shares.
- Remuneration packages for the Operating Board and the wider leadership team should contain performance-related elements, the potential value of which increases proportionately with seniority.
- For the Operating Board, the Remuneration Committee will seek to position levels of fixed pay broadly at a mid-market level (by reference to comparable UK listed retailers) at the time of appointment and thereafter, subject to performance. Salary increases will be in line with those of the broader employee group unless there is a change in role or responsibilities. The variable remuneration elements will be positioned to provide an earning opportunity above the mid-market level, but subject to the achievement of stretching targets.
- In order to align the interests of the Operating Board with shareholders, the majority of variable remuneration should be linked to longer-term performance and delivered in shares.
- All employees should be encouraged to participate in Home Retail Group as shareholders via our all-employee share plans.

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

The Remuneration Committee engages pro-actively with the Group's major shareholders. The Remuneration Committee chair will consult with major shareholders prior to any material changes to the remuneration policy. In March 2012 the committee chair consulted with a number of the Group's largest shareholders in order to explain the committee's deliberations on executive pay for 2011/12 and the policy for 2012/13.

When setting the levels of short-term and long-term variable remuneration and the balance of equity and cash within the package, consideration is given to obtaining the appropriate balance so as not to encourage unnecessary risk-taking, whilst ensuring that performance hurdles are suitably stretching.

Directors' remuneration report continued

Key features of the remuneration policy – executive directors

The following table sets out a summary of each element of the executive directors' remuneration packages, the policy for how these are operated and their link to the Group's strategy.

ELEMENT PURPOSE AND LINK TO COMPANY STRATEGY	POLICY	OPERATION
Base salary ▪ To recruit and reward executives of a suitable calibre for the role and duties required ▪ To provide a market-competitive salary relative to the market in which the Group operates	▪ At the time of appointment, base salaries are positioned around the mid-market level ▪ When reviewing salaries, account is taken of movements in the employment market, the general economic environment and individual performance ▪ Salary increases, where made, do not exceed the general level of increases for the Group's employees, other than where role or responsibilities change	▪ The committee periodically benchmarks salaries against other retailers of similar complexity to the Group or other UK-listed companies with similar market capitalisations and revenues ▪ Salaries are generally reviewed in April every year ▪ For 2013/14, salaries have been frozen at the current level (for the second year running and for four out of the last five years) ▪ Salaries are paid monthly in cash, and in arrears
Pension ▪ The Group aims to provide competitive retirement benefits that represent an appropriate level of cost and risk for the Group's shareholders	▪ Both executive directors' retirement benefits were provided through defined benefit (DB) arrangements up to 30 April 2013 ▪ From 1 May 2013, retirement benefits were replaced with cash allowances	▪ Terry Duddy: non-contributory unapproved unfunded retirement benefit scheme, with a 1/30th accrual rate (to 30 April 2013) ▪ Richard Ashton: entitlements were provided through the Group's main defined benefit pension scheme (until 31 January 2013) and through a non-contributory unapproved unfunded retirement benefit scheme for earnings above £137,400 (to 30 April 2013), with an overall 1/38th accrual rate **From 1 May 2013:** ▪ Terry Duddy: cash allowance of 30% of salary for 2013/14 ▪ Richard Ashton: cash allowance of 25% of salary for 2013/14 ▪ Both executives will be paid a transitional allowance of 10% of base salary for the 12 month period from 1 February 2013. This payment was agreed by the committee in recognition of the significant reduction in value of the new retirement benefit compared to the previous arrangements. This is consistent with the transition allowances for other DB scheme members across the Group
Annual bonus plan ▪ Incentivises the delivery of the Group's annual financial goals ▪ The performance metrics chosen support the achievement of these goals	▪ Bonus level is determined by the committee after the year end, based on performance against targets and paid in cash ▪ Targets set are financial (benchmark PBT and adjusted cash flow) ▪ Target awards are positioned broadly at median with stretching targets set for maximum payouts ▪ A clawback rule in relation to misstatement, error, and misconduct applies to the annual bonus plan for executive directors	▪ Targets are set at the beginning of each year ▪ Bonuses for executive directors are capped at 150% of salary ▪ The committee reserves the discretion to scale back any payout against the adjusted cash flow measure should the benchmark PBT element of the bonus be significantly lower than that paid under the adjusted cash flow element

ELEMENT PURPOSE AND LINK TO COMPANY STRATEGY	POLICY	OPERATION
Long-term incentive plan ▪ Incentivises long-term returns for shareholders ▪ Supports retention	▪ Awards are normally granted annually and vest at the end of a three-year period ▪ The face value of awards are set at around the upper-quartile compared to peers, commensurate with stretching performance targets ▪ Performance measures are selected by the committee to incentivise the delivery of value to shareholders over the longer term ▪ A clawback rule in relation to misstatement, error, and misconduct applies to awards granted since 2012 to all participants in the Plan	▪ The Plan rules allow awards in shares to a cap of 300% of salary, although the approach for 2013 is to award at a 250% of salary level to executive directors ▪ For 2013, 40% of the award will be subject to relative TSR performance against a peer group of companies (25% vests for median performance, rising to 100% for 90th percentile performance with straight-line vesting between these points) ▪ 60% of the award will be subject to benchmark EPS performance with a target range set annually by the committee (25% vests at a threshold performance level and 100% vests at maximum performance level)
Other benefits ▪ The benefits package is broadly market competitive	▪ The benefits provided are: – company car scheme – private medical insurance – life insurance – employee share schemes	▪ Car benefit is offered as a fully-expensed car or cash alternative and Terry Duddy has access to a pool driver ▪ Private medical cover for self, spouse and children ▪ Same all-employee share schemes as offered to other Group colleagues
Share ownership guidelines ▪ Aligns executives' and shareholders' interests	▪ Executive directors and other senior executives are required to achieve a specified value of holding which is reviewed on an ongoing basis ▪ The share ownership levels reflect market practice	▪ The current share ownership guidelines require a level of share ownership to be acquired and retained of: – chief executive: 150% of salary – finance director: 100% of salary ▪ The executive directors are required to retain at least 50% of the after-tax value of shares vesting under the long-term incentive arrangements until such time as the guidelines have been met
Policy on recruitment of senior executives ▪ Enable the Group to recruit senior executives able to contribute to the success of the Group	▪ Salaries for new hires will be set to reflect their skills and experience, the Group's intended pay positioning and the market rate for the role ▪ Current entitlements (eg bonus and share schemes) may be bought out on a like-for-like basis (comparable time horizon, fair value and subject to performance conditions) ▪ Existing incentive arrangements will be used to do so where possible	

Directors' remuneration report continued

Key features of the remuneration policy – non-executive directors

The following table sets out a summary of each element of the non-executive directors' remuneration packages, the policy for how these are operated and their link to the Group strategy.

ELEMENT PURPOSE AND LINK TO COMPANY STRATEGY	POLICY	OPERATION
Fees ▪ Fees should be in line with market levels and sufficient to attract and retain high-calibre non-executives ▪ Fees for each non-executive should be set by reference to the responsibilities undertaken ▪ Given the Board size, each non-executive director is expected to be a member of the Audit, Remuneration and Nomination Committees	Fees are a combination of cash fees paid monthly and shares, bought twice each year: ▪ Shares purchased must be retained until retirement from the Board of Directors ▪ Non-executive directors do not participate in share plans operated by the Group or receive any benefits in kind ▪ When reviewing fees, account is taken of movements in market rates, the anticipated time commitments required and the general economic environment ▪ Other than when a non-executive changes role or where benchmarking indicates fees require realignment, fee increases will not exceed the general level of increases for the Group's employees	▪ Fees have been reviewed for 2013/14 and will be held at the current levels until the next review in February 2015

Comparison of remuneration policy to that of the wider employee group

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Group. Incentive arrangements below executive level are driven by market and role comparatives.

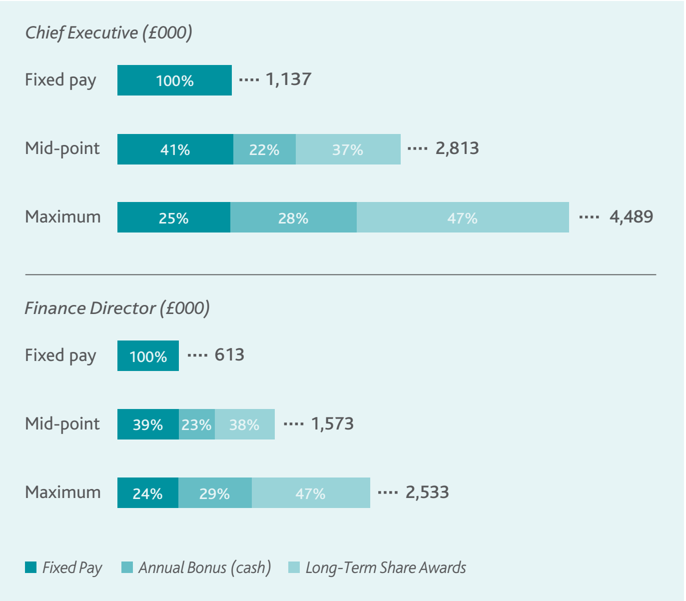
Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the executive directors and senior executives. The salary level for both executive directors has been frozen for 2013/14 compared to an average increase for the wider employee group of 2.5%.

Employees are provided with a competitive package of benefits that includes the opportunity to participate in the Group's pension arrangements, and the replacement of final salary pension benefits has applied to all employees, including executive directors. The committee is aware that the value of the new pension arrangements for executive directors and the wider employee group is significantly less than the final salary benefits previously offered.

Consistent with executive directors, the majority of the Group's employees are eligible to participate in annual bonus arrangements with targets linked to stretching targets tied to the performance of the Group or their Operating Company, and their personal performance.

Long-term incentives are provided to the most senior executives and those anticipated as having the greatest potential to influence performance levels within the Group. However, in order to encourage wider employee share ownership, the Group operates all-employee share schemes in the UK, in which all permanent employees are eligible to participate.

The chart below shows how the composition of each of the executive directors' remuneration packages varies at different levels of performance achievement:



Assumptions used in the chart:

Fixed pay

Base salary, benefits and pension

- Base salary is for the 2013/14 financial year
- Benefits are the value for the 2012/13 financial year (excluding one-offs)
- Future pension provision for Terry Duddy and Richard Ashton is 30% and 25% of salary respectively

£000	Base salary	Benefits	Pension	Total fixed
Terry Duddy	838	48	251	1,137
Richard Ashton	480	13	120	613

Mid-point

- Annual cash bonus will pay out at 50% of maximum (75% of salary)
- Long-term incentive share awards defined as 50% of maximum (125% of salary)

Maximum

- Full payout of annual bonus, equivalent to 150% of salary
- Full vesting of long-term incentive share awards, equal to 250% of salary

Service contracts

Both Terry Duddy and Richard Ashton were appointed as executive directors on 5 July 2006. Terry Duddy has a service contract dated 27 July 1999 and Richard Ashton has a service contract dated 1 March 2005.

The Remuneration Committee reviews the contractual terms for new executive directors to ensure that these reflect best practice. The remuneration related elements of the current contracts for executive directors are shown below:

Notice period

Twelve months' notice from the Company and six months' notice from the executive.

Termination payment

- Terry Duddy: at the Group's discretion, payment in lieu of notice of one year's salary plus pension and benefits, subject to mitigation and enforcement of contractual covenants.
- Richard Ashton: no provision for payment in lieu of notice.

Remuneration entitlements

For both executives:

- Salary to be reviewed on or about 1 April each year (cannot be reduced)
- Fully-expensed company car and reimbursement of fuel costs for private usage, or cash alternative
- 4x salary life cover (increasing to 8x*)
- Private medical cover (self, spouse and children under 18 or in full-time education)
- Participation in Group pension arrangements
- Participation in incentive arrangements as determined by the Remuneration Committee

* Increase to life cover from 4x to 8x due to reduction in spouse and children's pension benefits as a result of the closure to future accrual of the defined benefit pension scheme; this is consistent with cover offered to all other defined benefit scheme members across the Group

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 the 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 received and retains an annual fee of £55,000.

Directors' remuneration report continued

Implementation report

Remuneration Committee role and membership

The Remuneration Committee is a committee of the Board and its membership comprises:

- Mike Darcey (Chair until 4 July 2012)
- Cath Keers (Chair from 5 July 2012)
- John Coombe
- Ian Durant
- Jacqueline de Rojas (member from 5 December 2012)
- Oliver Stocken (member until 4 July 2012)

As outlined in the policy section of the report, fees are reviewed annually. The review for 2013 has taken place and the decision taken to hold the fees at their current levels until Feb 2015, as below:

£000	Cash element of fee	Element of fee to be used to purchase shares*
Chairman	200	50
Non-executive base fee	50	27
Senior independent director supplement	10	–
Chair of Audit Committee supplement	22.5	–
Chair of Remuneration Committee supplement	15	–

* This element of the fee must be used to purchase Group shares after the payment of tax

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.

The committee met seven times during the period under review. Attendance at these meetings is set out below:

Board member	Remuneration Committee meeting attendance
John Coombe	7/7
Mike Darcey	7/7
Ian Durant	7/7
Cath Keers	6/7
Jacqueline de Rojas	2/2
Oliver Stocken	2/3

In addition to the regular standing items on the committee agenda, other issues considered by the committee included the closure to future accrual of the defined benefit pension scheme and its replacement, consideration of the overall remuneration policy, a new long-term incentive plan below Operating Board level and implications of impending legislation on the disclosure of directors' pay.

Advisers

At the invitation of the chair of the committee, the chief executive attended meetings to give background information on remuneration matters. During the period under review, New Bridge Street (an Aon Hewitt company, part of Aon plc) provided advice to the Remuneration Committee on matters relating to performance conditions for long-term incentive plans, executive remuneration issues and salary benchmarking data. Aggregate fees paid to New Bridge Street in the year amounted to £122,786. They did not provide the Group with any other services. Linklaters LLP provided legal advice on share scheme rules. The committee was also advised by the Group finance director, Group HR director and Group reward director. The secretary to the committee was Gordon Bentley, company secretary. The terms of reference of the committee can be found on the Group's website at www.homeretailgroup.com.

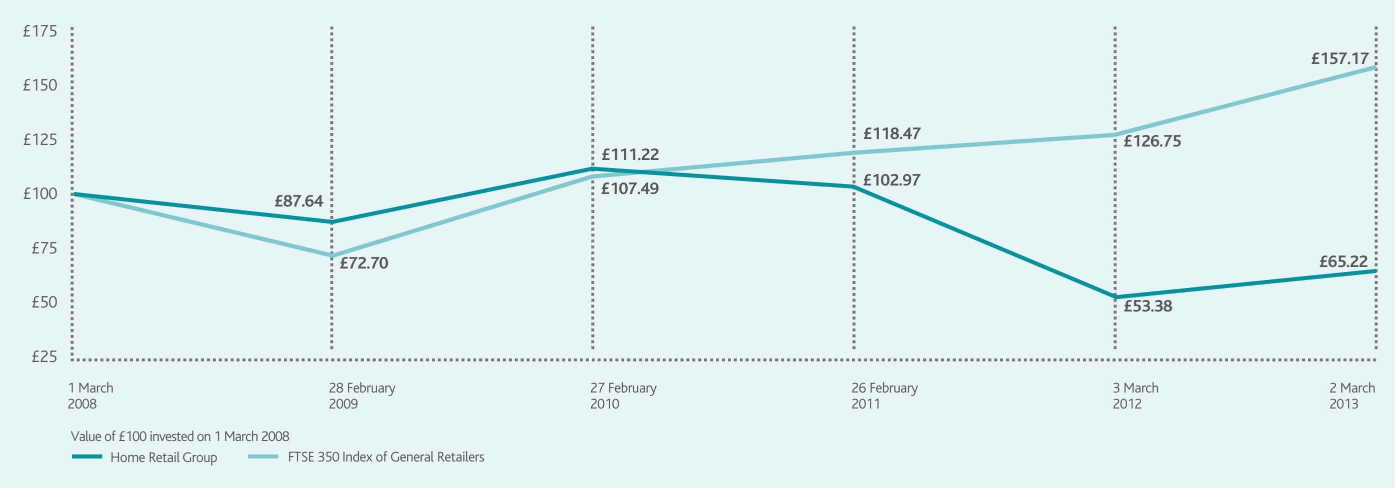
Statement of shareholder voting at AGM

At last year's AGM, the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	518,102,287	93.57
Against	35,588,965	6.43
Abstentions	22,133,104	–
Total	n/a	100%

Total shareholder return chart

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 this is the most appropriate choice of index as it is a relevant comparator group for a retail business. The graph shows the value, by 2 March 2013, of £100 invested in the Company, compared to £100 invested in the FTSE 350 Index of General Retailers at 1 March 2008. The intervening points are the values at each financial year end.



Directors' remuneration report continued

Directors' interests

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

Executive directors (no of shares)	Beneficially owned 2 March 2013	Beneficially owned 3 March 2012	Unvested LTIP awards	Unvested share options	Unvested deferred shares	Vested, unexercised options	% of salary held in shares under shareholding guideline[1]	Shareholding guideline met?
Terry Duddy	2,888,908	2,655,854	4,517,535	21,164	228,794	197,277	435%	Yes
Richard Ashton	553,202	765,760	2,532,151	27,983	117,188	80,576	146%	Yes

1. Based on the number of shares legally owned, prevailing base salary and share price (126.3p), at 2 March 2013.

Non-executive directors (no of shares)	Beneficially owned 2 March 2013	Beneficially owned 3 March 2012
John Coombe	102,169	85,001
Mike Darcey	33,894	19,036
Cath Keers	17,266	–
Ian Durant	19,726	–
Jacqueline de Rojas	–	–
Oliver Stocken	–	164,493

There were no changes to the above interests as at 1 May 2013.

Part of the directors' remuneration report subject to audit

The following tables are subject to audit. These tables have been prepared in accordance with the requirements of the existing Schedule 8 legislation, which remains the basis for statutory reporting in the current year.

Directors' emoluments

£000	Salary and fees	Taxable benefits[1]	Annual bonus	Total emoluments for period ending 2 March 2013	Total emoluments for period ending 3 March 2012
Executive directors					
Terry Duddy	838	55	662[2]	1,555	1,099
Richard Ashton	480	16	379	875	612
Non-executive directors					
John Coombe	202	–	–	202	110
Mike Darcey	96	–	–	96	86
Cath Keers	81	–	–	81	39
Ian Durant	92	–	–	92	51
Jacqueline de Rojas	15	–	–	15	–
Oliver Stocken	86	–	–	86	250
Penny Hughes	–	–	–	–	32

1. Taxable benefits include payments relating to defined benefit pension closure (one month only, due to closure date).
2. Deferred in shares for three years to May 2016.

Rights under defined benefit pension schemes

The table below provides the disclosure of executive directors' pension entitlements:

£000	Accrued pension at 2 March 2013	Accrued pension at 3 March 2012	Transfer value at 2 March 2013	Transfer value at 3 March 2012	Change in transfer value (less director's contri-butions)	Additional pension earned to 2 March 2013 (net of inflation per annum)	Transfer value of increase (less director's contribution)
Terry Duddy	210	181	6,040	4,984	1,056	24	694
Richard Ashton	103	89	1,980	1,685	285	11	200

For Terry Duddy, these entitlements were provided through a non-contributory unapproved unfunded retirement benefit scheme to 30 April 2013. For Richard Ashton, they were provided through the Group's main defined benefit pension scheme until 31 January 2013 and through a non-contributory unapproved unfunded retirement benefit scheme for earnings above £137,400 to 30 April 2013.

From 1 May 2013, pension provision for both executive directors is provided in the form of an annual cash allowance, as described in the 'key features of the remuneration policy' table on page 42.

Annual bonus plan

As detailed in the policy report, the annual bonus plan is a short-term incentive in which performance is measured over a single financial year, with metrics based on benchmark PBT and adjusted cash flow. For the benchmark PBT element of the bonus, the profit performance delivered was at the mid-point of the target range. In relation to the adjusted cash flow element, actual adjusted cash flow exceeded the top end of the range and therefore generated maximum payment for this part of the scheme. Overall, the bonus payment for each executive director was 118.5% of salary, out of the maximum opportunity of 150% of salary. However, in consideration of the alignment of the level of reward with overall Group performance, the executive directors agreed with the committee that the bonus payment would be reduced by one third to 79% of salary. In addition, Terry Duddy has agreed that his full bonus payment be deferred in shares for three years.

The Remuneration Committee has the discretion to adjust the payment under this plan in the event that an exceptional event outside of the directors' control occurs which, in the committee's opinion, materially affected the bonus payment. On this occasion, the committee did not need to apply such discretion.

Current Long-Term Incentive Plans

Home Retail Group Performance Share Plan

For 2013 PSP awards, the benchmark EPS element (60% of award) will require CAGR of 15% at threshold for 25% vesting and vesting at 100% will require CAGR of 35%, with both growth rates being measured over a three-year period. For the TSR element (40% of award), threshold vesting at 25% will require median performance rising to 100% vesting for performance at the 90th percentile, on a straight-line performance basis.

The comparator group for the 2013 plan is as follows*:

Dixons Retail	Topps Tiles	Mothercare
Debenhams	Dunelm Group	Next
Travis Perkins	WH Smith	Carphone Warehouse Group
J Sainsbury	Halfords Group	Marks & Spencer Group
Kingfisher	Tesco	Morrison (WM) Supermarkets

* Amendments have been made to the comparator group to reflect Signet Group cancelling their listing and the delisting of Game Group.

Directors' remuneration report continued

In relation to past awards, a conditional award of shares was granted to executive directors in 2012 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 2009 award was not met and therefore the award lapsed during the year. The 2010 award has also not met the TSR performance condition and will lapse. The 2011 and 2012 plans are subject to TSR performance (40% of award) at median for 25% vesting and at the 90th percentile for 100% vesting, on a straight-line performance basis. The benchmark EPS measure (60% of award) is subject to a sliding scale whereby 25% vests for the achievement of 5% benchmark EPS CAGR and full vesting for achieving 10% benchmark EPS CAGR.

Original grant date	Plan shares at 3 March 2012[1]	Plan shares awarded during the period	Plan shares released during the period	Plan shares lapsed during the period	Total plan shares held at 2 March 2013	Share price on date of award[2]	Vesting date
Terry Duddy							
08/05/09	487,128	–	–	487,128	–	252.5p	08/05/12
10/05/10	915,178	–	–	–	915,178	268.8p	10/06/13
10/05/11	935,267	–	–	–	935,267	224.0p	10/05/14
23/05/12	–	2,667,090	–	–	2,667,090	78.6p	23/05/15
Richard Ashton							
08/05/09	249,504	–	–	249,504	–	252.5p	08/05/12
10/05/10	468,750	–	–	–	468,750	268.8p	10/06/13
10/05/11	535,713	–	–	–	535,713	224.0p	10/05/14
23/05/12	–	1,527,688	–	–	1,527,688	78.6p	23/05/15

Notes:
1. All awards are subject to the performance conditions outlined above.
2. Share price has been rounded to one decimal place.

Deferred bonus plan

This plan operated for the financial year 2009/10 only. In that 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 were released 1/6th on the first anniversary of the award, 2/6th on the second anniversary of the award and 3/6th will be released on the third anniversary of the award. The award was based on 2009/10 performance against a benchmark PBT and an adjusted cash flow target and was 150% of salary.

Original grant date	Plan shares at 3 March 2012	Plan shares awarded during the period	Plan shares released during the period[1]	Total plan shares held at 2 March 2013	Vesting date	Share price on date of release[2]	Value of shares on date of release
Terry Duddy							
10/05/10	152,530	–	152,530	–	10/05/12	76.2p	116,296
10/05/10	228,794	–	–	228,794	10/05/13	–	–
Richard Ashton							
10/05/10	78,125	–	78,125	–	10/05/12	76.2p	59,566
10/05/10	117,188	–	–	117,188	10/05/13	–	–

Notes:
1. Dividend equivalent payments were made. Terry Duddy received £44,844 and Richard Ashton received £22,969.
2. Share price has been rounded to one decimal place.

Home Retail Group share options

The following table shows the share options granted under the SAYE plan and the approved share options granted under an HMRC approved amendment to the PSP. 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 3 March 2012	Options granted during the period	Options exercised during the period	Options lapsed during the period	Total number of options at 2 March 2013	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									
10/06/10	PSP	12,599	–	–	–	12,599	238.1p	10/06/13	10/06/13
04/07/12	SAYE	–	15,384	–	–	15,384	58.5p	01/09/15	01/03/16

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

Richard Ashton cancelled the SAYE option granted on 20/06/11, in the year.

Home Retail Group share price

Details of the closing market price of Home Retail Group shares from 3 March 2012 to 2 March 2013 are shown in the table below:

At 2 March 2013	126.3p
Highest price during the period	136.6p
Lowest price during the period	69.2p

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 section 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 3 March 2012	Options granted during the period	Options exercised during the period	Options lapsed during the period	Total number of options at 2 March 2013	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. This required compound annual growth to exceed compound annual retail price inflation by 4% per annum over a continuous three-year period, and was met.

By order of the Board

Cath Keers
Chair – Remuneration Committee

Directors' report

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 2 March 2013 (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 and fulfil the requirements of the business review provisions in Section 417 of the Companies Act 2006.

Profit and dividends

The Group's consolidated income statement on page 56 shows a profit for the period of £94.0m. The directors recommend the payment of a final dividend of 2.0p per ordinary share, to be paid on 24 July 2013 to shareholders on the register at the close of business on 24 May 2013. An interim dividend of 1.0p per ordinary share was paid on 23 January 2013, giving a total dividend for the year of 3.0p per ordinary share.

Directors

The names and biographical details of the directors are shown in the Board of Directors and Operating Board section on pages 32 and 33. On 4 July 2012, Oliver Stocken resigned from the Board as Chairman. On 5 December 2012, Jacqueline de Rojas was appointed to the Board as a non-executive director. Particulars of directors' remuneration are shown in the directors' remuneration report on pages 40 to 51. 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.

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 36 to 38.

Share capital and control

As at 1 May 2013, 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 27 to the consolidated financial statements on page 95. Each share carries the right to one vote at general meetings of the Company and ordinary rights to dividends.

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 4 July 2012, 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 3 July 2013, 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 28 to the consolidated financial statements on pages 95 and 96.

Substantial shareholdings

As at 1 May 2013, 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
Silchester	81,335,952	10.00
Sanderson	59,246,016	7.28
AXA S.A.	42,510,359	5.23
Citibank	37,392,176	4.60
Norges Bank	25,570,048	3.14
Capital Group Inc	25,096,768	3.09
GMO	24,447,238	3.01

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 are 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 market, credit, liquidity and cash flow risk are set out in note 4 to the consolidated financial statements on pages 71 to 74.

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 2 March 2013 were 60 (2012: 51), 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 1 May 2013, 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 financial statements and the principal risks and uncertainties that could impact the Group's performance are set out on pages 71 to 74.

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.

Independent 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 3 July 2013. 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
1 May 2013

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 Group for that period.

In preparing these 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 Company and 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 52 weeks ended 2 March 2013 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 2 March 2013 and of its profit and cash flows for the 52 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 52 weeks ended 2 March 2013 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
1 May 2013

Consolidated income statement

For the 52 weeks ended 2 March 2013

	Notes	52 weeks ended 2 March 2013 Before exceptional items £m	52 weeks ended 2 March 2013 Exceptional items (note 9) £m	52 weeks ended 2 March 2013 After exceptional items £m	53 weeks ended 3 March 2012 Before exceptional items £m	53 weeks ended 3 March 2012 Exceptional items (note 9) £m	53 weeks ended 3 March 2012 After exceptional items £m
Revenue		**5,475.4**	**–**	**5,475.4**	5,582.8	–	5,582.8
Cost of sales		**(3,743.3)**	**–**	**(3,743.3)**	(3,794.0)	–	(3,794.0)
Gross profit		**1,732.1**	**–**	**1,732.1**	1,788.8	–	1,788.8
Net operating expenses	7	**(1,626.0)**	**31.3**	**(1,594.7)**	(1,669.8)	(20.3)	(1,690.1)
Operating profit/(loss)		**106.1**	**31.3**	**137.4**	119.0	(20.3)	98.7
– Finance income		**47.2**	**–**	**47.2**	53.3	–	53.3
– Finance expense		**(48.5)**	**–**	**(48.5)**	(48.4)	–	(48.4)
Net financing (expense)/income	10	**(1.3)**	**–**	**(1.3)**	4.9	–	4.9
Share of post-tax (loss)/profit of associates	17	**(6.0)**	**–**	**(6.0)**	0.5	–	0.5
Profit/(loss) before tax		**98.8**	**31.3**	**130.1**	124.4	(20.3)	104.1
Taxation	11	**(28.6)**	**(7.5)**	**(36.1)**	(34.6)	3.3	(31.3)
Profit/(loss) for the year attributable to equity holders of the Company		**70.2**	**23.8**	**94.0**	89.8	(17.0)	72.8
				pence			pence
Earnings per share							
– Basic	13			**11.7**			9.1
– Diluted	13			**11.6**			9.1

Non-GAAP measures	*Notes*	***52 weeks ended 2 March 2013 £m***	*53 weeks ended 3 March 2012 £m*
Reconciliation of profit before tax (PBT) to benchmark PBT			
Profit before tax		***130.1***	*104.1*
Adjusted for:			
Exceptional items	*9*	***(31.3)***	*20.3*
Financing fair value remeasurements	*10*	***1.1***	*(3.3)*
Financing impact on retirement benefit obligations	*10*	***(3.1)***	*(4.8)*
Discount unwind on non-benchmark items	*10*	***7.1***	*6.7*
Amortisation of acquisition intangibles		***1.8***	*1.2*
Net onerous lease provision releases	*23*	***(14.6)***	*(8.5)*
Benchmark PBT		***91.1***	*115.7*
		pence	*pence*
Benchmark earnings per share			
– Basic	*13*	***7.7***	*10.0*
– Diluted	*13*	***7.6***	*10.0*

Consolidated statement of comprehensive income

For the 52 weeks ended 2 March 2013

	Notes	**52 weeks ended 2 March 2013 £m**	53 weeks ended 3 March 2012 £m
Profit for the year attributable to equity holders of the Company		**94.0**	72.8
Other comprehensive income			
Net change in fair value of cash flow hedges			
– Foreign currency forward exchange contracts		**33.4**	10.8
Net change in fair value of cash flow hedges transferred to inventory			
– Foreign currency forward exchange contracts		**(5.3)**	9.3
Actuarial loss on defined benefit pension schemes	24	**(17.2)**	(121.2)
Fair value movements on available-for-sale financial assets		**2.0**	0.2
Currency translation differences		**0.6**	(3.3)
Tax (charge)/credit in respect of items taken directly to equity	11	**(4.0)**	24.7
Other comprehensive income for the year, net of tax		**9.5**	(79.5)
Total comprehensive income for the year attributable to equity holders of the Company		**103.5**	(6.7)

Consolidated balance sheet

At 2 March 2013

	Notes	2 March 2013 £m	3 March 2012 £m
ASSETS			
Non-current assets			
Goodwill	14	**1,543.9**	1,543.9
Other intangible assets	15	**129.2**	137.1
Property, plant and equipment	16	**474.9**	516.3
Investments in associates	17	**–**	8.3
Deferred tax assets	26	**40.7**	50.6
Trade and other receivables	19	**2.7**	3.8
Other financial assets	25	**24.4**	17.4
Total non-current assets		**2,215.8**	2,277.4
Current assets			
Inventories	18	**941.8**	933.2
Trade and other receivables	19	**636.8**	594.6
Current tax assets		**8.3**	0.8
Other financial assets	25	**36.9**	8.3
Cash and cash equivalents	20	**396.0**	194.3
Total current assets		**2,019.8**	1,731.2
Non-current assets classified as held for sale	21	**9.6**	–
Total assets		**4,245.2**	4,008.6
LIABILITIES			
Non-current liabilities			
Trade and other payables	22	**(52.6)**	(55.8)
Provisions	23	**(179.5)**	(187.5)
Deferred tax liabilities	26	**(26.6)**	(21.9)
Retirement benefit obligations	24	**(85.1)**	(115.3)
Total non-current liabilities		**(343.8)**	(380.5)
Current liabilities			
Trade and other payables	22	**(1,116.1)**	(944.9)
Provisions	23	**(38.3)**	(47.8)
Other financial liabilities	25	**(2.8)**	(5.2)
Current tax liabilities		**(11.7)**	(4.8)
Total current liabilities		**(1,168.9)**	(1,002.7)
Total liabilities		**(1,512.7)**	(1,383.2)
Net assets		**2,732.5**	2,625.4
EQUITY			
Share capital	27	**81.3**	81.3
Capital redemption reserve	28	**6.4**	6.4
Merger reserve	28	**(348.4)**	(348.4)
Other reserves	28	**31.9**	8.6
Retained earnings		**2,961.3**	2,877.5
Total equity		**2,732.5**	2,625.4

The financial statements on pages 56 to 100 were approved by the Board of Directors on 1 May 2013 and were signed on its behalf by:

Terry Duddy,
Chief Executive

Richard Ashton,
Finance Director

Consolidated statement of changes in equity

For the 52 weeks ended 2 March 2013

	Notes	Share capital £m	Capital redemption reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
		Attributable to equity holders of the Company					
Balance at 4 March 2012		81.3	6.4	(348.4)	8.6	2,877.5	2,625.4
Profit for the year		–	–	–	–	94.0	94.0
Other comprehensive income		–	–	–	21.9	(12.4)	9.5
Total comprehensive income for the year ended 2 March 2013		–	–	–	21.9	81.6	103.5
Transactions with owners:							
Movement in share-based compensation reserve	29	–	–	–	–	11.9	11.9
Net movement in own shares	28	–	–	–	1.4	(1.4)	–
Equity dividends paid during the year	12	–	–	–	–	(8.0)	(8.0)
Other distributions		–	–	–	–	(0.3)	(0.3)
Total transactions with owners		–	–	–	1.4	2.2	3.6
Balance at 2 March 2013		**81.3**	**6.4**	**(348.4)**	**31.9**	**2,961.3**	**2,732.5**

	Notes	Share capital £m	Capital redemption reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
		Attributable to equity holders of the Company					
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	29	–	–	–	–	8.9	8.9
Net movement in own shares	28	–	–	–	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

Consolidated statement of cash flows

For the 52 weeks ended 2 March 2013

	Notes	**52 weeks ended 2 March 2013 £m**	53 weeks ended 3 March 2012 £m
Cash flows from operating activities			
Cash generated from operations	33	**322.1**	234.5
Tax paid		**(26.1)**	(26.8)
Net cash inflow from operating activities		**296.0**	207.7
Cash flows from investing activities			
Acquisition of business		**–**	(24.5)
Purchase of property, plant and equipment		**(55.3)**	(97.1)
Proceeds from the disposal of property, plant and equipment		**1.9**	3.9
Purchase of other intangible assets		**(25.3)**	(37.8)
Loans granted to associates		**(6.8)**	(1.2)
Purchase of investments		**(4.8)**	(0.9)
Disposal of investments		**–**	100.0
Interest received		**1.7**	2.4
Net cash used in investing activities		**(88.6)**	(55.2)
Cash flows from financing activities			
Proceeds from disposal of shares held by Employee Share Trust		**–**	0.1
Dividends paid	12	**(8.0)**	(117.5)
Net cash used in financing activities		**(8.0)**	(117.4)
Net increase in cash and cash equivalents		**199.4**	35.1
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	20	**194.3**	159.3
Effect of foreign exchange rate changes		**2.3**	(0.1)
Net increase in cash and cash equivalents		**199.4**	35.1
Cash and cash equivalents at the end of the year	20	**396.0**	194.3

Analysis of net cash/(debt)

At 2 March 2013

Non-GAAP measures	*Notes*	***2 March 2013 £m***	*3 March 2012 £m*
Financing net cash:			
Cash and cash equivalents	*20*	***396.0***	*194.3*
Total financing net cash		***396.0***	*194.3*
Operating net debt:			
Off balance sheet operating leases		***(2,361.7)***	*(2,701.7)*
Total operating net debt		***(2,361.7)***	*(2,701.7)*
Total net debt		***(1,965.7)***	*(2,507.4)*

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 £2,361.7m (2012: £2,701.7m), based upon discounting the existing lease commitments at the Group's estimated long-term cost of borrowing of 4.2% (2012: 3.4%).

Notes to the financial statements

For the 52 weeks ended 2 March 2013

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 1 May 2013.

The financial year represents the 52 weeks to 2 March 2013 (prior financial year 53 weeks to 3 March 2012).

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 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.

Associates

Associates are entities over which the Group has significant influence but not control. The equity method is used to account for investments in associates and investments are initially recognised at cost.

The Group's share of net assets of its associates is included on the Group balance sheet. The Group's share of its 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 an 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.

2. BASIS OF PREPARATION CONTINUED

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

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' (IAS 19 revised). The revised standard is effective for annual periods beginning on or after 1 January 2013, which applies to the Group for the accounting period 52 weeks ending 1 March 2014. IAS 19 revised is required to be applied retrospectively.

The impact on the Group's defined pension obligations will be to replace the interest expense on retirement benefit obligations and the expected return on plan assets with a single net interest amount that is calculated by applying the discount rate to the net defined benefit liability. In addition, the administration costs of the Home Retail Group Pension Scheme will be charged within operating costs.

The estimated impact of this amendment on the Group's financial statements for the year ended 2 March 2013 would be to decrease pre-tax profit by approximately £9m, with a corresponding offsetting movement in the consolidated statement of comprehensive income, leaving the liability disclosed within the consolidated balance sheet unchanged. These adjustments to the income statement relate to items currently excluded from the Group's reported benchmark profit before tax, so it is anticipated that IAS 19 revised will have no impact on reported benchmark profit before tax.

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'. These new standards are not expected to have a material impact on the Group's financial statements.

In May 2011, the IASB also issued IFRS 13 'Fair Value Measurement', which provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. This new standard is not expected to have a material impact on the Group's financial statements.

The IASB continues to develop IFRS 9 'Financial Instruments', which is being issued in phases. Until IFRS 9 is finalised, its full requirements remain uncertain, so it is not currently possible to assess the impact of its adoption on the Group's financial statements.

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. 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.

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

2. BASIS OF PREPARATION CONTINUED

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).

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 24.

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 14. 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, customer redress in respect of financial services products 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 expected 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.

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.

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

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.

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 or associate 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 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. The carrying values of property, plant and equipment are reviewed for impairment when events or circumstances indicate that the carrying values may not be recoverable. 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.

Trade receivables
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.

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 52 weeks ended 2 March 2013

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 potential customer redress in respect of financial services products, 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 52 weeks ended 2 March 2013

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 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 2 March 2013, the last day of the financial year, sterling had been 5 cents, or approximately 3.3% (2012: approximately 3.2%), weaker/stronger against the US dollar, with all other variables held constant, post-tax profit would have been £1.0m lower/higher (2012: £0.5m 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 £12.0m higher/lower (2012: £12.6m higher/lower), arising mainly from the revaluation of US dollar forward currency contracts.

If on 2 March 2013, the last day of the financial year, sterling had been 5 cents, or approximately 4.3% (2012: approximately 4.2%), weaker/stronger against the euro, with all other variables held constant, post-tax profit would have been £0.2m lower/higher (2012: £0.2m 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 £2.5m lower/higher (2012: £0.6m 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.

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

4. FINANCIAL RISK MANAGEMENT CONTINUED

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

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.

The Group's cash management policy, which was updated and approved by the Board of Directors during the year, requires:

- for a term deposit of up to £50m for up to three months a bank must have a minimum long-term rating of A- or better;
- for an additional three-month term deposit of up to £50m, or a term deposit of up to £50m for a period of up to 12 months, a bank must have a minimum long-term rating of A+, or a minimum rating of A if the UK Government holds a minimum shareholding of 25%;
- for instant access on demand accounts of up to £50m a bank must have a minimum short-term rating of B;
- for instant access on demand accounts of up to £100m a bank must have a minimum short-term rating of A-1; and
- for a deposit of up to £100m in a money market fund, the fund must have a long-term rating of AAA.

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 of Directors.

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

Bank and institution long-term rating at transaction date	**Bank and institution long-term rating at 2 March 2013**	**Maturity date**	**Cash and short-term cash deposits £m**
AAA	AAA	n/a	**60.7**
A+	A+	n/a	**100.0**
A	A	n/a	**222.5**
BB+	BB+	n/a	**12.8**
			396.0

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

Marked to market forward foreign exchange contracts

Bank and institution rating at year-end	2013 £m	2012 £m
AA-	**4.5**	1.4
A+	**10.3**	0.6
A	**19.3**	0.9
A-	**–**	0.2
	34.1	3.1

Of the £34.1m net asset (2012: £3.1m net asset) in respect of marked to market forward foreign exchange contracts held at the year-end, 35% (2012: 36%) 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, and facilities are in place for this purpose. At 2 March 2013, the Group had an undrawn committed borrowing facility available of £685m which had a contractual maturity date in July 2013. This facility, which was unsecured, included a covenant related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent. The Group had not drawn down on the facility and had been in compliance with the requirements of the covenant throughout the year. Subsequent to the year-end, the Group has agreed a new unsecured, committed borrowing facility of £165m that will expire in March 2016. This new facility includes the covenant noted above and also includes a covenant related to net balance sheet debt. As a result of agreeing this new facility, the £685m facility that existed at 2 March 2013 was cancelled prior to its contractual maturity date.

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 2 March 2013				
	Less than 3 months £m	**3-6 months £m**	**6-9 months £m**	**9-12 months £m**	**Total £m**
Trade and other payables	**(674.6)**	**–**	**–**	**–**	**(674.6)**

	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)

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 2 March 2013				
	Less than 3 months £m	**3-6 months £m**	**6-9 months £m**	**9-12 months £m**	**Total £m**
Forward foreign exchange contracts					
– outflow	**(276.3)**	**(228.2)**	**(180.1)**	**(97.2)**	**(781.8)**
– inflow	**287.0**	**236.7**	**190.2**	**102.0**	**815.9**

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

4. FINANCIAL RISK MANAGEMENT CONTINUED

	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

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 cash, 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 £475m (2012: £457m) as at 2 March 2013. The Group's net debt varies throughout the year due to trading seasonality, and the position as at 2 March 2013 is set out in the analysis of net cash/(debt) on page 61.

Foreign currency

The principal exchange rates used were as follows:

	Average		Closing	
	52 weeks ended 2 March 2013	53 weeks ended 3 March 2012	**2 March 2013**	3 March 2012
US dollar	**1.58**	1.60	**1.50**	1.58
Euro	**1.23**	1.16	**1.15**	1.20

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 2 March 2013, these instruments, which are classified as available-for-sale financial assets, had a carrying value of £20.7m (2012: £16.3m).

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 2 March 2013, the fair value of derivative instruments used for hedging purposes was a net asset of £34.1m (2012: £3.1m net asset).

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.

	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Revenue		
Argos	**3,931.3**	3,935.3
Homebase	**1,430.7**	1,536.4
Financial Services	**113.4**	111.1
Central Activities	**–**	–
Total segment revenue	**5,475.4**	5,582.8
Benchmark operating profit		
Argos	**100.3**	106.9
Homebase	**11.0**	23.8
Financial Services	**6.0**	6.1
Central Activities	**(24.0)**	(25.1)
Total segment benchmark operating profit	**93.3**	111.7
Benchmark net financing income	**3.8**	3.5
Share of post-tax (loss)/profit of associates	**(6.0)**	0.5
Benchmark profit before tax	**91.1**	115.7
Exceptional items	**31.3**	(20.3)
Financing fair value remeasurements	**(1.1)**	3.3
Financing impact on retirement benefit obligations	**3.1**	4.8
Discount unwind on non-benchmark items	**(7.1)**	(6.7)
Amortisation of acquisition intangibles	**(1.8)**	(1.2)
Net onerous lease provision releases	**14.6**	8.5
Profit before tax	**130.1**	104.1
Taxation	**(36.1)**	(31.3)
Profit for the year attributable to equity holders of the Company	**94.0**	72.8

	2013 £m	2012 £m
Segment assets		
Argos	**2,299.9**	2,299.0
Homebase	**896.3**	883.8
Financial Services	**500.9**	479.3
Central Activities	**103.1**	100.8
Total segment assets	**3,800.2**	3,762.9
Tax assets	**49.0**	51.4
Cash and cash equivalents	**396.0**	194.3
Total assets per balance sheet	**4,245.2**	4,008.6

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5. SEGMENTAL INFORMATION CONTINUED

Segment assets include goodwill and other intangible assets, property, plant and equipment, investments in 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 £9.6m (2012: £8.3m) in respect of associates, including those associates reported within non-current assets classified as held for sale.

	2013 £m	2012 £m
Segment liabilities		
Argos	**(739.9)**	(628.4)
Homebase	**(520.9)**	(477.6)
Financial Services	**(41.8)**	(34.4)
Central Activities	**(86.7)**	(100.8)
Total segment liabilities	**(1,389.3)**	(1,241.2)
Tax liabilities	**(38.3)**	(26.7)
Retirement benefit obligations	**(85.1)**	(115.3)
Total liabilities per balance sheet	**(1,512.7)**	(1,383.2)

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

		52 weeks ended 2 March 2013				
Other segment items	Notes	Argos £m	Homebase £m	Financial Services £m	Central Activities £m	Total £m
Depreciation of property, plant and equipment	16	**(54.2)**	**(34.4)**	**–**	**(3.3)**	**(91.9)**
Amortisation of intangible assets	15	**(25.2)**	**(4.9)**	**(0.5)**	**(2.2)**	**(32.8)**
Share-based payment expense	29	**(5.7)**	**(3.6)**	**(0.7)**	**(1.9)**	**(11.9)**
Additions to property, plant and equipment	16	**42.0**	**12.8**	**0.1**	**0.4**	**55.3**
Additions to other intangible assets	15	**11.3**	**14.0**	**–**	**–**	**25.3**

		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	16	(52.2)	(42.6)	–	(4.8)	(99.6)
Amortisation of intangible assets	15	(21.8)	(3.2)	(0.7)	(1.2)	(26.9)
Share-based payment expense	29	(3.0)	(2.6)	(0.5)	(2.8)	(8.9)
Additions to property, plant and equipment	16	45.3	45.6	–	6.2	97.1
Additions to other intangible assets	15	31.0	4.7	0.2	1.9	37.8

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

	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Sale of goods	**5,362.0**	5,471.7
Provision of services by Financial Services	**113.4**	111.1
Total	**5,475.4**	5,582.8

7. NET OPERATING EXPENSES

Expenses by function	52 weeks ended 2 March 2013 Before exceptional items £m	52 weeks ended 2 March 2013 Exceptional items £m	52 weeks ended 2 March 2013 After exceptional items £m	53 weeks ended 3 March 2012 Before exceptional items £m	53 weeks ended 3 March 2012 Exceptional items £m	53 weeks ended 3 March 2012 After exceptional items £m
Net operating expenses comprise:						
Selling costs	**(1,330.8)**	**–**	**(1,330.8)**	(1,399.2)	(19.8)	(1,419.0)
Administrative costs	**(295.2)**	**31.3**	**(263.9)**	(270.6)	(0.5)	(271.1)
Total net operating expenses	**(1,626.0)**	**31.3**	**(1,594.7)**	(1,669.8)	(20.3)	(1,690.1)

	Notes	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Profit before tax is stated after charging:			
Operating lease rental expense		**(353.9)**	(368.0)
Cost of inventories recognised as an expense in cost of sales		**(3,624.5)**	(3,677.0)
Write down of inventories		**(118.8)**	(117.0)
Loss on sale of property, plant and equipment		**(0.2)**	(1.8)
Depreciation of property, plant and equipment	16	**(91.9)**	(99.6)
Amortisation of intangible assets	15	**(32.8)**	(26.9)
Employee benefit costs	8	**(636.6)**	(655.5)

Auditors' remuneration	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Audit services:		
Fees payable for the audit of the Company and the consolidated financial statements	**(0.8)**	(0.8)
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)
– all other services	**(0.2)**	(0.2)
Total fees payable to PricewaterhouseCoopers LLP	**(1.1)**	(1.3)

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For the 52 weeks ended 2 March 2013

8. EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS

Employee costs	Notes	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Wages and salaries		**(598.9)**	(584.1)
Social security costs		**(38.7)**	(38.4)
Post-employment benefits	24	**12.9**	(24.1)
Share-based payments	29	**(11.9)**	(8.9)
		(636.6)	(655.5)

Employee costs includes a net credit of £33.0m (2012: £nil) in respect of the net exceptional gain arising on the closure of the Group's defined benefit pension scheme to future accrual.

The basis of calculation of employee costs has been changed during the year ended 2 March 2013, 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.

	52 weeks ended 2 March 2013		53 weeks ended 3 March 2012	
Average number of employees	Number of employees	Full time equivalent	Number of employees	Full time equivalent
Argos	**29,271**	**14,302**	30,686	15,073
Homebase	**18,561**	**9,817**	19,002	10,242
Financial Services	**550**	**486**	513	448
Central Activities	**51**	**51**	53	53
	48,433	**24,656**	50,254	25,816

Key management compensation	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Short-term employee benefits	**(5.5)**	(3.4)
Post-employment benefits	**(1.2)**	(1.5)
Share-based payments	**(2.4)**	(1.7)
	(9.1)	(6.6)

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

9. EXCEPTIONAL ITEMS

	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Net gain on employee benefits	**31.3**	–
Reorganisation and restructuring charges	**–**	(20.3)
Exceptional items in operating profit	**31.3**	(20.3)
Tax on exceptional items in profit before tax	**(7.5)**	3.3
Exceptional tax	**(7.5)**	3.3
Exceptional profit/(loss) after tax for the year	**23.8**	(17.0)

The Home Retail Group defined benefit pension scheme closed to future accrual with effect from 31 January 2013. This has led to a net gain of £31.3m, which includes a non-cash curtailment gain of £37.4m, offset by costs of £6.1m related to closure of the scheme.

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

10. NET FINANCING (EXPENSE)/INCOME

	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Finance income:		
Bank deposits and other interest	**1.9**	1.8
Expected return on retirement benefit assets	**44.1**	48.0
Financing fair value remeasurements – net exchange gains	**1.2**	3.5
Total finance income	**47.2**	53.3
Finance expense:		
Unwinding of discounts	**(8.3)**	(8.4)
Financing fair value remeasurements – net exchange losses	**(2.3)**	(0.2)
Interest expense on retirement benefit liabilities	**(41.0)**	(43.2)
Total finance expense	**(51.6)**	(51.8)
Less: finance expense charged to Financial Services cost of sales	**3.1**	3.4
Total net finance expense	**(48.5)**	(48.4)
Net financing (expense)/income	**(1.3)**	4.9

Included within unwinding of discounts is a £7.1m charge (2012: £6.7m) relating to the discount unwind on non-benchmark onerous lease provisions.

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

11. TAXATION

Analysis of charge in year	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Current tax:		
UK corporation tax	**(32.3)**	(32.2)
Double tax relief	**1.2**	1.1
Adjustments in respect of prior years	**7.4**	13.1
Total current UK tax charge	**(23.7)**	(18.0)
Overseas tax	**(1.8)**	(2.4)
Total current tax charge	**(25.5)**	(20.4)
Deferred tax:		
Origination and reversal of temporary differences	**(6.0)**	(2.5)
Adjustments in respect of prior years	**(4.7)**	(8.3)
Rate change impact	**0.1**	(0.1)
Total tax charge in income statement	**(36.1)**	(31.3)

Tax included in other comprehensive income	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Cash flow hedges	**(6.8)**	(5.2)
Retirement benefit obligations	**4.2**	31.5
Share-based payments	**0.4**	–
Rate change impact	**(1.8)**	(1.6)
Total tax (charge)/credit in other comprehensive income	**(4.0)**	24.7

Factors affecting the tax charge

The effective tax rate for the year of 27.7% (2012: 30.1%), is higher than (2012: higher than) the standard rate of corporation tax in the UK of 24.0% (2012: 26.0%). This is analysed below:

	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Profit before tax	**130.1**	104.1
Profit before tax multiplied by the standard rate of corporation tax in the UK	**(31.2)**	(27.1)
Effects of:		
Benchmark:		
Expenses not deductible for tax purposes	**(6.8)**	(7.0)
Differences in effective tax rates on overseas earnings	**0.5**	1.4
Tax credit/(charge) on non-benchmark profit	**7.8**	(2.8)
Benchmark tax expense	**(29.7)**	(35.5)
Non-benchmark:		
Tax (charge)/credit on exceptional items	**(7.5)**	3.3
Tax charge on non-benchmark items	**(1.7)**	(3.8)
Tax credit in respect of prior years	**2.7**	4.8
Rate change impact	**0.1**	(0.1)
Total tax charge in income statement	**(36.1)**	(31.3)

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 24.0% (2012: 26.0%). 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 24.0% to 23.0% from 1 April 2013, the substantively enacted rate, which differs from the recently announced rates of 21.0% from 1 April 2014 and 20.0% from 1 April 2015. 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	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Final dividend of nil per share (2012: 10.0p) for the prior year	–	(79.9)
Interim dividend of 1.0p per share (2012: 4.7p) for the current year	**(8.0)**	(37.6)
Ordinary dividends on equity shares	**(8.0)**	(117.5)

A final dividend in respect of the year ended 2 March 2013 of 2.0p per share (2012: nil), amounting to a total final dividend of £16.0m, has been proposed by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the year of 3.0p per share, amounting to £24.0m. The final dividend of 2.0p per share will be paid on 24 July 2013 to shareholders who are on the register of members at close of business on 24 May 2013. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends in the amount of £0.1m (2012: £2.1m).

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

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	**52 weeks ended 2 March 2013 £m**	53 weeks ended 3 March 2012 £m
Profit after tax for the financial year	**94.0**	72.8
Adjusted for:		
Exceptional items	**(31.3)**	20.3
Financing fair value remeasurements	**1.1**	(3.3)
Financing impact on retirement benefit obligations	**(3.1)**	(4.8)
Discount unwind on non-benchmark items	**7.1**	6.7
Amortisation of acquisition intangibles	**1.8**	1.2
Net onerous lease provision releases	**(14.6)**	(8.5)
Attributable taxation	**9.2**	0.5
Non-benchmark tax credit in respect of prior years	**(2.7)**	(4.8)
Tax rate change	**(0.1)**	0.1
Benchmark profit after tax for the financial year	**61.4**	80.2

Weighted average number of shares	**millions**	millions
Number of ordinary shares for the purpose of basic EPS	**800.6**	799.4
Dilutive effect of share incentive awards	**12.4**	3.9
Number of ordinary shares for the purpose of diluted EPS	**813.0**	803.3

EPS	**pence**	pence
Basic EPS	**11.7**	9.1
Diluted EPS	**11.6**	9.1
Basic benchmark EPS	**7.7**	10.0
Diluted benchmark EPS	**7.6**	10.0

14. GOODWILL

	Argos £m	Homebase £m	Central Activities £m	Total £m
Cost				
At 4 March 2012	1,152.3	770.4	2.9	1,925.6
At 2 March 2013	**1,152.3**	**770.4**	**2.9**	**1,925.6**
Accumulated impairment				
At 4 March 2012 and 2 March 2013	**–**	**(381.7)**	**–**	**(381.7)**
Net book value at 2 March 2013	**1,152.3**	**388.7**	**2.9**	**1,543.9**

	Argos £m	Homebase £m	Central Activities £m	Total £m
Cost				
At 27 February 2011	1,152.3	770.4	–	1,922.7
Additions	–	–	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
Net book value at 27 February 2011	1,152.3	388.7	–	1,541.0

Goodwill has been allocated for impairment testing purposes to three individual cash-generating units (CGUs) being the business segments of Argos and Homebase, and Habitat within Central Activities. The carrying amount of goodwill allocated to Argos and Homebase is significant in comparison with the total carrying amount of goodwill. The recoverable amount of the goodwill allocated to Habitat, which is immaterial, is based on some of the same key assumptions.

The recoverable amount of each of Argos and Homebase has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by management looking forward five years. Benchmark operating profits for the current year, of £100.3m for Argos (2012: £106.9m) and £11.0m for Homebase (2012: £23.8m), have been adjusted into the plan period. The five-year projections for each business have been prepared with regard to the following key assumptions:

- sales growth, based on externally prepared projections which have been adjusted into the plan period for, among other things, the effect of sales initiatives, changes to the store portfolio of each business and changes to the competitive landscape in which each business operates;
- gross margins, based on recent experience, which have been adjusted for factors such as the impact of changes to product costs, estimated future shipping rates and foreign exchange rates, as well as margin improvement initiatives, including sourcing benefits and changes to product mix or range; and
- costs, based upon the existing cost base, expected levels of cost inflation and anticipated cost saving initiatives.

The cash flows for each business are extrapolated using a long-term growth rate beyond the five-year plan period, and are discounted to calculate the value-in-use. The key assumptions used are:

- a long-term growth rate of 2.0% (2012: 2.0%), 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; and
- a post-tax discount rate of 8.5% (2012: 8.5%), which equates to a pre-tax rate of approximately 11.0% (2012: 11.5%), 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.

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14. GOODWILL CONTINUED

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. The values attributed to these key assumptions over the five-year plan period are:

	2013		2012	
	Argos	Homebase	Argos	Homebase
Compound annual increase in sales	3.2%	4.1%	1.2%	1.0%
Compound annual (decrease)/increase in gross margin rate	(0.3%)	(0.3%)	–	0.7%
Compound annual increase/(decrease) in operating costs	0.4%	1.3%	(0.3%)	–
Long-term growth rate beyond 5 years	2.0%	2.0%	2.0%	2.0%
Post-tax discount rate	8.5%	8.5%	8.5%	8.5%

At 2 March 2013, the excess in the estimated recoverable amount of each business segment, calculated on a value-in-use basis, over its carrying value was £1,286m (2012: £327m) for Argos and £420m (2012: £465m) for Homebase. A sensitivity analysis has been performed on each of the above assumptions used for assessing the recoverable amount of each business segment, with other variables held constant, and as a result, management has concluded that reasonably possible changes in the assumptions could cause the carrying value of each business segment to exceed its recoverable amount. The amounts by which the above assumptions would need to change to cause the carrying value of each business segment to exceed its recoverable amount are:

2013	Argos		Homebase	
	In isolation %	Including mitigating actions %	In isolation %	Including mitigating actions %
Decrease in the compound annual growth rate in sales	(2.0%)	(2.9%)	(1.0%)	(1.6%)
Decrease in the compound annual growth rate in gross margin rate	(1.9%)	(2.4%)	(1.0%)	(1.2%)
Increase in the compound annual growth rate in operating costs	2.2%	2.2%	1.1%	1.1%
Decrease in the long-term growth rate beyond 5 years	(8.7%)	n/a	(13.5%)	n/a

2012	Argos		Homebase	
	In isolation %	Including mitigating actions %	In isolation %	Including mitigating actions %
Decrease in the compound annual growth rate in sales	(0.5%)	(0.8%)	(0.9%)	(1.4%)
Decrease in the compound annual growth rate in gross margin rate	(0.5%)	(0.6%)	(0.9%)	(1.1%)
Increase in the compound annual growth rate in operating costs	0.6%	0.6%	0.9%	0.9%
Decrease in the long-term growth rate beyond 5 years	(1.6%)	n/a	(12.8%)	n/a

No sensitivity to the discount rate assumption has been disclosed as management believes that no reasonably possible change in this assumption would generate a different outcome to the impairment tests as performed.

The mitigating actions included in the above analysis reflect the estimated impact of management actions expected to be taken in the event of these sensitivities arising.

15. OTHER INTANGIBLE ASSETS

	Computer software £m	Brands £m	Total £m
Cost			
At 4 March 2012	246.1	40.5	286.6
Additions	25.3	–	25.3
Disposals	(1.4)	–	(1.4)
At 2 March 2013	**270.0**	**40.5**	**310.5**
Accumulated amortisation			
At 4 March 2012	(141.4)	(8.1)	(149.5)
Charge for the year	(28.7)	(4.1)	(32.8)
Disposals	1.0	–	1.0
At 2 March 2013	**(169.1)**	**(12.2)**	**(181.3)**
Net book value at 2 March 2013	**100.9**	**28.3**	**129.2**
Assets in the course of construction included above at 2 March 2013	14.0	–	14.0

	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
Net book value at 26 February 2011	90.0	17.8	107.8
Assets in the course of construction included above at 3 March 2012	14.6	–	14.6

Amortisation of £2.9m (2012: £3.2m) is included in cost of sales in the income statement and £29.9m (2012: £23.7m) in net operating expenses.

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16. PROPERTY, PLANT AND EQUIPMENT

	Freehold properties £m	Leasehold properties Long leasehold £m	Leasehold properties Short leasehold £m	Plant & equipment £m	Total £m
Cost					
At 4 March 2012	129.8	1.7	350.7	978.3	1,460.5
Exchange differences	–	–	0.8	2.1	2.9
Additions	–	–	11.8	43.5	55.3
Disposals	–	–	(3.4)	(27.7)	(31.1)
At 2 March 2013	**129.8**	**1.7**	**359.9**	**996.2**	**1,487.6**
Accumulated depreciation and impairment losses					
At 4 March 2012	(23.2)	(0.4)	(256.1)	(664.5)	(944.2)
Exchange differences	–	–	(0.6)	(1.9)	(2.5)
Charge for the year	(1.7)	–	(15.0)	(75.2)	(91.9)
Disposals	–	–	2.0	23.9	25.9
At 2 March 2013	**(24.9)**	**(0.4)**	**(269.7)**	**(717.7)**	**(1,012.7)**
Net book value at 2 March 2013	**104.9**	**1.3**	**90.2**	**278.5**	**474.9**
Assets in the course of construction included above at 2 March 2013	–	–	0.3	12.8	13.1

	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
Net book value at 26 February 2011	108.4	1.3	94.0	319.7	523.4
Assets in the course of construction included above at 3 March 2012	–	–	0.7	26.6	27.3

17. INVESTMENTS IN ASSOCIATES

	2013 £m	2012 £m
At 4 March 2012	**8.3**	8.0
Exchange differences	**0.3**	(0.2)
Additions	**2.4**	–
Share of net (loss)/profit after tax	**(2.1)**	0.5
Other equity movements	**0.7**	–
Reclassification to non-current assets classified as held for sale	**(9.6)**	–
At 2 March 2013	**–**	8.3

The Group has the following investments in associates:

- 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.
- a 49% holding in HH Retail Limited, a joint venture company with Haier Group to develop a multi-channel, general merchandise retail business in China, and which is reported as an associate.

The Group's share of the revenue of its associates for the 52 weeks ended 2 March 2013 is £14.7m (2012: £11.6m) and its share of the loss after tax is £6.0m (2012: £0.5m profit). At 2 March 2013, the Group's share of the net assets of its associates amounted to £5.9m (2012: £8.3m), consisting of assets of £17.6m (2012: £9.9m), which includes goodwill of £4.8m (2012: £4.6m), and liabilities of £11.7m (2012: £1.6m).

On 8 March 2013, the Group sold its shareholding in Ogalas Limited and, as a result, the Group's interest in Ogalas Limited has been reclassified to non-current assets held for sale in the Group's balance sheet as at 2 March 2013. Further details of the transaction can be found in note 35. In addition, no liability has been recognised in the Group's balance sheet in respect of HH Retail Limited, but the Group's share of its accumulated losses has been taken initially against the carrying value of the investment, then subsequently against the carrying value of loans granted by the Group to HH Retail Limited, which are reported within other financial assets in note 25. Therefore, the amount reported for the Group's investment in associates at the year-end is £nil.

18. INVENTORIES

	2013 £m	2012 £m
Goods for resale	**941.8**	933.2

19. TRADE AND OTHER RECEIVABLES

	Current 2013 £m	Non-current 2013 £m	Current 2012 £m	Non-current 2012 £m
Trade receivables:				
– Instalment receivables	**546.8**	**–**	535.2	–
– Other trade receivables	**47.1**	**–**	39.7	–
	593.9	**–**	574.9	–
Less: provision for impairment of receivables	**(75.7)**	**–**	(82.0)	–
	518.2	**–**	492.9	–
Other receivables	**66.5**	**2.7**	53.7	3.8
Prepayments and accrued income	**52.1**	**–**	48.0	–
	636.8	**2.7**	594.6	3.8

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.

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For the 52 weeks ended 2 March 2013

19. TRADE AND OTHER RECEIVABLES CONTINUED

As at 2 March 2013, trade receivables of £65.1m (2012: £71.2m) 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.

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

	£m
At 3 March 2012	(82.0)
Charge for the year	(21.0)
Utilised	27.3
At 2 March 2013	**(75.7)**

As at 2 March 2013, trade receivables of £10.0m (2012: £20.5m) 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:

	2013 £m	2012 £m
Less than 3 months	**8.1**	18.7
3 to 6 months	**1.7**	1.6
6 to 9 months	**–**	0.1
9 to 12 months	**0.2**	0.1
	10.0	20.5

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

20. CASH AND CASH EQUIVALENTS

	2013 £m	2012 £m
Cash at bank and in hand	**396.0**	194.3

The effective interest rate during the year ended 2 March 2013 for cash and cash equivalents was 0.7% (2012: 0.8%). The Group has provided letters of credit totalling £12.5m (2012: £12.5m) to AIG Europe Limited (previously named Chartis Insurance UK Limited) as part of their re-insurance agreement. These letters are secured by cash deposits.

21. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2013 £m	2012 £m
Investments in associates	**9.6**	–

The Group's 33% shareholding in Ogalas Limited has been presented as held for sale following the Group's decision to sell its stake in the business. The sale completed on 8 March 2013, further details of which can be found in note 35. At 2 March 2013, the Group's share of the net assets of Ogalas Limited amounted to £9.6m (2012: £8.3m), consisting of assets of £12.2m (2012: £9.9m), which includes goodwill of £4.8m (2012: £4.6m), and liabilities of £2.6m (2012: £1.6m). At 3 March 2012, the Group's investment in Ogalas Limited was reported within investments in associates in note 17.

22. TRADE AND OTHER PAYABLES

	Current 2013 £m	Non-current 2013 £m	Current 2012 £m	Non-current 2012 £m
Trade payables	**(560.9)**	**–**	(475.5)	–
Social security costs and other taxes	**(61.7)**	**–**	(45.4)	–
Accruals and deferred income	**(379.8)**	**(52.6)**	(360.0)	(55.8)
Other payables	**(113.7)**	**–**	(64.0)	–
	(1,116.1)	**(52.6)**	(944.9)	(55.8)

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.

23. PROVISIONS

	Onerous leases £m	Insurance £m	Restructuring £m	Other £m	Total £m
At 4 March 2012	(153.5)	(46.7)	(24.3)	(10.8)	(235.3)
Exchange differences	(1.9)	–	–	–	(1.9)
Charged to the income statement	(21.0)	(5.5)	–	(11.8)	(38.3)
Released to the income statement	35.6	2.0	–	0.4	38.0
Utilised during the year	4.4	8.7	12.5	2.7	28.3
Discount unwind	(8.3)	–	–	(0.3)	(8.6)
At 2 March 2013	**(144.7)**	**(41.5)**	**(11.8)**	**(19.8)**	**(217.8)**

Analysed as:	2013 £m	2012 £m
Current	**(38.3)**	(47.8)
Non-current	**(179.5)**	(187.5)
	(217.8)	(235.3)

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 2020.

Provision is made 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 2018.

A number of organisational changes were announced during the 53 weeks to 3 March 2012 to improve the operational efficiency of the Group and drive further cost productivity. These actions included the closure of the Group's UK homewares trial format, HomeStore&More, and 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, potential customer redress in respect of financial services products and other sundry provisions. The majority of these provisions are expected to be utilised over the period to 2016.

24. POST-EMPLOYMENT BENEFITS

During the year, the Group operated 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 were provided principally through a defined benefit scheme (the Home Retail Group Pension Scheme), until it was closed to future accrual with effect from 31 January 2013, and a defined contribution scheme (the Home Retail Group Personal Pension Plan), which continues to be operated. 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 2012 by independent, qualified actuaries, Towers Watson, using the projected unit method and resulted in a deficit of £158m. The next full actuarial valuation of the scheme will be carried out as at 31 March 2015.

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24. POST-EMPLOYMENT BENEFITS CONTINUED

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:

	2013 £m	2012 £m
At 4 March 2012	**(115.3)**	(7.5)
Total net gain/(charge) recognised in the consolidated income statement	**26.0**	(12.4)
Actuarial loss recognised in the consolidated statement of comprehensive income	**(17.2)**	(121.2)
Contributions paid	**21.4**	25.8
At 2 March 2013	**(85.1)**	(115.3)

The Home Retail Group Pension Scheme closed to future accrual with effect from 31 January 2013 which resulted in a curtailment gain of £37.4m being recognised in the income statement for the period. As a result of the closure, all previously active members of the scheme are now treated as deferred members. The effect of the closure is that these members are no longer entitled to pension benefits linked to future salary increases. This amounted to a change in benefits accruing to those members and resulted in a one-off reduction in the ultimate liabilities in respect of these individuals.

During the year, the Group has paid contributions totalling £21.4m (2012: £25.8m) to the Home Retail Group Pension Scheme including £8.0m (2012: £10.0m) 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 £22m, all of which relates to the deficit recovery plan agreed following the completion of the 31 March 2012 actuarial valuation.

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

	2013 £m	2012 £m
Fair value of scheme assets	**833.5**	764.4
Present value of funded scheme liabilities	**(898.0)**	(861.6)
Deficit in the funded scheme	**(64.5)**	(97.2)
Present value of unfunded pension arrangements	**(20.6)**	(18.1)
Retirement benefit obligations recognised in the balance sheet	**(85.1)**	(115.3)

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

	2013 £m	2012 £m
Current service cost	**(14.5)**	(17.2)
Curtailment gain	**37.4**	–
Discount unwind on scheme liabilities	**(41.0)**	(43.2)
Expected return on scheme assets	**44.1**	48.0
Total net gain/(charge) recognised in the consolidated income statement	**26.0**	(12.4)

The current service cost includes £1.2m (2012: £1.7m) in respect of unfunded pension arrangements.

The net gain/(charge) is recognised in the following line items in the consolidated income statement:

	2013 £m	2012 £m
Administrative costs – before exceptional items	**(14.5)**	(17.2)
Administrative costs – exceptional items	**37.4**	–
Finance expense (note 10)	**(41.0)**	(43.2)
Finance income (note 10)	**44.1**	48.0
Total net gain/(charge) recognised in the consolidated income statement	**26.0**	(12.4)

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

	2013 %	2012 %
Rate of inflation	**3.4**	3.1
Rate of increase for salaries	**n/a**	3.1
Rate of increase for pensions in payment	**3.3**	3.0
Rate of increase for deferred pensions	**3.3**	3.0
Discount rate	**4.7**	4.8

Following closure of the scheme to future accrual during the year ended 2 March 2013, the present value of the defined benefit obligations is no longer impacted by increases in salaries.

The impact of changing material assumptions is as follows:

		2013		2012	
	Increase/ decrease in assumptions	Indicative effect on scheme deficit £m	Indicative effect on annual service cost* £m	Indicative effect on scheme deficit £m	Indicative effect on annual service cost £m
Rate of inflation	0.1%	**+/- 15.7**	**n/a**	+/- 13.7	+/- 0.6
Rate of increase for salaries	0.1%	**n/a**	**n/a**	+/- 3.3	+/- 0.2
Rate of increase for pensions in payment	0.1%	**+/- 7.3**	**n/a**	+/- 6.2	+/- 0.4
Rate of increase for deferred pensions	0.1%	**+/- 8.3**	**n/a**	+/- 4.1	–
Discount rate	0.1%	**-/+ 15.9**	**n/a**	-/+ 14.9	-/+ 0.6
Life expectancy	1 year	**+/- 17.5**	**n/a**	+/- 17.5	+/- 0.7

*Due to the closure of the scheme to future accrual, there will be no annual service cost in future years.

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

The mortality tables used for the IAS 19 valuation have been updated since last year to take into account the results of a postcode mortality analysis carried out for the trustees of the Home Retail Group Pension Scheme as part of their 31 March 2012 actuarial valuation. Based on the outcome of this analysis, the IAS 19 valuation assumes that mortality will be in line with the SAPS (S1) mortality tables for all pensioners based on an individual's year of birth (as published by the Institute of Actuaries) with a multiplier of 105% applied. In addition, to allow for future improvements in mortality, the CMI 2011 tables (published by the Institute of Actuaries) have been used, with an assumed long-term rate of future annual mortality improvements of 1.5%. The impact of moving to the new mortality tables was to reduce the IAS 19 deficit for the Group's schemes by approximately £12m at 2 March 2013.

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

- 22.2 years at age 65 for a male currently aged 65 (2012: 23.3)
- 24.6 years at age 65 for a female currently aged 65 (2012: 25.7)
- 23.8 years at age 65 for a male currently aged 50 (2012: 24.7)
- 26.3 years at age 65 for a female currently aged 50 (2012: 27.2)

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24. POST-EMPLOYMENT BENEFITS CONTINUED

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

	2013			2012		
	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	**226.7**	**27**	**7.0**	272.7	36	6.9
Fixed interest securities	**90.3**	**10**	**3.6**	41.7	6	4.6
Fund of hedge funds	**85.2**	**10**	**6.5**	125.5	16	6.4
Diversified growth fund	**93.1**	**11**	**6.5**	–	–	–
Insurance policy†	**262.2**	**32**	**4.4**	247.7	32	4.7
Property	**62.3**	**8**	**5.5**	56.5	7	5.4
Other	**13.7**	**2**	**3.0**	20.3	3	2.9
	833.5	**100**	**5.5**	764.4	100	5.8

† The expected long-term rate of return on the insurance policy is based on the discount rate applicable to the pensioners' liabilities covered by the policy. This is 0.3% pa (2012: 0.1%) lower than the discount rate for the scheme as a whole because the average duration of the pensioners' liabilities is around 15 years instead of 23 years for all scheme members and the average corporate bond yield net of inflation at this shorter duration was approximately 0.3% pa (2012: 0.1%) lower at 2 March 2013.

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:

	2013 £m	2012 £m
Opening defined benefit liabilities	**(879.7)**	(756.3)
Current service cost	**(14.5)**	(17.2)
Curtailment gain	**37.4**	–
Interest cost	**(41.0)**	(43.2)
Contributions paid by employees	**(4.4)**	(5.2)
Actuarial loss on liabilities recognised in the statement of comprehensive income	**(34.1)**	(76.6)
Benefits paid	**17.7**	18.8
Closing defined benefit liabilities	**(918.6)**	(879.7)

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

	2013 £m	2012 £m
Opening market value of scheme assets	**764.4**	748.8
Expected return	**44.1**	48.0
Actuarial gain/(loss) on assets recognised in the statement of comprehensive income	**16.9**	(44.6)
Contributions paid by the Group	**21.4**	25.8
Contributions paid by employees	**4.4**	5.2
Benefits paid	**(17.7)**	(18.8)
Closing market value of scheme assets	**833.5**	764.4
Cumulative actuarial loss included in the statement of comprehensive income	**(231.3)**	(214.1)

The actual return on scheme assets was a gain of £61.0m (2012: £3.4m).

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 2 March 2013 was £20.7m (2012: £16.3m).

The Group's unfunded pension benefit arrangements will close to future accrual with effect from 30 April 2013. The net curtailment impact of this closure is immaterial.

Further details of the pension arrangements for directors appear in the audited part of the directors' remuneration report.

History of experience gains and losses:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit liabilities	**(918.6)**	(879.7)	(756.3)	(692.6)	(550.8)
Fair value of scheme assets	**833.5**	764.4	748.8	667.7	504.4
Net deficit on the scheme	**(85.1)**	(115.3)	(7.5)	(24.9)	(46.4)
Experience gain/(loss) on scheme liabilities	**11.4**	0.2	8.1	(12.1)	1.5
Percentage of scheme liabilities	**1.2%**	–	1.1%	(1.7%)	0.3%
Experience gain/(loss) on scheme assets	**16.9**	(44.6)	15.3	107.7	(194.3)
Percentage of scheme assets	**2.0%**	(5.8%)	2.0%	16.1%	(38.5%)

Defined contribution schemes

The pension cost represents contributions payable by the Group to the defined contribution schemes and amounted to £10.0m (2012: £6.9m). Contributions totalling £1.4m (2012: £0.6m) were payable to the schemes at 2 March 2013 and are included within trade and other payables.

25. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current 2013 £m	Non-current 2013 £m	Current 2012 £m	Non-current 2012 £m
Other financial assets				
Forward foreign exchange contracts – cash flow hedges	**32.1**	**–**	6.5	–
Forward foreign exchange contracts – fair value hedges	**4.8**	**–**	1.8	–
Available-for-sale financial assets	**–**	**24.4**	–	17.4
Total other financial assets	**36.9**	**24.4**	8.3	17.4
Other financial liabilities				
Forward foreign exchange contracts – cash flow hedges	**(2.8)**	**–**	(5.2)	–
Total other financial liabilities	**(2.8)**	**–**	(5.2)	–

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 2 March 2013 were £781.8m (2012: £788.9m). 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. An impairment charge of £3.9m has been taken against the Group's loans to associates following the decision to close HH Retail Limited, the Group's associate in China.

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26. DEFERRED TAX

	2013 £m	2012 £m
The movements on the net deferred tax account are as follows:		
At 4 March 2012	**28.7**	14.9
Income statement charge (note 11)	**(10.7)**	(10.8)
Rate change impact	**0.1**	(0.1)
Tax(charged)/credited to other comprehensive income	**(4.0)**	24.7
At 2 March 2013	**14.1**	28.7
The deferred tax amounts recognised are as follows:		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than one year	**40.7**	50.6
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than one year	**(26.6)**	(21.9)
Net deferred tax assets	**14.1**	28.7

Closing deferred tax has been calculated at the substantively enacted UK corporation tax rate of 23% (2012: 25%), which differs from the UK corporation tax rate applied to the current year adjusted profits at 24%. The effect of the reduction in the UK corporation tax rate from 25% to 23% is a reduction in the net deferred tax asset at the end of 2013 of £1.7m. Of this £1.7m, £1.8m has been charged directly to the consolidated statement of comprehensive income, and a credit of £0.1m has been recognised in the income statement.

The proposed reductions in the main rate of UK corporation tax by 2% to 21% from 1 April 2014 and by a further 1% to 20% from 1 April 2015 are not yet enacted. The impact of these rate reductions on the net deferred tax asset is 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 4 March 2012	**16.0**	**1.9**	**32.7**	**50.6**
Income statement credit/(charge)	**4.0**	**(1.7)**	**(13.3)**	**(11.0)**
Tax credited/(charged) to other comprehensive income	**0.4**	**–**	**(4.4)**	**(4.0)**
Transfer to deferred tax liabilities	**–**	**–**	**6.8**	**6.8**
Rate change impact	**(1.3)**	**(0.2)**	**(0.2)**	**(1.7)**
At 2 March 2013	**19.1**	**–**	**21.6**	**40.7**

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 charged 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

Other deferred tax assets consist of £19.4m (2012: £29.8m) in respect of defined benefit pension obligations and £2.2m (2012: £2.9m) in respect of other temporary differences.

Deferred tax liabilities	**Property valuations £m**	**Accelerated tax depreciation £m**	**Other £m**	**Total £m**
At 4 March 2012	**(14.3)**	**(7.6)**	**–**	**(21.9)**
Income statement credit/(charge)	**1.2**	**(0.9)**	**–**	**0.3**
Transfer from deferred tax assets	**–**	**–**	**(6.8)**	**(6.8)**
Rate change impact	**1.1**	**0.6**	**0.1**	**1.8**
At 2 March 2013	**(12.0)**	**(7.9)**	**(6.7)**	**(26.6)**

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 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 £25.1m (2012: £27.4m) in respect of capital losses, which total £109.3m (2012: £109.6m), that can be carried forward against future taxable gains. These losses are available indefinitely.

27. SHARE CAPITAL

	2013 Number of shares	**2013 £m**	2012 Number of shares	2012 £m
Allotted, called-up and fully paid				
Ordinary share capital of 10p each	**813,445,001**	**81.3**	813,445,001	81.3

28. 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 4 March 2012	(24.5)	0.9	32.2	8.6
Other comprehensive income	–	21.2	0.7	21.9
Net movement in own shares	1.4	–	–	1.4
Balance at 2 March 2013	**(23.1)**	**22.1**	**32.9**	**31.9**

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

28. NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

	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

The movement in own shares of £1.4m (2012: £2.8m) represents the utilisation or sale of shares held for the purpose of satisfying obligations arising from the Group's share-based compensation schemes. Shares in Home Retail Group plc are held in the following trusts:

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 2 March 2013, the EST held 12,762,196 (2012: 13,525,067) shares with a market value of £16.1m (2012: £14.1m). The shares in the EST are held within equity of the Group at a cost of £20.4m (2012: £21.6m). No additional shares were purchased during the year (2012: nil). 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 2 March 2013, the Trust held 651,283 (2012: 698,305) shares with a market value of £0.8m (2012: £0.7m). These shares are held within equity of the Group at a cost of £2.7m (2012: £2.9m). No additional shares were purchased during the year (2012: nil).

29. SHARE-BASED PAYMENT ARRANGEMENTS

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

	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Share option awards	**(3.2)**	(1.6)
Share grant awards	**(8.7)**	(7.3)
Total expense recognised (all equity-settled)	**(11.9)**	(8.9)

Summary of share option and share award arrangements

During the year ended 2 March 2013, 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:

Share options
The Home Retail Group plc save-as-you-earn (SAYE) 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.

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 2006 and all outstanding awards have vested.

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 were 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 vested on the second anniversary and 3/6 will vest 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 and new awards were last granted under this plan during the year ended 26 February 2011.

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 were normally forfeited if a participant's employment with the Group ceased 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.

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 SAYE plan, determined using the Black-Scholes option pricing model, was £0.14 (2012: £0.15) per option. The significant inputs into the option pricing model were as follows:

	52 weeks ended 2 March 2013	53 weeks ended 3 March 2012
Weighted average:		
Share price on grant date (£)	**0.86**	1.64
Exercise price (£)	**0.59**	1.71
Expected volatility	**46.2%**	43.6%
Expected dividend yield	**5.5%**	7.6%
Risk free interest rate	**1.0%**	1.7%
Expected option life to exercise	**3.5 years**	3.4 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.

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

29. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

Reconciliation of movement in the number of share options

	52 weeks ended 2 March 2013		53 weeks ended 3 March 2012	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Outstanding at beginning of year	**14,656,289**	**2.26**	18,843,864	2.33
Granted	**38,322,492**	**0.59**	6,256,209	1.71
Forfeited	**(8,257,324)**	**1.57**	(9,687,576)	1.96
Exercised	**(6,750)**	**0.59**	(19,709)	1.90
Expired	**(1,575,700)**	**2.46**	(736,499)	3.73
Outstanding at year-end	**43,139,007**	**0.90**	14,656,289	2.26
Exercisable at year-end	**2,795,856**	**3.53**	3,102,350	3.54

The weighted average share price for share options exercised during the year was £1.23 (2012: £2.16).

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 2 March 2013			
		Weighted average exercise price	Weighted average remaining lives	
Range of exercise prices £	Number of options	price £	Expected years	Contractual years
Up to 0.99	**36,144,602**	**0.59**	**3.0**	**3.5**
1.00 – 1.99	**2,922,978**	**1.76**	**1.3**	**2.0**
2.00 – 2.99	**1,366,766**	**2.01**	**1.2**	**1.7**
3.00 – 3.99	**2,704,661**	**3.60**	**–**	**2.2**

	As at 3 March 2012			
		Weighted average exercise	Weighted average remaining lives	
Range of exercise prices £	Number of options	price £	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

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 occurred after the first year of performance was assessed. The performance share 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 23,408,568 ordinary share awards (2012: 8,663,902) granted during the year with a weighted average fair value of £0.51 (2012: £1.66).

30. OPERATING LEASES

	2013 £m	2012 £m
Future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Less than one year	**(342.6)**	(357.8)
Between one and five years	**(1,182.7)**	(1,248.7)
More than five years	**(1,436.5)**	(1,678.2)
Total operating leases	**(2,961.8)**	(3,284.7)

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

31. COMMITMENTS

	2013 £m	2012 £m
Capital expenditure for which contracts have been placed:		
Property, plant and equipment	**(15.4)**	(2.6)
Intangible assets	**(1.0)**	(2.0)
Total commitments	**(16.4)**	(4.6)

In addition, in 2012 the Group was 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. No such commitment exists at the current year-end.

32. 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.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Profit before tax	**130.1**	104.1
Adjustments for:		
Share of post-tax loss/(profit) of associates	**6.0**	(0.5)
Net financing expense/(income)	**1.3**	(4.9)
Operating profit	**137.4**	98.7
Loss on sale of property, plant and equipment	**0.2**	1.8
Depreciation and amortisation	**124.7**	126.5
Finance expense charged to Financial Services cost of sales	**3.1**	3.4
(Increase)/decrease in inventories	**(8.6)**	85.8
(Increase)/decrease in receivables	**(40.9)**	16.1
Increase/(decrease) in payables	**163.4**	(102.5)
Movement in working capital	**113.9**	(0.6)
(Decrease)/increase in provisions	**(24.5)**	5.0
Movement in retirement benefit obligations	**(44.3)**	(8.6)
Share-based payment expense (net of dividend equivalent payments)	**11.6**	8.3
Cash generated from operations	**322.1**	234.5

Notes to the financial statements continued

For the 52 weeks ended 2 March 2013

34. RELATED PARTIES

The ultimate parent company of the Group is Home Retail Group plc. The principal subsidiary and associated undertakings at 2 March 2013 are shown in note 36. 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

During the year, the Group granted loans totalling £6.8m (2012: £1.2m) to its associates and invested £2.4m (2012: £nil) in the share capital of its associates. At 2 March 2013, the amounts owed by its associates to the Group totalled £3.7m (2012: £1.1m), after taking account of impairment losses totalling £3.9m (2012: £nil) following the decision to close HH Retail Limited, the Group's associate in China.

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.

35. POST BALANCE SHEET EVENTS

On 8 March 2013, the Group completed the sale of its 33% stake in Ogalas Limited, an Irish company trading as 'home store + more' in the Republic of Ireland. The Group received £9.7m for its shareholding and a loan repayment of £1.2m. After taking account of transaction costs, the proceeds approximate to the carrying value of the Group's investment in Ogalas Limited so no material profit or loss is expected on the sale, prior to the recycling of approximately £1m of exchange gains from the Group's translation reserve. As a result, the Group's interest in Ogalas Limited, reported as an associate, has been reclassified to non-current assets held for sale in the Group's balance sheet as at 2 March 2013.

On 27 March 2013, the Group entered into a new unsecured three-year multi-currency revolving credit facility of £165m with a syndicate of banks. On the same day, the Group cancelled its existing £685m facility.

36. 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 17.

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 52 weeks ended 2 March 2013 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.

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 2 March 2013 and of its cash flows for the 52 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.

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 52 weeks ended 2 March 2013.

Neil Grimes
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 May 2013

Parent Company balance sheet

At 2 March 2013

	Notes	2 March 2013 £m	3 March 2012 £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	**7.5**	14.1
Total current assets		**7.5**	14.1
Total assets		**2,903.1**	2,909.7
LIABILITIES			
Current liabilities			
Trade and other payables	8	**(764.1)**	(767.7)
Total current liabilities		**(764.1)**	(767.7)
Total liabilities		**(764.1)**	(767.7)
Net assets		**2,139.0**	2,142.0
EQUITY			
Share capital	9	**81.3**	81.3
Capital redemption reserve		**6.4**	6.4
Retained earnings		**2,051.3**	2,054.3
Total equity		**2,139.0**	2,142.0

The financial statements on pages 102 to 107 were approved by the Board of Directors on 1 May 2013 and were signed on its behalf by:

Terry Duddy,
Chief Executive

Richard Ashton,
Finance Director

Parent Company statement of changes in equity

For the 52 weeks ended 2 March 2013

	Notes	Attributable to equity holders of the Company Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 4 March 2012		81.3	6.4	2,054.3	2,142.0
Loss for the year	4	–	–	(6.6)	(6.6)
Other comprehensive income		–	–	–	–
Total comprehensive income for the year ended 2 March 2013		–	–	(6.6)	(6.6)
Transactions with owners:					
Movement in share-based compensation reserve	3	–	–	11.9	11.9
Equity dividends paid during the year	5	–	–	(8.0)	(8.0)
Other distributions		–	–	(0.3)	(0.3)
Total transactions with owners		–	–	3.6	3.6
Balance at 2 March 2013		**81.3**	**6.4**	**2,051.3**	**2,139.0**

	Notes	Attributable to equity holders of the Company 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

Parent Company statement of cash flows

For the 52 weeks ended 2 March 2013

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 52 weeks ended 2 March 2013

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 52 weeks ended 2 March 2013. 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 29 to the Group financial statements.

4. INCOME STATEMENT DISCLOSURES

The Company's retained loss for the financial year was £6.6m (2012: £11.4m).

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 40 to 51.

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

5. DIVIDENDS

Amounts recognised as distributions to equity holders	52 weeks ended 2 March 2013 £m	53 weeks ended 3 March 2012 £m
Final dividend of nil per share (2012: 10.0p) for the prior year	–	(79.9)
Interim dividend of 1.0p per share (2012: 4.7p) for the current year	**(8.0)**	(37.6)
Ordinary dividends on equity shares	**(8.0)**	(117.5)

A final dividend in respect of the year ended 2 March 2013 of 2.0p per share (2012: nil), amounting to a total final dividend of £16.0m, has been proposed by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the year of 3.0p per share, amounting to £24.0m. The final dividend of 2.0p per share will be paid on 24 July 2013 to shareholders who are on the register of members at close of business on 24 May 2013. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends in the amount of £0.1m (2012: £2.1m).

6. INVESTMENT IN SUBSIDIARY

	2013 £m	2012 £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 and associates are disclosed in note 36 of the Group financial statements.

Notes to the Parent Company financial statements continued

For the 52 weeks ended 2 March 2013

7. TRADE AND OTHER RECEIVABLES

	Current 2013 £m	Current 2012 £m
Amount owed by related party (note 11)	**7.5**	14.1

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 £7.5m (2012: £14.1m) 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 £29.5m (2012: £22.9m).

Movements in the provision for impairment are as follows:

	£m
At 3 March 2012	(22.9)
Charge for the year	(6.6)
At 2 March 2013	**(29.5)**

8. TRADE AND OTHER PAYABLES

	Current 2013 £m	Current 2012 £m
Amounts owed to Group companies (note 11)	**(763.5)**	(766.9)
Other creditors	**(0.6)**	(0.8)
	(764.1)	(767.7)

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

	2013 Number of shares	2013 £m	2012 Number of shares	2012 £m
Allotted, called-up and fully paid				
Ordinary share capital of 10p each	**813,445,001**	**81.3**	813,445,001	81.3

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 had since been extended by one year and then subsequently £685m of this facility had 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.

On 27 March 2013, Home Retail Group (UK) Limited, a subsidiary of the Company, entered into a new unsecured three-year multi-currency revolving credit facility of £165m with a syndicate of banks. On the same day, the existing £685m facility was cancelled. The Company is a borrower and a guarantor to this new facility.

There are no capital or operating lease commitments.

11. RELATED PARTY TRANSACTIONS

The principal subsidiary undertakings of the Company are shown in note 36 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.

	2013 £m	2012 £m
Transactions with subsidiary undertakings		
Recharge of costs	**11.9**	8.9
Settlement of liabilities by subsidiary undertakings on behalf of the Company	**8.3**	118.1
Amounts owed to subsidiary undertakings	**(763.5)**	(766.9)
Transactions with other related parties		
Amount owed by other related party – EST (note 7)	**7.5**	14.1

Group five-year summary

Income statement	52-week period to 2 March 2013 £m	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
Argos	**3,931.3**	3,872.6	4,194.3	4,346.8	4,281.9
Homebase	**1,430.7**	1,509.8	1,550.7	1,571.9	1,513.2
Financial Services	**113.4**	109.1	106.9	104.0	102.3
Sales	**5,475.4**	5,491.5	5,851.9	6,022.7	5,897.4
Argos	**100.3**	94.2	219.0	266.2	303.6
Homebase	**11.0**	22.8	47.6	41.2	14.9
Financial Services	**6.0**	6.0	6.0	5.7	6.1
Central Activities	**(24.0)**	(25.3)	(21.8)	(23.4)	(24.2)
Benchmark operating profit	**93.3**	97.7	250.8	289.7	300.4
Net financing income	**3.8**	3.4	3.2	5.2	29.7
Share of post-tax (loss)/profit of joint ventures and associates	**(6.0)**	0.5	0.1	(2.0)	(2.4)
Benchmark PBT	**91.1**	101.6	254.1	292.9	327.7

Statistics

Argos	52-week period to 2 March 2013	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
Like-for-like change in sales	**2.1%**	(8.9%)	(5.6%)	(2.1%)	(4.8%)
Net space contribution to sales change	**(0.6%)**	1.2%	2.1%	3.6%	3.9%
Total sales change	**1.5%**	(7.7%)	(3.5%)	1.5%	(0.9%)
Number of stores at year-end	**737**	748	751	745	730
Homebase					
Like-for-like change in sales	**(4.9%)**	(2.0%)	(0.3%)	2.7%	(10.2%)
Net space contribution to sales change	**(0.3%)**	(0.6%)	(1.1%)	1.2%	6.7%
Total sales change	**(5.2%)**	(2.6%)	(1.4%)	3.9%	(3.5%)
Number of stores at year-end	**336**	341	341	349	345
Of which contain a mezzanine floor	**186**	187	186	190	188

Financial Services	2 March 2013 £m	3 March 2012 £m	26 February 2011 £m	27 February 2010 £m	28 February 2009 £m
Store card net receivables	**475**	457	456	429	424

Balance sheet	2 March 2013 £m	3 March 2012 £m	26 February 2011 £m	27 February 2010 £m	28 February 2009 £m
Invested capital	**2,376.8**	2,518.6	2,512.8	2,377.7	2,435.5
Retirement benefit obligations	**(85.1)**	(115.3)	(7.5)	(24.9)	(46.4)
Net tax assets	**10.7**	24.7	4.6	52.1	32.7
Derivative financial instruments	**34.1**	3.1	(28.0)	47.7	52.2
Financing net cash	**396.0**	194.3	259.3	414.0	284.4
Reported net assets	**2,732.5**	2,625.4	2,741.2	2,866.6	2,758.4

Benchmark pre-tax return on invested capital	52-week period to 2 March 2013 £m	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
Benchmark operating profit	**93.3**	97.7	250.8	289.7	300.4
Share of post-tax (loss)/profit of joint ventures and associates	**(6.0)**	0.5	0.1	(2.0)	(2.4)
Benchmark pre-tax return	**87.3**	98.2	250.9	287.7	298.0
Benchmark pre-tax return on invested capital	**3.7%**	3.9%	10.0%	12.1%	12.2%

Earnings and dividends	52-week period to 2 March 2013	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
Basic benchmark EPS	**7.7p**	8.7p	21.3p	23.4p	25.9p
Dividends per share (interim paid and final proposed)	**3.0p**	4.7p	14.7p	14.7p	14.7p
Dividend cover	**2.57x**	1.85x	1.45x	1.59x	1.76x

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 28,138 ordinary shareholders at 2 March 2013, 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	78	0.28	699,176,802	85.95
100,001 – 1,000,000	204	0.73	69,603,115	8.56
10,001 – 100,000	575	2.04	16,572,807	2.04
5,001 – 10,000	799	2.84	5,517,860	0.68
2,001 – 5,000	2,937	10.43	8,887,528	1.09
1 – 2,000	23,545	83.68	13,686,889	1.68
	28,138	**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	2,239	7.96	777,007,355	95.52
Individuals*	25,899	92.04	36,437,646	4.48
	28,138	**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 20 8639 3377)
- Text phone: 0871 664 0532* (from abroad +44 20 8639 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	13 June 2013
Annual General Meeting	3 July 2013
Payment of final dividend	24 July 2013

Where is this year's AGM?
The 2013 AGM will be held from 11.00 am on Wednesday 3 July 2013 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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