20 April 2011

Home Retail Group plc
Full-Year Results

Home Retail Group, the UK's leading home and general merchandise retailer, today announces its results for the 52 weeks to 26 February 2011.

Operating highlights

- Continued market leadership in multi-channel retailing
- Further operational efficiencies achieved
- Argos:
  - Maintained market share
  - Multi-channel sales grew to £1.9bn representing almost half of its total sales
  - Second largest UK internet retailer with 400 million visits to its website
  - Store refurbishment investment delivering sales uplifts ahead of plan
- Homebase:
  - Continued market share gains
  - Significant growth in multi-channel sales
  - Installation services investment driving big ticket sales

Financial highlights

- Sales down 3% to £5,852m
- Cash gross margin down 4% to £2,177m
- Operating and distribution costs reduced by £60m or 3% to £1,926m, reflecting further cost saving initiatives
- Benchmark operating profit[1] down 13% to £251m, with a reduction of £47m or 18% at Argos and an increase of £6m or 16% at Homebase
- Benchmark profit before tax[2] down 13% to £254m
- Basic benchmark earnings per share[3] down 9% to 21.3p
- Reported profit before tax of £265m; reported basic earnings per share of 23.1p
- Completed £150m share buy-back; representing 7% of issued ordinary share capital at 27 February 2010, which enhanced earnings by 4% in the period
- Strong net cash position of £259m
- Full-year dividend maintained at 14.7p; Final dividend of 10.0p recommended

Oliver Stocken, Chairman of Home Retail Group, commented:

"Economic uncertainty and a low level of consumer confidence continue to adversely impact customer spending patterns. Despite these challenges the Group continues to build on its strategic advantages to ensure that it will be well positioned for the economic recovery over the longer term. Reflecting the Board's confidence in the Group's prospects we are recommending that the full-year dividend is maintained at 14.7 pence."

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

"Our focus on operational excellence and further investment in our multi-channel leadership has delivered a solid performance and enabled us to gain or hold market share in our businesses. Although we remain cautious about the consumer outlook over the short term we will continue to invest and innovate in our customer proposition and use our competitive advantage to provide customers with the best value and widest choice in home and general merchandise."

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

2. **Benchmark profit before tax (benchmark PBT)** is defined as profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit balances, the discount unwind on non-benchmark items.

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

Enquiries

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

An Interim Management Statement, covering the 13 weeks from 27 February 2011 to 28 May 2011, will be published on 9 June 2011.

FINANCIAL SUMMARY

52 weeks to **£m**	**26 February 2011**	**27 February 2010**
Argos	4,194.3	4,346.8
Homebase	1,550.7	1,571.9
Financial Services	106.9	104.0
Sales	**5,851.9**	**6,022.7**
Cost of goods	(3,674.9)	(3,746.9)
Gross margin	**2,177.0**	**2,275.8**
Group gross margin % rate	*37.2%*	*37.8%*
Operating and distribution costs	(1,926.2)	(1,986.1)
Argos	219.0	266.2
Homebase	47.6	41.2
Financial Services	6.0	5.7
Central Activities	(21.8)	(23.4)
Benchmark operating profit	**250.8**	**289.7**
Group operating margin % rate	*4.3%*	*4.8%*
Net interest income (see below)	3.2	5.2
Share of post-tax results of joint ventures and associates	0.1	(2.0)
Benchmark PBT	**254.1**	**292.9**
Demerger incentive schemes	-	(7.7)
Financing fair value remeasurements	5.4	2.7
Financing impact on retirement benefit obligations	4.6	(0.7)
Discount unwind on non-benchmark items	(6.1)	(6.7)
Onerous lease provision releases	7.2	12.5
Profit before tax	**265.2**	**293.0**
Taxation	(74.3)	(83.2)
of which: taxation attributable to benchmark PBT	*(77.5)*	*(91.4)*
Benchmark effective tax % rate	*30.5%*	*31.0%*
Profit for the year	**190.9**	**209.8**
Basic benchmark EPS	**21.3p**	**23.4p**
Basic EPS	**23.1p**	**24.3p**
Weighted average number of shares for basic EPS	827.4m	862.9m
Full-year dividend	**14.7p**	**14.7p**
Closing net cash position	**259.3**	**414.0**

Net interest reconciliation:

Bank deposits and other interest	2.6	4.4
Financing costs charged to Financial Services	3.2	3.5
Discount unwind on benchmark items	(2.6)	(2.7)
Net interest income	**3.2**	**5.2**
Financing fair value remeasurements	5.4	2.7
Financing impact on retirement benefit balances	4.6	(0.7)
Discount unwind on non-benchmark items	(6.1)	(6.7)
Income statement net financing income	**7.1**	**0.5**

The above tables and those throughout this announcement have been prepared in accordance with Note 1 to the Financial Information on page 25.

CHIEF EXECUTIVE'S STATEMENT

As the UK's leading home and general merchandise retailer, the Group operates with a clear scale advantage derived from a well invested infrastructure which has been built up over a period of many years.

We continue to expect a return to attractive growth rates in our product markets over the longer term, driven particularly by consumers investing in their home environment, new technology and new product developments. Even in the current challenging economic environment both Argos and Homebase continue to strengthen their customer propositions by further investing in multi-channel initiatives, expanding choice, developing both ranges and services, enhancing product presentation in stores, in catalogues and online and delivering value to the customer.

These investments will shape the future of shopping for our customers, ensuring that we continue to build successful businesses that bring unrivalled convenience and value to customers' every day lives, whether shopping at home or on the move.

Strategic Focus

Leadership in multi-channel retailing
Home Retail Group is the UK's market leader in multi-channel retailing. We have developed highly successful internet and mobile channels to meet consumer demand and we will continue to develop an integrated shopping experience that encompasses the latest technology and new ways in which customers want to interact and shop.

Argos has continued to grow its multi-channel sales which now represent £1.9bn or 46% of its sales. Argos is the second largest internet retailer in the UK, with 400 million website visits in the year. During May 2010 Argos launched its iPhone app which to date has seen more than 1.3m downloads and has been used to drive about 1% of Argos' sales. Future developments include the introduction of a TV shopping channel and mobile apps for iPad and Android.

The introduction of Reserve & Collect at Homebase has helped to drive further growth in its internet sales and there has also been strong growth in traffic to the Homebase website.

Differentiated and market leading formats
The Group's retailing formats are well positioned and clearly differentiated from other retailers in the market and continued investment in store presentation remains a key focus.

Stores represent an integral part of the Argos model as places to shop as well as providing convenient 'pick up points' for the customer. The programme to refurbish Argos stores is performing ahead of plan.

Homebase continues to roll out its Midi Refit programme that significantly improves its big ticket offer as well as enhancing its home and decorative offerings.

Expanding our product ranges and related services
The Group uses the strength of its retail brands to drive leadership in its core markets and grow market share through expanding its product ranges.

During the period under review, Argos has seen market share held or gained in most of its product categories and it continues to develop ways to further expand choice, reviewing category opportunities which can leverage its highly flexible operating model and online presence.

Homebase offers more than 30,000 products to support the home and garden enhancer using inspirational roomsets and an installation service to extend its presence into big ticket items. Homebase's differentiated proposition continues to drive market share gains.

Delivering value to the customer
The Group maintains its competitive price position using its purchasing scale and capabilities in all areas of sourcing to create a highly advantaged supply base particularly for direct import and direct sourcing of product.

Argos has maintained its commitment to being highly price competitive through the use of weekly price comparisons on around 10,000 products and is able to offer even greater value to customers through Argos Value and 'WOW' lines.

Homebase continues to improve its value position, through its Value range, best buys, bulk deals and other promotional offers. Actions taken over the last two years have resulted in a significant improvement in the customer's perception of value at Homebase.

Leveraging scale and infrastructure
The Group's scale and infrastructure enables it to leverage financial benefits and synergies that would be difficult to replicate given the investment required and the period of time over which these scale advantages have been established. The Group also provides an in-house financial services operation, providing customers with a range of both revolving and promotional credit products, as well as a home delivery service which supports the multi-channel proposition at both Argos and Homebase.

Efficient cost base
Over the past two financial years the Group has successfully delivered a number of significant organisational and infrastructure changes that have reduced costs by £125m and improved the flexibility of our business for the future. This cost reduction has 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.

Financial strength
The Group has strong cash flow characteristics, which are reflected in the significant net cash generation in the period since demerger. This cash generation resulted in the Board taking the decision in April 2010 to undertake a share buy-back programme, returning £150m to our shareholders during the course of the 2010/11 financial year. The Group's strong financial position continues to support investment for growth and it therefore plans to continue investing in its retail formats, developing the multi-channel retail offer and opening new stores.

Outlook

Prospects for the 2011/12 financial year are uncertain as consumers' disposable income, and their willingness to spend, is impacted by an increased VAT rate, an increase in personal taxes and the rising cost of living plus the additional threat of public sector job losses and potential interest rate increases.

Given the volatility in trading experienced at the end of the 2010/11 financial year and the ongoing challenging retail environment, the Group has adopted a cautious stance in its planning for the 2011/12 financial year. The Group is planning for like-for-like sales performances that could see a low-to-mid single digit percentage decline at Argos and a broadly flat outcome at Homebase. Our view on the potential gross margin movements is for a marginal reduction at Argos and a marginal improvement at Homebase. The combination of increasing operating cost inflation and the ongoing investment in long-term growth initiatives, offset in part by further cost efficiencies, will likely result in absolute costs being moderately higher year-on-year in both businesses.

Given our strong financial position, with a net cash balance of £259m, we are investing ahead of the recovery in consumer demand. We therefore remain confident in the Group's ability to deliver growth in shareholder value over the long term by maintaining our clear competitive advantage as the UK's leading home and general merchandise retailer.

BUSINESS REVIEWS

Argos

52 weeks to £m	26 February 2011	27 February 2010
Sales	**4,194.3**	**4,346.8**
Benchmark operating profit	**219.0**	**266.2**
Benchmark operating margin	**5.2%**	**6.1%**
Like-for-like change in sales	(5.6%)	(2.1%)
New space contribution to sales change	2.1%	3.6%
Total sales change	(3.5%)	1.5%
Gross margin movement	Down c.100bps	Down c.175bps
Benchmark operating profit change	(18%)	(12%)
Number of stores at year-end	751	745

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

Operational review

Multi-channel leadership
Multi-channel sales have continued to grow and now represent £1.9bn or 46% of Argos' total sales. Internet orders represent 36% of Argos' total sales, up from 32% last year, with the remaining 10% of multi-channel sales being products ordered either in-store or by telephone for home delivery. Argos continues to be the second largest internet retailer in the UK, with 400 million website visits during the year.

The Spring/Summer 2011 Catalogue launch was the first to fully integrate social media into the multi-channel offer. Through the growing Twitter and Facebook communities, customers can access the Argos products, share ideas and discover engaging content.

More convenience through store-based collection
Stores remain a key component of the Argos multi-channel model, operating with a national chain that provides convenient 'pick up points' for the customer. During the year under review 11 stores were opened and five stores were closed, the net six new stores grew the store portfolio to 751. In addition seven stores were relocated to improved locations.

In the 2011/12 financial year, there will be around 15 new store openings, while around five older stores are likely to be closed; there will also be a number of additional stores that are relocated to better sites. While the availability of suitable new out-of-town property developments continues to constrain store openings in the short-term, Argos' store chain analysis over the long-term continues to support further years of growth in the store portfolio.

The 'voice put-away' technology roll-out started in 2010 and will be completed in the first half of 2011. This technology automatically guides stockroom assistants to the correct stock location, with the key benefits being around 10% quicker processing and further enhanced stock file accuracy, thereby improving availability and customer satisfaction. 'Voice put-away' will also enable stores to choose stock locations dynamically and thereby maximise utilisation of available stockroom space.

Store refurbishment programme
Following the successful brand relaunch with the Spring/Summer 2010 Catalogue, the programme to refurbish the store estate is progressing well. Around 150 stores had been

refurbished by 26 February 2011, with a further 200 expected to be refurbished in the 2011/12 financial year.

As well as reflecting the new brand identity, the store refurbishment programme provides significant improvements to the Argos shopping process and to product displays such as consumer electronics and jewellery. There are also improved versions of catalogue browsers, stock checker units, kiosks and call forward systems.

Customers' response to the refurbished stores has been very positive and this is contributing to the overall improvements in Argos' brand reputation. The financial performance of the refurbished stores is also encouraging with the average sales uplift being 2.5%, which is ahead of the business case sales uplift requirement of 1%. Refurbishment costs are averaging approximately £100k per store and therefore the previously announced £70m cost to complete the programme is on track.

Expanding choice
With 23,300 lines, the Spring/Summer 2011 Catalogue has increased the choice, compared to a year ago, by around 4,000 lines or 21%. All of this increase is in home delivery lines, with a key driver of the increase being the new 'goCreate' upholstery offer. This new range offers customers the ability to customise their own upholstery and have it made to order. Customers can choose from 1,400 different combinations and have their selection delivered to them in up to eight weeks.

The trial creating additional choice through internet only lines continues and there will be around 12,500 lines available in the 2011/12 financial year. The current focus of the extended internet only ranges remains in areas such as technology, white goods and toys, with new areas such as health & beauty and children's books also working well over the Christmas period. The overall sales of the additional internet only lines grew by approximately 50% compared with last year. Argos launched an 'order-in for store collection' capability on around 4,300 of these lines, which has proved popular with customers.

Argos is also trialling a new route to extend ranges which is being provided by third parties but which is embedded within the Argos web shopping experience. This offer allows Argos to sell third party products on a fully integrated basis through its website and earn a commission on the sale. The first trial is in the books category, where Argos is building towards a choice of around 5,000 titles being displayed on the internet. This trial will be extended to other categories during the 2011/12 financial year.

In the Autumn/Winter 2011 Catalogue, Argos will be leveraging its market leading toy licence relationships to extend into children's clothing and gifting. This will be launched with around 600 clothing and gift lines in the catalogue and will be stocked in larger stores for immediate collection.

Improving ranges
Argos now has over 800 'WOW' deals across all major product categories in the catalogue, 50% more than last year and including some of the biggest consumer brand names. Own brands have also been used to expand choice; for example, Chad Valley is now used across 200 products and is a driver of Argos' continued market share gain in toys; and the more recent brand acquisitions of Schreiber and Hygena are now being used on 1,000 furniture lines.

In homewares Argos has launched new product collections such as 'Colourmatch' to co-ordinate over 450 lines across the category and 'Everyday' as a step-up brand. In technology Argos is retailing the Apple iPad 2 in 83 stores and via nationwide home delivery.

Value commitment
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. An overall competitive price position continues to be maintained

against our competitors on approximately 10,000 products with this being measured weekly using internet price comparisons. A price position better than the competition is maintained on approximately 1,000 lines that drive the greatest sales volumes.

New channels for growth

Argos is successfully extending the appeal of Check & Reserve to mobile shopping. The Apple iPhone app, launched in May 2010, has been downloaded more than 1.3m times and has driven around 1% of Argos' sales during the 2010/11 financial year.

New applications for Android mobile devices and the Apple iPad are planned in time for peak trading at Christmas 2011, which will ensure Argos remains at the forefront of mobile shopping.

Argos will continue to develop its multi-channel leadership by launching a new home shopping channel on the Sky digital television platform. Sky Channel 642, which is a prime shopping channel slot, will become Argos TV when it launches this summer.

The UK TV shopping market has sales of over £750m with further growth forecast. Argos will lease the TV channel, initially for one year, to showcase Argos' full range of product brands and categories, trial new product ideas and to explain and demonstrate some of the more complex products from within the range. The TV production capability also provides a platform that Argos can build on for the future as well as valuable additional material to support the internet shopping experience. This is a cost effective and low risk way for Argos to trial TV shopping.

Financial review

Sales in the 52 weeks to 26 February 2011 declined by 3.5% in total; the contribution to sales from net new space was 2.1%, while like-for-like sales declined by 5.6%. Video gaming and large ticket home-related areas such as furniture saw challenging conditions and televisions were down against last year's good performance. Computers, white goods and toys all continued to show good growth, while small ticket homeware sales were also ahead.

The gross margin rate was down by approximately 100 basis points. Around 50 basis points of the reduction was driven by the net impact of adverse currency and increased shipping costs, with the balance being the result of increased promotional and stock clearance activity.

Cost saving initiatives, including the reduction in the number of one-man home delivery distribution centres from two to one, together with further improvements in operational efficiency have resulted in total operating and distribution costs being reduced by around £45m or 4%. Total sales declined by 4%, equivalent to a potential cost reduction of around £40m, with underlying cost inflation at around 1% or £10m, there was therefore around 1% or £15m of cost productivity.

Benchmark operating profit for the 52 weeks to 26 February 2011 was £219.0m, a £47.2m or 18% decline on the previous year's £266.2m.

Homebase

52 weeks to £m	26 February 2011	27 February 2010
Sales	**1,550.7**	**1,571.9**
Benchmark operating profit	**47.6**	**41.2**
Benchmark operating margin	**3.1%**	**2.6%**
Like-for-like change in sales	(0.3%)	2.7%
New space contribution to sales change	(1.1%)	1.2%
Total sales change	(1.4%)	3.9%
Gross margin movement	c.0bps	Down c.350bps
Benchmark operating profit change	16%	177%
Number of stores at year-end	341	349
Of which contain a mezzanine floor	186	190
Store selling space at year-end (million sq ft)	15.6	16.1
Of which - garden centre area	3.6	3.7
- mezzanine floor area	1.8	1.9

Homebase is a leading home enhancement retailer.

Operational review

Developing ranges
We are constantly updating our customer offering and looking to enhance our product choice through range reviews that bring in new and improved products.

Decorating projects continue to drive footfall to Homebase and our planned range reviews will continue to increase the emphasis on affordably stylish decorating products. During the year an enhanced flooring and tiling offer was introduced in about 100 stores, with an increased space allocation allowing more choice and increased quantities to be maintained. A range review was also undertaken in lighting with 450 new product lines being added. In our gardening category we have added new Qualcast models and introduced a 'Jamie Oliver' collection of Grow Your Own lines as well as a new range of BBQs.

Homebase continues to develop its ranges in big ticket, including the Schreiber branded bedroom proposition and a new range of premium, design-led kitchens, which are being trialled in four stores.

Expanding installation services
Homebase's installation services support the big ticket offer and provide the customer with a complete home enhancement solution.

The kitchen installation service, which is independently certified by MORI, achieves a customer recommendation rate of over 90%. From this success we have expanded the service to include bathrooms and bedrooms. Bathroom installation was rolled out nationwide in time for the 2011 New Year peak trading period. The fitted bedroom furniture offer under the Schreiber brand was rolled out into about a further 100 stores and is now available in approximately 200 stores.

Improving value
Homebase continues to improve its value position; through its Value product range, best buys, bulk deals and other promotional mechanics. Actions taken have improved the customer perception of Homebase's value, with the number of customers actively satisfied with prices having significantly improved over the last two years.

Homebase has extended its range to more than 500 Value lines, offering essential products at low prices. The creation of more bulk buy discounts in the DIY categories has continued in the year with more than 800 opportunities to take advantage of competitive pricing on larger purchase quantities. Promotions continue to offer value to customers, with improved targeting during seasonal periods on relevant categories, underpinned by the customer benefits from the Nectar programme.

Loyalty programme
The Homebase Nectar scheme was introduced in May 2009 and represents a clear advantage over our competitors through its ability to drive loyalty from the scheme's broad customer appeal. Homebase has more than 7 million active Nectar customers, in what is a cost effective scheme to operate with a participation rate of more than 60% of Homebase sales. The data captured from customers using the Nectar card enables Homebase to extract insight to improve the customer's shopping experience. Nectar continues to provide increased customer reach and better customer segmentation to allow more targeted direct marketing programmes.

Extending multi-channel
Internet sales, including the new Reserve & Collect service, grew by 51% in the period and now account for 4% of sales. The Stock Check and Reserve & Collect functionality has now been introduced to all stores. The strong increase in unique visitors to the website, www.homebase.co.uk, was also driven by the 'Get into Gardening' customer community site, the Homebase online DIY advice centre, the launch of an iPhone app, the availability of online in-store promotions and email marketing campaigns.

Further online initiatives are planned and include improved search and navigation features, Back in Stock notification and more online tools to aid co-ordination and visualisation.

Developing the store portfolio
During the financial year eight stores were closed taking the portfolio to 341. We will continue to examine the opportunity for new store openings and in addition a small number of closures, relocations or downsizes will be sought as part of the ongoing management of the store portfolio.

The low cost Midi Refit programme continues to successfully address stores in which a mezzanine cannot be installed, by achieving the broader home enhancement offer and improved store standards. 11 Midi Refits were completed during the financial year and there are plans to invest in a further 30 Midi Refits over the next three years.

Financial review

Sales in the 52 weeks to 26 February 2011 decreased by 1.4% in total; net closed space reduced sales by 1.1% with eight stores closed during the period, while like-for-like sales declined by 0.3%. Big ticket sales were ahead, with growth in bathrooms and bedrooms. Reflecting the general market conditions, sales for the remaining categories were marginally down.

The gross margin rate was maintained year-on-year. A decline of around 50 basis points driven by the net impact of adverse currency and increased shipping costs was offset by improvements of around 25 basis points from stock management benefits and around 25 basis points from a reduced level of promotional activity.

Total operating and distribution costs were reduced by around £15m or 2%. Total sales decreased by 1%, equivalent to a potential cost reduction of around £10m, with underlying cost inflation at around 1% or £10m, there was therefore around 2% or £15m of cost productivity.

Benchmark operating profit for the 52 weeks to 26 February 2011 was £47.6m an increase of £6.4m or 16% on the previous year's £41.2m.

Financial Services

52 weeks to £m	26 February 2011	27 February 2010
Sales	**106.9**	**104.0**
Benchmark operating profit before financing costs	9.2	9.2
Financing costs	(3.2)	(3.5)
Benchmark operating profit	**6.0**	**5.7**
Store card gross receivables	530	497
Provision	(74)	(68)
Store card net receivables	456	429
Provision % of gross receivables	14.0%	13.6%

Financial Services work in conjunction with Argos and Homebase to provide their customers with the most appropriate credit offers to drive product sales, and to maximise the total profit from the transaction for Home Retail Group.

Operational review

The in-house store card operation drove £613m (2010: £579m) of Group retail sales, up 6% on the previous year and representing 9.3% (2010: 8.8%) of sales. The proportion of promotional credit sales continued to represent 77% of all sales placed on the store cards, where the Buy Now, Pay Later product offer remains a key enabler of sales in big ticket categories. In addition to credit sales placed on the Group's own store cards, credit offers for purchases at Homebase, typically greater than £3,000, are provided through product loans from a third party provider. Including these product loans, total sales penetration increased to 10.1% (2010: 9.6%). The increase in credit sales and penetration is a result of successful additional credit offers in specific product categories such as TVs and Furniture and other tactical Buy Now, Pay Later offer periods.

The roll out of the automated in-store application process was completed during the year and customer use of the new online account management tool is running ahead of expectations with over 200,000 registered customers.

Financial review

Total gross receivables grew by £33m year-on-year, as a result of the additional credit offers referred to above. Delinquency rates improved slightly versus the prior year, resulting in a reduced bad debt charge. Financing costs were also marginally lower, with this internal recharge being based upon UK base rates and a corresponding credit being recognised in Group net interest income. All other costs were tightly controlled and were broadly flat year-on-year.

The benchmark operating profit for the 52 weeks to 26 February 2011 of £6.0m (2010: £5.7m) reflects the financial return on the revolving (i.e. interest-bearing) element of receivables, as promotional credit products are recharged to Argos and Homebase at cost. The cost advantage of this internal arrangement versus a third-party outsourced arrangement is a benefit within both the Argos and Homebase benchmark operating profits.

GROUP FINANCIAL REVIEW

Sales and benchmark operating profit

Group sales were 3% lower at £5,852m (2010: £6,023m) while Group benchmark operating profit declined 13% to £250.8m (2010: £289.7m). Within this, the drivers of the Argos, Homebase and Financial Services performances have been analysed as part of the preceding business reviews.

Central Activities represents the cost of central corporate functions and the investment costs of new development opportunities. Costs for the year were 7% lower at £21.8m (2010: £23.4m), driven by the continued control of central corporate costs.

Net interest income

Net interest income was £3.2m (2010: £5.2m). Within this, third party interest income for the year under review reduced to £2.6m (2010: £4.4m). The completion of the £150m share buy-back programme during the year resulted in a lower average cash balance being held by the Group which together with an average bank deposit interest rate that was slightly down on last year's average, has resulted in a lower level of interest income being earned.

Financing costs charged within Financial Services' benchmark operating profit saw the corresponding credit within net interest income reduce to £3.2m (2010: £3.5m). This non-cash internal recharge is based upon UK base rates.

The charge within net interest income in relation to the discount unwind on benchmark items was £2.6m (2010: £2.7m). This arises from the accounting treatment whereby provisions for expected future liabilities are required to be discounted back to current value. As settlement of the liability moves closer to the present day, additional non-cash charges to unwind the discount are incurred, this will result in the absolute level of provision eventually matching the liability in the accounting period that it becomes due.

Share of post-tax results of joint ventures and associates

These amounted to a profit of £0.1m (2010: loss of £2.0m). The movement is due principally to lower costs incurred by the joint venture with Barclays Bank PLC in regard to the Argos credit card. The Group's interest in the joint venture was sold during the year to Barclays Bank PLC who will now be fully responsible for the future management of the credit card accounts.

Benchmark profit before tax

Benchmark profit before tax for the year declined 13% to £254.1m (2010: £292.9m).

Financing fair value remeasurements

Certain foreign exchange movements as well as changes in the fair value of certain financial instruments are recognised in the income statement within net financing income. These amounted to a net gain of £5.4m (2010: £2.7m), which arises principally as a result of translation differences on subsidiary cash balances. The gain reflects the strengthening 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 £4.6m (2010: charge of £0.7m). The current service cost, which the Group considers a fairer reflection of the cost of providing retirement benefits, is already reflected in benchmark operating profit.

Discount unwind on non-benchmark items

An expense of £6.1m (2010: £6.7m) within net financing income relates to the discount unwind on onerous lease provisions. As these provisions were items previously excluded from benchmark profit before tax, the discount unwind has also been excluded from benchmark profit before tax. As explained within the net interest income review above, these non-cash charges arise from the accounting treatment whereby provisions for expected future liabilities are discounted back to current value.

Onerous lease provision releases
A credit of £7.2m (2010: £12.5m) was recorded in the year, relating to onerous lease provisions no longer required. As the provision charges were items previously excluded from benchmark profit before tax, the provision releases will also be excluded from benchmark profit before tax.

Profit before tax
The reported profit before tax for the year was £265.2m (2010: £293.0m).

Taxation
Taxation attributable to benchmark profit before tax was £77.5m (2010: £91.4m), representing an effective tax rate (excluding joint ventures and associates) of 30.5% (2010: 31.0%). The reduction in the effective rate largely reflects a reduction in the level of disallowable expenditure.

Taxation attributable to non-benchmark items amounted to a credit of £3.2m (2010: £8.2m) and reflects those non-benchmark items which qualify for tax relief. This includes a credit of £5.4m (2010: £7.6m) in respect of prior year items. The total tax expense for the year was therefore £74.3m (2010: £83.2m).

Number of shares and earnings per share
The number of shares for the purpose of calculating basic earnings per share (EPS) is 827.4m (2010: 862.9m), being the weighted average number of issued ordinary shares of 841.7m (2010: 877.4m), less an adjustment of 14.3m (2010: 14.5m) representing shares held in Group share trusts net of vested but unexercised share awards. Completion of the Group's share buy-back programme during the 2010/11 financial year resulted in a total of 64.0m shares being bought back for cancellation. The timing of the buy-back transactions has resulted in the weighted average number of shares for the year being reduced by 35.7m. The impact of the share buy-back programme has resulted in a 4% enhancement of earnings in the financial year.

The calculation of diluted EPS reflects the potential dilutive effect of employee share incentive schemes. This increases the number of shares for diluted EPS purposes by 3.9m (2010: 9.3m) to 831.3m (2010: 872.2m).

Basic benchmark EPS is 21.3p (2010: 23.4p), with diluted benchmark EPS of 21.2p (2010: 23.1p). Reported basic EPS is 23.1p (2010: 24.3p), with reported diluted EPS being 23.0p (2010: 24.1p).

Dividends
Home Retail Group's dividend policy remains to target a dividend cover over the medium term of around two times, based on full-year basic benchmark EPS.

While basic benchmark EPS has reduced by 9% the Group's strong financial position has resulted in a final dividend of 10.0p being recommended by the Board, maintaining the dividend for the year at 14.7p. Based on basic benchmark EPS of 21.3p (2010: 23.4p), dividend cover is 1.45 times (2010: 1.59 times). The final dividend, subject to approval by shareholders at the AGM, will be paid on 20 July 2011 to shareholders on the register at the close of business on 20 May 2011.

Cash flow and net cash position

52 weeks to £m	26 February 2011	27 February 2010
Benchmark operating profit	250.8	289.7
Onerous lease provision releases	7.2	12.5
Demerger incentive schemes	-	(7.7)
Statutory operating profit	258.0	294.5
Depreciation and amortisation	127.5	130.1
Movement in working capital	(89.9)	69.6
Financing costs charged to Financial Services	3.2	3.5
Cash flow impact of FY 09 restructuring charge	(7.0)	(17.4)
Other operating items	(13.0)	(19.3)
Cash flows from operating activities	**278.8**	**461.0**
Net capital expenditure	(142.7)	(87.4)
Brand acquisitions	-	(1.9)
Taxation	(11.3)	(107.3)
Net interest	2.6	7.2
Net movement of term deposit	(50.0)	25.0
Other investments	(1.8)	(6.7)
Cash inflow before financing activities	**75.6**	**289.9**
Dividends paid	(123.9)	(126.3)
Share buy-back programme	(150.2)	-
Purchase of shares for the Employee Share Trust	(6.7)	(9.4)
Other financing activities	0.4	0.3
(Decrease)/increase in cash and cash equivalents	**(204.8)**	**154.5**
Net movement of term deposits	50.0	(25.0)
Effect of foreign exchange rate changes	0.1	0.1
(Decrease)/increase in financing net cash	**(154.7)**	**129.6**
Opening financing net cash	414.0	284.4
Closing financing net cash	**259.3**	**414.0**
(Decrease)/increase in financing net cash before share buy-back	**(4.5)**	**129.6**

Cash flows from operating activities were £278.8m (2010: £461.0m). The working capital outflow of £89.9m (2010: inflow of £69.6m) is driven by an £81m increase in inventories together with the growth in the Financial Services loanbook of £26.7m (2010: £4.9m).

Net capital expenditure was £142.7m (2010: £87.4m), reflecting an increased level of investment across the Group; in the existing store chains, further multi-channel investment in both businesses and the purchase of the freehold for the Group's central office building. Tax paid was £11.3m (2010: £107.3m) benefiting from a tax repayment of around £70m in respect of non-benchmark tax credits taken previously in relation to the successful completion of a number of tax efficiency projects. Dividends paid to shareholders amounted to £123.9m (2010: £126.3m), and £6.7m (2010: £9.4m) was used to purchase shares for the Home Retail Group Employee Share Trust. The share buy-back programme amounted to £150.2m (2010: nil) including costs and commission.

The Group's financing net cash position at 26 February 2011 was £259.3m, a decrease of £154.7m over the year, or £4.5m before the impact of the share buy-back programme.

Balance sheet

As at £m	26 February 2011	27 February 2010
Goodwill	1,541.0	1,541.0
Other intangible assets	107.8	92.7
Property, plant and equipment	523.4	525.1
Inventories	1,016.8	935.4
Instalment receivables	456.1	429.4
Other assets	181.7	178.1
	3,826.8	3,701.7
Trade and other payables	(1,106.2)	(1,104.9)
Other liabilities	(207.8)	(219.1)
	(1,314.0)	(1,324.0)
Invested capital	**2,512.8**	**2,377.7**
Retirement benefit obligations	(7.5)	(24.9)
Net tax assets	4.6	52.1
Forward foreign exchange contracts	(28.0)	47.7
Financing net cash	259.3	414.0
Reported net assets	**2,741.2**	**2,866.6**
Pre-tax return on invested capital	**10.0%**	**12.1%**

Reported net assets as at 26 February 2011 were £2,741.2m, equivalent to 344p (2010: 332p) per share excluding shares held in Group share trusts. The year-on-year increase in invested capital was £135.1m, driven by the inventories increase and the growth in the Financial Services loanbook. The reduction in reported net assets was driven principally by the £47.5m decrease in the net tax assets, the £75.7m movement in forward foreign exchange contracts and the £154.7m reduction in financing net cash, partially offset by the £17.4m reduction in retirement benefit obligations.

Pre-tax return on invested capital fell 2.1% to 10.0% (2010: 12.1%). This reduction was due to benchmark operating profit plus the Group's share of post-tax results of joint ventures and associates of £250.9m, being down £36.8m or 13%, while year-end invested capital increased by £135.1m or 6%.

Retirement benefit obligations

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

The IAS 19 valuation as at 26 February 2011 for the defined benefit pension plans was a net deficit of £7.5m (2010: £24.9m). Plan assets increased to £748.8m (2010: £667.7m), driven by higher market values, ongoing Company and employee contributions and additional Company contributions as part of the increases to funding agreed with the pension trustees following the 31 March 2009 triennial actuarial valuation. The present value of plan liabilities increased to £756.3m (2010: £692.6m), driven principally by a reduction in the assumed discount rate to 5.7% (2010: 6.0%).

Liquidity and funding

The Group maintains liquidity by arranging funding ahead of requirements and through access to committed bank facilities. At 26 February 2011, the Group had £700m of undrawn, committed borrowing facilities, £685m of which does not expire until 2013. These facilities are in place to enable the Group to finance its working capital requirements and for general corporate purposes. The Group's net cash position is however expected to continue to be sufficient to meet its financing needs for the foreseeable future.

Group financing arrangements

The Group finances its operations through a combination of retained profits, property leases and borrowing facilities where necessary. The Group's net cash balances averaged approximately £500m over the year; the Group did not draw upon its committed borrowing facilities at any point during the year.

The Group has significant liabilities through its obligations to pay rents under operating leases; the operating lease rental expense for the year amounted to £370.8m (2010: £379.1m). The capitalised value of these liabilities is £2,966m (2010: £3,033m) based upon an eight times multiple of the year's operating lease charge, or £2,874m (2010: £3,148m) based upon the discounted cash flows of the expected future operating lease charges. In common with credit rating agencies and lenders, the Group treats its lease liabilities as debt when evaluating financial risk.

Based upon Group EBITDAR of £749.2m, fixed charge cover is 2.0x and the ratio to adjusted net debt with leases capitalised at eight times is 3.6x.

Share buy-back programme

On 28 April 2010, the Group announced its intention to return to shareholders up to £150m of capital through a share buy-back programme which was completed on 18 February 2011. A total of 64,000,000 shares were purchased, for cancellation, at an average price of 233p and a cash cost, including expenses, of £150.2m. The purchased shares represented 7% of the 877,445,001 issued ordinary shares at the 27 February 2010 balance sheet date and has enhanced earnings by 4% in the financial year.

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 reduced slightly in the 2010/11 financial year.

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 directly in US dollars. The 2010/11 financial year has seen a relatively stable period of hedged rates as noted in the table below.

US dollar hedged rates	**10/11**	**09/10**	**Change cents**
First half	c.1.60	c.1.75	c.(15)
Second half	c.1.60	c.1.50	c.10
Full year	**c.1.60**	**c.1.60**	**c.nil**

Share price and total shareholder return
The Group's share price ranged from a low of 188.5p to a high of 295.1p during the 2010/11 financial year. On 25 February 2011, the closing mid market price was 222.3p, giving a market capitalisation of £1.8 billion at the year-end.

Total shareholder return (the change in the value of a share including reinvested dividends) has declined by 7.4% over the year. This compares to an increase of 10.2% for the FTSE 350 General Retail index.

Accounting standards and use of non-GAAP measures
The Group has prepared its consolidated financial statements under International Financial Reporting Standards for the 52 weeks ended 26 February 2011. The basis of preparation is outlined in Note 1 to the Financial Information on page 25.

The Group has identified certain measures that it believes provide additional useful information on the underlying performance of the Group. These measures are applied consistently but as they are not defined under GAAP they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are outlined in Note 2 to the Financial Information on page 25.

Principal risks and uncertainties
The Group will set out the principal risks and uncertainties which could impact its performance, together with examples of mitigating activity, in its 2011 Annual Report and Financial Statements; an unedited full text excerpt will also be included in the Regulatory Information Service announcement accompanying the publication of the full report.

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

Annual report and annual general meeting
The 2011 Annual Report and Financial Statements is expected to be available at www.homeretailgroup.com and posted to shareholders on or around 27 May 2011. The Annual General Meeting will be held from 11.00 am on Thursday 30 June 2011 at the Jurys Inn Milton Keynes, Midsummer Boulevard, Milton Keynes MK9 2HP.

Appendix 1. Trading statement comparables

	Q1 13 weeks to 29 May 2010
Argos	
Sales	£889m
Like-for-like change in sales	(8.1%)
Net new space contribution to sales change	2.9%
Total sales change	(5.2%)
Gross margin movement	Down c.150bps
Homebase	
Sales	£459m
Like-for-like change in sales	(1.4%)
Net new space contribution	0.0%
Total sales change	(1.4%)
Gross margin movement	Down c.150bps

	Q2 13 weeks to 28 Aug 2010	H1 26 weeks to 28 Aug 2010
Argos		
Sales	£924m	£1,813m
Like-for-like change in sales	(5.0%)	(6.5%)
Net new space contribution to sales change	2.2%	2.5%
Total sales change	(2.8%)	(4.0%)
Gross margin movement	Down c.125bps	Down c.150bps
Homebase		
Sales	£396m	£855m
Like-for-like change in sales	0.0%	(0.8%)
Net new space contribution to sales change	(1.1%)	(0.4%)
Total sales change	(1.1%)	(1.2%)
Gross margin movement	Down c.75bps	Down c.100bps

	Q3 18 weeks to 1 Jan 2011	YTD 44 weeks to 1 Jan 2011
Argos		
Sales	£1,861m	£3,674m
Like-for-like change in sales	(4.9%)	(5.7%)
Net new space contribution to sales change	1.7%	2.1%
Total sales change	(3.2%)	(3.6%)
Gross margin movement	Down c.25bps	Down c.75bps
Homebase		
Sales	£487m	£1,342m
Like-for-like change in sales	(1.2%)	(1.0%)
Net new space contribution	(1.6%)	(0.8%)
Total sales change	(2.8%)	(1.8%)
Gross margin movement	Up c.75bps	Down c.25bps

	Q4 8 weeks to 26 Feb 2011	H2 26 weeks to 26 Feb 2011	FY 52 weeks to 26 Feb 2011
Argos			
Sales	£520m	£2,381m	£4,194m
Like-for-like change in sales	(4.6%)	(4.8%)	(5.6%)
Net new space contribution to sales change	1.5%	1.7%	2.1%
Total sales change	(3.1%)	(3.1%)	(3.5%)
Gross margin movement	Down c.150bps	Down c.50bps	Down c.100bps
Homebase			
Sales	£208m	£695m	£1,551m
Like-for-like change in sales	3.8%	0.2%	(0.3%)
Net new space contribution to sales change	(2.0%)	(1.7%)	(1.1%)
Total sales change	1.8%	(1.5%)	(1.4%)
Gross margin movement	Up c.300bps	Up c.150bps	c.0bps

Consolidated income statement

For the 52 weeks ended 26 February 2011

	Notes	**52 weeks ended 26 February 2011 £m**	52 weeks ended 27 February 2010 £m
Revenue		**5,851.9**	6,022.7
Cost of sales		**(3,970.7)**	(4,055.6)
Gross profit		**1,881.2**	1,967.1
Net operating expenses		**(1,623.2)**	(1,672.6)
Operating profit		**258.0**	294.5
- Finance income		**57.3**	46.1
- Finance expense		**(50.2)**	(45.6)
Net financing income	3	**7.1**	0.5
Share of post-tax profit/(loss) of joint ventures and associates		**0.1**	(2.0)
Profit before tax		**265.2**	293.0
Taxation		**(74.3)**	(83.2)
Profit for the year attributable to equity holders of the Company		**190.9**	209.8
Earnings per share		**pence**	pence
- Basic	5	**23.1**	24.3
- Diluted	5	**23.0**	24.1
		pence	pence
Proposed final dividend per share	4	**10.0**	10.0
Interim dividend per share	4	**4.7**	4.7
Proposed total dividend per share		**14.7**	14.7

Non-GAAP measures ***Reconciliation of profit before tax (PBT) to benchmark PBT***	*Notes*	***52 weeks ended 26 February 2011 £m***	*52 weeks ended 27 February 2010 £m*
Profit before tax		***265.2***	*293.0*
Adjusted for:			
Demerger incentive schemes		***-***	*7.7*
Financing fair value remeasurements	*3*	***(5.4)***	*(2.7)*
Financing impact on retirement benefit obligations	*3*	***(4.6)***	*0.7*
Discount unwind on non-benchmark items	*3*	***6.1***	*6.7*
Onerous lease provision releases	*6*	***(7.2)***	*(12.5)*
Benchmark PBT		***254.1***	*292.9*
Benchmark earnings per share		***pence***	*pence*
- Basic	*5*	***21.3***	*23.4*
- Diluted	*5*	***21.2***	*23.1*

Consolidated statement of comprehensive income

For the 52 weeks ended 26 February 2011

	52 weeks ended 26 February 2011 £m	52 weeks ended 27 February 2010 £m
Profit for the year attributable to equity holders of the Company	**190.9**	209.8
Other comprehensive income:		
Net change in fair value of cash flow hedges		
- Foreign currency forward exchange contracts	**(43.3)**	(26.5)
Net change in fair value of cash flow hedges transferred to inventory		
- Foreign currency forward exchange contracts	**(15.9)**	43.0
Actuarial gains in respect of defined benefit pension schemes	**1.9**	6.6
Fair value movements on available-for-sale financial assets	**1.3**	3.0
Currency translation differences	**(6.1)**	(3.6)
Tax credit/(charge) in respect of items taken directly to equity	**15.7**	(5.9)
Other comprehensive income for the year, net of tax	**(46.4)**	16.6
Total comprehensive income for the year attributable to equity holders of the Company	**144.5**	226.4

Consolidated balance sheet

At 26 February 2011

	Notes	26 February 2011 £m	27 February 2010 £m
ASSETS			
Non-current assets			
Goodwill		**1,541.0**	1,541.0
Other intangible assets		**107.8**	92.7
Property, plant and equipment		**523.4**	525.1
Investment in joint ventures and associates		**8.0**	8.2
Deferred tax assets		**39.4**	61.6
Trade and other receivables		**4.3**	4.0
Other financial assets		**15.2**	13.2
Total non-current assets		**2,239.1**	2,245.8
Current assets			
Inventories		**1,016.8**	935.4
Trade and other receivables		**610.3**	582.1
Current tax assets		**10.9**	50.5
Other financial assets		**1.4**	49.5
Current asset investments		**100.0**	50.0
Cash and cash equivalents		**159.3**	364.0
Total current assets		**1,898.7**	2,031.5
Total assets		**4,137.8**	4,277.3
LIABILITIES			
Non-current liabilities			
Trade and other payables		**(58.7)**	(62.5)
Provisions	6	**(187.4)**	(198.3)
Deferred tax liabilities		**(24.5)**	(37.8)
Retirement benefit obligations		**(7.5)**	(24.9)
Total non-current liabilities		**(278.1)**	(323.5)
Current liabilities			
Trade and other payables		**(1,047.5)**	(1,042.4)
Provisions	6	**(20.4)**	(20.8)
Other financial liabilities		**(29.4)**	(1.8)
Current tax liabilities		**(21.2)**	(22.2)
Total current liabilities		**(1,118.5)**	(1,087.2)
Total liabilities		**(1,396.6)**	(1,410.7)
Net assets		**2,741.2**	2,866.6
EQUITY			
Share capital		**81.3**	87.7
Capital redemption reserve		**6.4**	-
Merger reserve		**(348.4)**	(348.4)
Other reserves		**(5.6)**	46.6
Retained earnings		**3,007.5**	3,080.7
Total equity		**2,741.2**	2,866.6

Consolidated statement of changes in equity

For the 52 weeks ended 26 February 2011

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

	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 1 March 2009	87.7	-	(348.4)	35.4	2,983.7	2,758.4
Profit for the year	-	-	-	-	209.8	209.8
Other comprehensive income	-	-	-	8.3	8.3	16.6
Total comprehensive income for the year ended 27 February 2010	-	-	-	8.3	218.1	226.4
Transactions with owners:						
Movement in share-based compensation reserve	-	-	-	-	20.4	20.4
Net movement in own shares	-	-	-	2.9	(12.0)	(9.1)
Equity dividends paid during the year	-	-	-	-	(126.3)	(126.3)
Other distributions	-	-	-	-	(3.2)	(3.2)
Total transactions with owners	-	-	-	2.9	(121.1)	(118.2)
Balance at 27 February 2010	87.7	-	(348.4)	46.6	3,080.7	2,866.6

Further details on equity movements are shown in note 7.

Consolidated statement of cash flows

For the 52 weeks ended 26 February 2011

	Notes	**52 weeks ended 26 February 2011 £m**	52 weeks ended 27 February 2010 £m
Cash flows from operating activities			
Cash generated from operations	8	**278.8**	461.0
Tax paid		**(11.3)**	(107.3)
Net cash inflow from operating activities		**267.5**	353.7
Cash flows from investing activities			
Purchase of property, plant and equipment		**(102.2)**	(73.7)
Proceeds from the disposal of property, plant and equipment		**3.4**	1.9
Purchase of other intangible assets		**(43.9)**	(17.5)
Loan to joint venture		**(0.4)**	(5.1)
Purchase of investments		**(151.4)**	(51.6)
Disposal of investments		**100.0**	75.0
Interest received		**2.6**	7.2
Net cash used in investing activities		**(191.9)**	(63.8)
Cash flows from financing activities			
Repurchase of own shares		**(150.2)**	-
Purchase of shares for Employee Share Trust	7	**(6.7)**	(9.4)
Proceeds from disposal of shares held by Employee Share Trust		**0.4**	0.3
Dividends paid		**(123.9)**	(126.3)
Net cash used in financing activities		**(280.4)**	(135.4)
Net (decrease)/increase in cash and cash equivalents		**(204.8)**	154.5
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**364.0**	209.4
Effect of foreign exchange rate changes		**0.1**	0.1
Net (decrease)/increase in cash and cash equivalents		**(204.8)**	154.5
Cash and cash equivalents at the end of the year		**159.3**	364.0

Analysis of net cash/(debt)

At 26 February 2011

Non-GAAP measures	***26 February 2011 £m***	*27 February 2010 £m*
Financing net cash:		
Cash and cash equivalents	***159.3***	*364.0*
Current asset investments	***100.0***	*50.0*
Total financing net cash	***259.3***	*414.0*
Operating net debt:		
Off balance sheet operating leases	***(2,874.1)***	*(3,148.1)*
Total operating net debt	***(2,874.1)***	*(3,148.1)*
Total net debt	***(2,614.8)***	*(2,734.1)*
Adjusted for:		
Off balance sheet operating leases	***2,874.1***	*3,148.1*
Current asset investments	***(100.0)***	*(50.0)*
Total cash and cash equivalents reflected in balance sheet	***159.3***	*364.0*

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 £2,874.1m (2010: £3,148.1m), based upon discounting the current rentals at the estimated current long-term cost of borrowing of 4.1% (2010: 4.1%).

Current asset investments comprise term cash deposits invested for initial terms of between six and nine months, which mature after the balance sheet date.

Notes

For the 52 weeks ended 26 February 2011

1. BASIS OF PREPARATION

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

The Group consolidated financial statements are presented in sterling, rounded to the nearest hundred thousand. They are prepared under the historic cost basis modified for the revaluation of certain financial instruments, share-based payments and post-employment benefits. The principal accounting policies applied in the preparation of these consolidated financial statements are consistent with those described in the Annual Report and Financial Statements 2010. These policies have been consistently applied to all the periods presented.

2. NON-GAAP FINANCIAL INFORMATION

Exceptional items

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

Benchmark profit before tax (PBT)

The Group uses the term benchmark PBT as a measure which is not formally recognised under IFRS. Benchmark PBT is defined as profit before amortisation of acquisition intangibles, store impairment and onerous lease charges or releases, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit obligations, the discount unwind on non-benchmark items and taxation. This measure is considered useful in that it provides investors with an alternative means to evaluate the underlying performance of the Group's operations.

Total net debt

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

Notes

For the 52 weeks ended 26 February 2011

3. NET FINANCING INCOME/(EXPENSE)	**52 weeks ended 26 February 2011 £m**	52 weeks ended 27 February 2010 £m
Finance income:		
Bank deposits and other interest	**2.6**	4.4
Expected return on retirement benefit assets	**46.9**	34.6
Financing fair value remeasurements – net exchange gains	**7.8**	7.1
Total finance income	**57.3**	46.1
Finance expense:		
Unwinding of discounts (a)	**(8.7)**	(9.4)
Financing fair value remeasurements – net exchange losses	**(2.4)**	(4.4)
Interest expense on retirement benefit liabilities	**(42.3)**	(35.3)
Total finance expense	**(53.4)**	(49.1)
Less: finance expense charged to Financial Services cost of sales	**3.2**	3.5
Total net finance expense	**(50.2)**	(45.6)
Net financing income	**7.1**	0.5

(a) Included within unwinding of discounts is a £6.1m charge (2010: £6.7m) relating to the discount unwind on exceptional onerous lease provisions.

4. DIVIDENDS	**52 weeks ended 26 February 2011 £m**	52 weeks ended 27 February 2010 £m
Amounts recognised as distributions to equity holders		
Final dividend of 10.0p per share (2010: 10.0p) for the prior year	**(85.8)**	(85.7)
Interim dividend of 4.7p per share (2010: 4.7p) for the current year	**(38.1)**	(40.6)
Ordinary dividends on equity shares	**(123.9)**	(126.3)

A final dividend in respect of the year ended 26 February 2011 of 10.0p per share, amounting to a total final dividend of £79.9m, 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 14.7p per share, amounting to £118.0m. The proposed dividend has not been included as a liability at 26 February 2011 in accordance with IAS 10 'Events after the Balance Sheet Date'. It will be paid on 20 July 2011 to shareholders who are on the register of members at close of business on 20 May 2011. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends in the amount of £1.9m (2010: £2.7m).

Notes

For the 52 weeks ended 26 February 2011

5. 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 26 February 2011 £m**	52 weeks ended 27 February 2010 £m
Profit after tax for the financial year	**190.9**	209.8
Adjusted for:		
Demerger incentive schemes	**-**	7.7
Financing fair value remeasurements	**(5.4)**	(2.7)
Financing impact on retirement benefit obligations	**(4.6)**	0.7
Discount unwind on non-benchmark items	**6.1**	6.7
Onerous lease provision releases	**(7.2)**	(12.5)
Attributable taxation	**1.8**	(0.6)
Non-benchmark tax credit in respect of prior years	**(5.0)**	(7.6)
Benchmark profit after tax for the financial year	**176.6**	201.5
Weighted average number of shares	**millions**	millions
Number of ordinary shares for the purpose of basic EPS	**827.4**	862.9
Dilutive effect of share incentive awards	**3.9**	9.3
Number of ordinary shares for the purpose of diluted EPS	**831.3**	872.2
EPS	**pence**	pence
Basic EPS	**23.1**	24.3
Diluted EPS	**23.0**	24.1
Basic benchmark EPS	**21.3**	23.4
Diluted benchmark EPS	**21.2**	23.1

Notes

For the 52 weeks ended 26 February 2011

6. PROVISIONS	**Onerous leases £m**	**Insurance £m**	**Restructuring £m**	**Other £m**	**Total £m**
At 28 February 2010	(163.9)	(32.7)	(14.8)	(7.7)	(219.1)
Charged to the income statement	-	(3.7)	-	(4.0)	(7.7)
Released to the income statement	7.2	1.0	-	0.2	8.4
Transfer	(2.0)	-	-	0.5	(1.5)
Utilised during the year	9.7	3.5	7.0	0.9	21.1
Discount unwind	(8.9)	-	-	(0.1)	(9.0)
At 26 February 2011	**(157.9)**	**(31.9)**	**(7.8)**	**(10.2)**	**(207.8)**

Analysed as:	**2011 £m**	2010 £m
Current	**(20.4)**	(20.8)
Non-current	**(187.4)**	(198.3)
	(207.8)	(219.1)

The onerous lease provision covers potential liabilities for onerous lease contracts for stores that have either closed, or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. Where the value-in-use calculation is lower, the provision is based on the present value of expected future cash flows relating to rents, rates and other property costs to the end of the lease terms net of expected trading or sublet income. The majority of this provision is expected to be utilised over the period to 2018.

Provision is made at the year-end for the estimated costs of claims incurred by the Group's captive insurance company 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 2015.

A number of organisational changes have been undertaken in prior years to improve the operational efficiency of the Group and drive further cost productivity. Actions taken included a streamlining of head office functions across all parts of the Group, restructuring of store-based staff and a consolidation of home delivery warehouses. The majority of this remaining provision is expected to be utilised within one year.

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

Notes

For the 52 weeks ended 26 February 2011

7. 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. 64,000,000 ordinary shares of 10p each were repurchased and cancelled.

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

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

The net debit arising on the movement in own shares of £3.1m (2010: credit of £2.9m) represents the purchase, and subsequent utilisation or sale, of shares for the purpose of satisfying obligations arising from Home Retail Group plc share-based compensation schemes. Shares in Home Retail Group plc are held in the following trusts which have been established since demerger:

Home Retail Group Employee Share Trust (EST)
The EST provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 26 February 2011, the EST held 14,730,719 (2010: 13,899,537) shares with a market value of £32.7m (2010: £35.4m). The shares in the EST are held within equity of the Group at a cost of £23.5m (2010: £20.0m). During the year 3,000,000 (2010: 3,112,268) shares were acquired for a cost of £6.7m (2010: £9.4m). 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 26 February 2011, the Trust held 910,832 (2010: 1,007,291) shares with a market value of £2.0m (2010: £2.6m). These shares are held within equity of the Group at a cost of £3.8m (2010: £4.2m). No additional shares were purchased during the year.

8. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash generated from operations	**52 weeks ended 26 February 2011 £m**	52 weeks ended 27 February 2010 £m
Profit before tax	**265.2**	293.0
Adjustments for:		
Share of post-tax (profit)/loss of joint ventures and associates	**(0.1)**	2.0
Net financing income	**(7.1)**	(0.5)
Operating profit	**258.0**	294.5
Loss on sale of property, plant and equipment	**0.7**	2.5
Depreciation and amortisation	**127.5**	130.1
Finance expense charged to Financial Services cost of sales	**3.2**	3.5
Increase in inventories	**(81.4)**	(5.1)
(Increase)/decrease in receivables	**(27.5)**	11.5
Increase in payables	**19.0**	63.2
Movement in working capital	**(89.9)**	69.6
Decrease in provisions	**(20.3)**	(40.8)
Movement in retirement benefit obligations	**(10.9)**	(15.6)
Share-based payment expense (net of dividend equivalent payments)	**10.5**	17.2
Cash generated from operations	**278.8**	461.0

Notes

For the 52 weeks ended 26 February 2011

9. RELATED PARTIES

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

The Group lent £0.4m (2010: £5.1m) to and invested £nil (2010: £0.5m) in a joint venture, Home Retail Group Personal Finance Limited. This joint venture was disposed of on 13 October 2010, and as a result a loan of £15.6m, which had previously been fully impaired, was waived. At 26 February 2011, the Group was owed £nil (2010: principal of £15.2m, valued at £0.7m after impairment) by Home Retail Group Personal Finance Limited. During the year, impairment totalling £1.1m (2010: £5.1m) was charged against this loan.

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

During the year, the Group has paid contributions totalling £28.0m (2010: £31.3m) to the Home Retail Group Pension Scheme including £12.0m (2010: £12.0m) as part of the deficit recovery plan agreed with the scheme trustees following the completion of the 31 March 2009 actuarial valuation.

Statement of directors' responsibilities

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

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

The preliminary results for the 52 weeks ended 26 February 2011 have been extracted from the annual report and the Group financial statements.

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

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

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

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

By order of the Board

Terry Duddy
Chief Executive
20 April 2011

Richard Ashton
Finance Director
20 April 2011