HOME RETAIL GROUP

Annual Report and Financial Statements 2014

"The Group has delivered a good financial performance in the year and it has maintained its strong financial position."

John Coombe
Chairman

"We've made good progress with our strategic plans in both businesses, which will become increasingly important in a competitive retail environment where shopping behaviours are changing rapidly."

John Walden
Chief Executive

Our online reporting suite

We're always looking to make life easy. All our corporate reports are available online, which 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 and download a full PDF version too.

www.homeretailgroup.com/ar/2014/

Corporate responsibility
You'll find a summary of our corporate responsibility activities on pages 22 and 23 of this report, but you'll find much more information and be able to download a summary PDF version at:

www.homeretailgroup.com/cr/

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

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Our business model

We aim to provide outstanding value and convenience for our customers through the operation of our two retail brands; Argos and Homebase. Customers are at the heart of our business, with over 180m transactions during the year. We use the insight that our many customers provide to add value to our business model.

Retail brands

We are one of the UK's leading home and general merchandise retailers, bringing together two of the UK's most recognisable retail brands – Argos and Homebase.

Sourcing and infrastructure

We source our products both locally and globally. The scale of the combined sourcing synergy of Argos and Homebase allows us to offer great choice and value to our customers. We have a strong supply chain which, together with our logistics infrastructure, enables us to provide products for our customers for either store pick-up or home delivery.

Products

We offer a comprehensive range of over 80,000 products across home and general merchandise. We support our offer of well-known product brands with a portfolio of own and exclusive brands such as Habitat, Bush, Alba, Chad Valley and Odina.

Multi-channel retailer

We are a multi-channel retailer in that we offer our customers a number of convenient ways in which they can purchase their products. We are taking advantage of developments in technology that have brought about a fundamental and permanent shift in the way our customers shop. Our successful internet and mobile channels help make us a market leader in multi-channel retailing. This is supported with a national network of over 1,000 stores which provides customers with local pick-up points, giving us both digital leadership and local presence which we believe gives us a significant competitive advantage over our pure-play internet competitors.

Colleagues

Our ability to deliver our business model is underpinned by our 47,000 dedicated colleagues who serve our customers every day and we are committed to their ongoing training and development.

Financial Services

Both Argos and Homebase are supported by an in-house financial services offer, which provides a range of credit products for our customers.

Financial strength

The Group has strong operational cash-generating characteristics and is in a strong financial position, with £331m of cash. This supports our strategy for growth.

Our strategy

Home Retail Group operates with a clear scale advantage, derived from a well-invested infrastructure which has been built up over a period of many years. Our strategy has been developed with the intention of creating long-term value for our stakeholders by delivering sustainable growth in our retail brands.

Our vision is to build successful businesses that bring outstanding value and convenience to our customers, whether shopping at home or on the move. Each of our retail brands has its own clear strategic plans to achieve this vision. In October 2012 we outlined the five-year strategic 'Transformation plan' to reinvent Argos as a digital retail leader. The Homebase 'Renewal plan' is a strategy designed to position the business as a clearly differentiated multi-channel home enhancement retailer.

Our Group strategy is focused on the following pillars, which support both our vision and each of the operating businesses' strategies.

Compelling customer offer

We are committed to utilising our scale advantage to source products for our customers, enabling us to offer them a broad choice of products at competitive prices. Our logistics network is based on a well-developed infrastructure that allows us to continue to focus on improving the speed at which products can be both sourced and delivered to our customers, through whichever channel they choose to shop with us.

In Argos this means:

More choice available faster

- Leverage the existing store network and replenishment routes
- Introduce market-leading fulfilment options to complement the immediacy of in-store collection
- Provide high levels of availability to our customers

Reposition channels for a digital future

- Innovation of the store experience, including fast-track collection and web-based browsers

In Homebase this means:

Store investment programme

- Rollout of a radically different store format, providing clear competitive differentiation
- Space reconfiguration
- Introduction of mini Habitat store-in-store
- Introduction of unique decorating centres

Increase fulfilment choice and speed

- Offer named or next day delivery proposition on a wide range of products

Product leadership and exclusive brands

We use the strength of our retail brands to drive leadership in our core markets through expanding our product ranges. With over 80,000 products across Argos and Homebase, we are always looking for opportunities to offer new products and services.

In Argos this means:

Universal customer appeal

- Extend ranges to build both authority and choice
- Ensure competitive pricing and value
- Reposition brand and customer experiences for universal appeal
- Strengthen exclusive brand offer through fewer, cross-category own brands
- Enhance product quality and design to meet the needs of new customer segments

In Homebase this means:

Enhanced products and brands

- Create clear points of customer differentiation and competitive advantage
- Develop and extend the reach of both exclusive and own brands
- Showcase product displays to help our customers with ideas and inspiration
- Expert service and advice both in-store and online

Digital leadership and accelerating multi-channel

We are taking advantage of developments in technology that have brought about a fundamental and permanent shift in the way customers shop. Increasingly customers choose to shop online or on the move through mobile devices, principally for pick-up in a local store but also for home delivery. This multi-channel experience is core to what we do and is the reason we have an ongoing focus on developing our successful internet and mobile commerce channels to meet this customer demand. We will prioritise future investment to these multi-channel capabilities to satisfy customers in whichever way they want to interact and shop with us. We will continue to support this with the convenience of immediate product collection via our national store network.

For Argos and Homebase this means:

- Create world-class digital customer experiences
- Investment in platforms to drive online sales growth
- Exploit the strategic advantage of having efficient collection points in local markets
- Innovation of store experience
- Shift the paper catalogue in Argos to a supporting role in the digital offer, and develop a market-leading digital catalogue
- Develop large-scale customer data collection, insight and personalisation capabilities
- Create engaging experiences online and in-store
- Expand customer reach and build loyalty

Financial Services

Both Argos and Homebase are supported by an in-house financial services offer. Our Financial Services business offers a range of credit products which make it easy for our customers to buy the products they want, when they want.

Cost management

We have 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 our operational standards. This means we will maintain a lean and flexible cost base through:

- Ongoing cost-reduction programmes
- Continuing to re-shape the store estate

Financial strength

The Group has strong operational cash flow characteristics and it has £331m of net cash as at 1 March 2014. In addition, we have a £165m committed borrowing facility which is undrawn and which expires in March 2016. This financial strength will enable us to deliver on the investment plans incorporated in both the Argos Transformation plan and the Homebase Renewal plan.

You can read more about our progress in all areas of the Argos and Homebase strategies in the respective business reviews on pages 12 to 19. There are areas of risk and uncertainty associated with our strategy that you can read about in the principal risk and uncertainties section on pages 24 and 25.

Our product markets

Home Retail Group operates in the home and general merchandise market, reporting £5.7bn of sales in the financial year. The Group saw its overall market share increase, maintaining its leading market positions in the key product categories within which it trades.

Argos

Argos offers a broad range of product categories with no one single metric existing that measures its complete market share performance across all of 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.

The tracked markets for this financial year have indicated that the total market in which Argos trades was broadly flat year-on-year. Market growth occurred in certain product categories such as video gaming, Android platform-based tablets, large and small domestic appliances and seasonal products, with this growth partially offset by contracting markets in photographic, DVD, digital set-top boxes and e-books.

Video gaming, after many years of market decline in the absence of new product innovation, saw the launch of two new console platforms this financial year, the PS4 and Xbox One, which reported record-breaking levels of demand. Argos is one of only three major retailers within the video gaming market and, due to our strong relationships with both console manufacturers, we were able to grow our market share and further strengthen our position in this category. Android-based tablets also reported high double-digit growth, as customers became more familiar with both the new platform and general tablet use, helping Argos to gain market share here also.

Despite the growth experienced in both the video gaming and Android platform tablets market, the consumer electronics market in total, as defined by GfK, declined by around 11%, which is an improvement on the decline seen the previous financial year of around 15%. This slower rate of decline was principally driven by the growing video gaming and Android-based tablet market as mentioned, and improved TV and audio markets, albeit the latter two categories remain in decline. The clear gain reported across those broad categories was partially offset by photographic, DVD, digital set-top box and e-books markets, which all experienced larger declines.

Large and small domestic appliances also saw good market growth with white goods and floorcare categories both reporting strong double-digit market growth. Argos grew market share in both of these product areas, supported both by our long-standing supplier relationships, which enabled us to secure good product availability, and our ability to offer an increased range of large domestic appliances for immediate pick-up from store. Seasonal products also saw a much-improved market, benefiting from the warm and sunny weather during the second quarter of the financial year, helping Argos to maintain market share in this category.

Overall, it was a strong year for Argos, resulting in not only increased sales, but also an overall market-share gain across the total of its tracked market categories.

Homebase

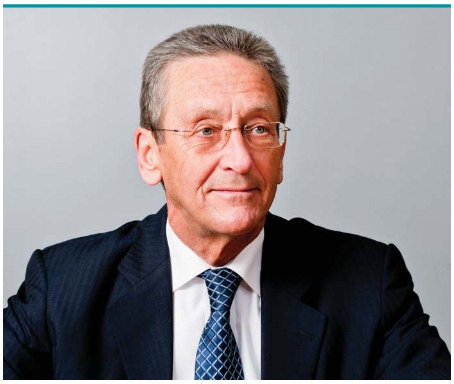
Homebase trades within the DIY and home enhancement market, which in the UK is a very fragmented market comprising the DIY 'sheds' together with a significant number of specialists and independents. These two components are each estimated to represent about 50% of the overall DIY and home enhancement market as measured by GfK, a third-party source. Given the fragmented markets in which Homebase operates, sourcing accurate data across the broad product offering is challenging. Homebase therefore reports its market share performance using the GfK data as the most appropriate independent consolidated data source. The DIY sheds market contains the UK's three DIY shed retailers, these being Homebase, B&Q and Wickes. 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.

Following a contraction in the market last year, both the overall DIY and home enhancement market and the DIY sheds market, both as measured by GfK, reported growth this financial year, with both markets estimated to have grown by around 3%, helped by good seasonal weather during the second quarter of the financial year. The DIY sheds market is divided into five product categories, these being DIY, decorating, home, garden and big ticket, and for this financial year, Homebase has again gained overall market share.

The strongest market-share gain was reported in garden, driven by the strong execution of seasonal product sales over Homebase's peak trading period when the UK experienced long periods of favourable weather in the second quarter after poor weather at the start of the year. Share growth was also reported in home and big ticket categories, with the latter reflective of the continued investment we have made in improving our offer, in particular around our range of own-brand fitted kitchens. The gain across these three categories was partly offset, however, by a small loss reported in decorating and DIY categories, which saw sales broadly flat year-on-year against a shed market that saw low levels of growth. On a total basis, Homebase has continued to increase its market share within the DIY sheds market with this latest gain being its fifth consecutive year of market-share growth.

Chairman's statement

"Home Retail Group is in a sound financial position thanks to a good set of financial results and its continued focus on liquidity."



John Coombe
Chairman

I am pleased to be able to report that the Group has delivered benchmark EPS growth of 35% for the financial year. Whilst this is a good performance, we are determined to continue to improve profit levels, but it is gratifying for the Board and for all our colleagues working in the business to see improving trends.

Good like-for-like sales growth at both Argos and Homebase contributed to the improved performance, which was supported by continued control of costs and facilitated by the financial support offered to customers by our Financial Services operation. Significantly, this improvement was achieved against an economic background where wage growth continued to lag inflation, squeezing consumers' discretionary spending power. In this environment, much praise is due to our colleagues across the Group who have worked so hard to deliver customer satisfaction and the improvement in both operational and financial results that is emerging. I thank them on behalf of the Board and the shareholders.

The Group's focus on cash management has been essential in the years since 2008 when many retailers succumbed to economic and financial pressures. It is no less essential now as we fund, from our own resources, investment in the Argos Transformation plan and the Homebase Renewal plan. We are still very much in the investment phase of the Transformation plan, a five-year plan where benefits are expected to be delivered principally in the later years. Progress is being made, but there is much more to be done, and meanwhile we continue to maintain our focus on the trading performance of both businesses.

Home Retail Group is in a sound financial position thanks to a good set of financial results and its continued focus on liquidity. In this context the Board is mindful of both the investment needs of the Group and of the importance of the dividend to our shareholders and, after careful consideration, the Board is recommending a final dividend of 2.3p and thus a full-year dividend of 3.3p. This represents a 10% increase against the previous year.

I commented last year on the contribution colleagues make both to their local communities and at a national level. Last year I recorded that Alzheimer's Society had been chosen by our colleagues to be our charity partner. Already over £1 million has been raised for the charity and importantly the Group, through colleagues' efforts, is doing much to help and support those with Alzheimer's and to enable them to carry on as normally as possible with their lives.

In closing, as well as thanking my fellow directors for their support, I wish to pay tribute to Terry Duddy who, over 15 years, the last seven as Chief Executive of Home Retail Group, has contributed so much to the Group. Terry has led Home Retail Group since its separation from GUS in 2006 and has been the face of the Group through one of the toughest economic and financial crises the world has seen for many years. It is fitting that he leaves the Group well placed to build on its recent improved performance. We wish Terry every success in the future.

In bidding farewell to Terry, I also want to welcome John Walden to the Board as our new Chief Executive. John has been running Argos for the last two years and now assumes responsibility for the Group.

John Coombe
Chairman

Chief Executive's statement

"We've made good progress with our strategic plans in both businesses, which will become increasingly important in a competitive retail environment where shopping behaviours are changing rapidly."

John Walden
Chief Executive

This is my first year-end statement as Chief Executive of Home Retail Group and I am pleased to be able to report on a year of good performance for the Group. Despite a backdrop of a subdued consumer environment throughout the year, both of our retail businesses achieved like-for-like sales growth in each of the Group's four reporting periods. The Group delivered benchmark profit before tax of £115.4m, a growth of 27% versus last year, and benchmark earnings per share of 10.4p, an increase of 35% versus last year.

Argos delivered like-for-like sales growth with sales increases in a number of product categories, most notably electrical products including tablets, televisions, white goods and video game systems. Growth in these categories more than offset small sales declines in furniture, homewares and jewellery. Argos' multi-channel performance, particularly in mobile commerce, was a key factor in this growth.

Homebase also delivered a good sales performance including increasing sales of big-ticket products throughout the year resulting from the continued investment in this area. Homebase also achieved good sales of seasonal products during the second quarter, which benefited from favourable weather conditions.

With its strong financial position the Group was able to invest in the strategic growth plans in both businesses, and has made good progress. These plans are important for the Group's future because, as one of the UK's leading home and general merchandise retailers, it participates in a competitive market where shopping behaviours are changing rapidly.

Home Retail Group is embracing the connected world, in which digital technologies are dramatically altering the way people communicate, learn, entertain and shop. Traditional retailing in particular is fundamentally changing. Customers continue to shift their shopping habits, and most of them interact with digital devices at some point in their shopping journey. They have come to expect multiple shopping channels, large product choice, low prices and flexible options for obtaining their products, including collection in a local store and home delivery. Home Retail Group believes that it can innovate and lead in this changing market, and thereby secure for itself long-term business growth.

Digital and multi-channel leadership

Argos continued to grow its internet sales in the year, such that they now represent 44% of total Argos sales, up from 42% a year earlier. Within this, mobile commerce grew by 89% to reach 18% of total Argos sales.

Argos made a number of advances in its digital offer during the year including the introduction of 'My account', the launch of its first digital Christmas gift guide, and new tablet and smartphone apps. These apps have now been downloaded 5.5 million times.

Digital channels and multi-channel experiences are no less important for Homebase, as the role of the internet in the shopping journey for both DIY and home enhancement products is beginning to develop. Homebase's multi-channel sales grew by 53% and now represents 7% of its total sales. Homebase plans to upgrade its online and mobile experiences in FY15 which will materially improve the digital shopping journey for its customers.

The Group's portfolio of 1,057 stores remains a core component of its multi-channel offer. The Argos national store network, with 734 stores that are smaller and more efficient than traditional stores, is a potential strategic advantage in a digital future. Increasingly customers will seek local product collection, and will appreciate face-to-face customer service.

Argos trialled six digital concept stores in the third quarter of FY14, which seek to define a new role for an Argos store in the future. They showcase a number of the developments outlined in the Transformation plan announced in October 2012, including tablet-based browsers to replace in-store catalogues, streamlined customer journeys, fast-track product collection and enhanced customer service.

Homebase continued to trial the new proposition for its stores with the refit of a further 12 stores during the financial year. These stores offer more authoritative category merchandising and ranging including several branded concessions, improved kitchen, bathroom and furniture showrooms, a decorating centre and higher levels of customer service. They are delivering sales growth that is in line with expectations.

Compelling products and customer offers

The expanding impact of e-commerce has established a standard for broad product ranges, and made pricing and product availability transparent to customers. The Group offers over 80,000 products across Argos and Homebase, including a substantial element of exclusive and own-brand lines. The Group attempts to meet customer needs for product choice and value by building partnerships with strong brands, and maximising its buying scale and sourcing capabilities particularly via direct import and direct sourcing of product.

During the year, Argos continued to expand its ranges with the addition of around 9,000 new lines including extensions of its existing branded product ranges into higher-end models, and the introduction of new aspirational brands. Argos believes it can satisfy more of its customers' needs by developing an offer that has universal appeal, particularly beyond its entry and value lines. Argos now sells around 43,000 lines including about 5,000 exclusively-branded lines.

Homebase extended its exclusive brand strategy during FY14 with further introductions of high-end Odina fitted kitchens together with Schreiber kitchens and furniture, as well as the Qualcast range of garden power and garden hand tool products. Homebase also increased the number of Habitat concessions within Homebase stores to 15, offering a breadth of premium quality and contemporary furniture, homewares, decorating products and accessories.

Beyond great products, customers increasingly expect a retailer to offer options regarding how a customer's order for products is fulfilled, via local collection or home delivery. Indeed, the cost and speed of fulfilment can be a distinguishing feature of a retail offer, and has thus become more competitive. Home Retail Group intends to leverage its distribution and logistics scale, and unique store network, to offer convenient fulfilment.

Argos has devised a unique stocking model called 'hub & spoke'. Under this model, Argos will stock larger ranges in each of around 120 'hub' stores, and operate frequent replenishment routes between a 'hub' and its four-to-six 'spoke' stores. As a result, an extended range will be available to all Argos locations, potentially within hours. During FY14 Argos trialled elements of the 'hub & spoke' model in a number of stores in the North East of England, the Manchester and Lancashire region, and London. The trials provided good operational and customer insight, and equipped Argos for further expansion of the model in the future.

Homebase launched a new express delivery proposition in FY14, which offers next day or named day delivery on a range of around 15,000 products. The offer allows customers to order products via the internet for delivery to either their home or the Homebase store of their choice. Homebase was encouraged by the take-up rates for this offer, and expects to continue to improve its home delivery and other fulfilment offerings.

Continued cost management

The Group has a strong track record of delivering organisational and infrastructure changes that have historically reduced its costs and improved the flexibility of its businesses while improving its operational standards.

While both Argos and Homebase continue to deliver cost saving initiatives, investment in the strategic initiatives in both businesses added costs during FY14 and contributed to a small increase in the Group's total costs. The Group expects costs to increase somewhat in future years as it continues to invest in its strategic growth plans. However, the Group will continue to seek cost reductions to partially mitigate these increases.

A key focus for the Group remains its store lease portfolio, which it continues to reshape to provide flexibility to adjust to changing strategies and market conditions. The Group has made good progress in this area in FY14, and with around 400 store lease renewals or break clauses due over the next five years, representing around 38% of the store portfolio, the Group has ongoing flexibility to adjust further the store portfolio as its strategies and markets require. Total lease commitments stood at £2.6bn at the end of FY14, which is a £1.7bn, or 39%, reduction from the peak total lease commitments of £4.3bn at the end of FY08.

Outlook

Although there are signs that economic conditions are beginning to improve, with recent reports of reductions in inflation, increases in employment and growing levels of consumer confidence, the Group will continue to assume a subdued consumer environment until the recovery is more broadly based. The Group has made good progress so far with its strategic plans, which its financial performance has begun to reflect. However, the plans are multi-year and they are early in their development. Many of the important systems capabilities, new customer propositions and increased financial expectations lie ahead, and the Group cannot count on external factors to drive the business forward. The Group has a strong financial position, which will enable it to invest in the Argos Transformation plan to reinvent it as a digital retail leader, and in the Homebase Renewal plan. Overall the Group is well positioned for the future.

John Walden
Chief Executive

Group performance

Both retail businesses recorded positive like-for-like sales for all four reporting periods, resulting in 27% growth in Group benchmark profit before tax.

Operating highlights

- Good performances at both Argos and Homebase, with both businesses delivering positive like-for-like sales growth throughout the year
- Argos Transformation plan progress:
  - Increased internet penetration to 44% of Argos' total sales, including mobile commerce which grew 89% to account for 18% of total sales
  - Launched improved smartphone and tablet apps
  - Achieved 11.6 million customer registrations
  - Trialled 'hub & spoke' distribution model in 49 stores
  - Added aspirational new brands to Argos range
  - Trialled six digital concept stores
- Homebase Renewal plan progress:
  - Completed a further 12 store refits
  - Launched a next day delivery proposition
  - Grew multi-channel sales by 53%
  - Reduced the store estate in line with plans

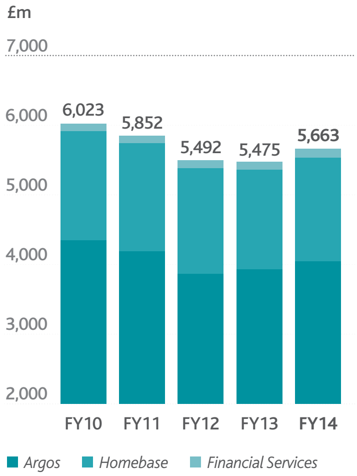
Financial highlights

- Sales up 3% at £5,663m
- Cash gross margin up 2% to £2,034m
- Operating and distribution costs up £13m to £1,921m as a result of ongoing investment in strategic initiatives across both Argos and Homebase
- Benchmark operating profit* up 21% to £113.0m
- Benchmark profit before tax* up 27% to £115.4m
- Basic benchmark earnings per share* up 35% to 10.4p
- Reported profit before tax down 41% to £71.2m; reported basic earnings per share of 6.8p
- Year-end cash balance of £331m (FY13: £396m)
- Full-year dividend up 10% at 3.3p (FY13: 3.0p); final dividend of 2.3p recommended

*Refer to page 81 for definitions of benchmark measures

Group key performance indicators

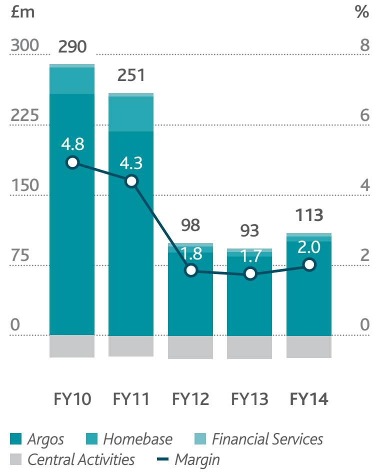
Sales



Group sales increased by 3% to £5,663m. Argos accounts for 72% of Group sales and increased by 3% or £120m in the year. Homebase accounts for 26% of Group sales and increased by 4% or £58m in the year. Financial Services accounts for the remaining 2% of Group sales and increased by 8% or £9m in the year.

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

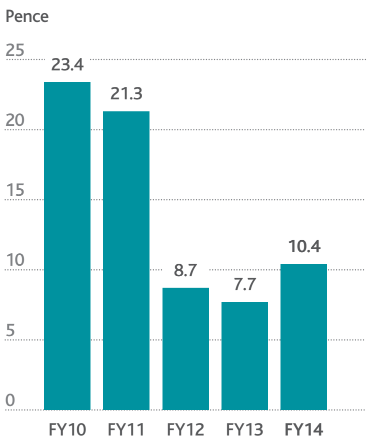
Benchmark operating profit and benchmark operating profit margin



Group benchmark operating profit increased 21% to £113m. Argos profit increased by 12% or £12m, Homebase profit increased 71% or £8m, Financial Services profit was maintained at £6m and the cost of Central Activities was also unchanged year-on-year. Group benchmark operating margin increased to 2.0% in the year.

Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items.*
Source: *Audited financial statements.*

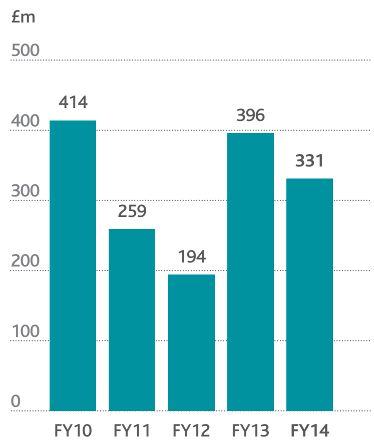
Basic benchmark earnings per share (EPS)



Basic benchmark EPS increased by 35% to 10.4p per share as a result of the higher benchmark profit reported for the year.

Definition: *Basic benchmark earnings per share (benchmark EPS) is defined as benchmark profit before tax less taxation attributable to benchmark profit before tax, divided by the weighted average number of shares in issue at end-year (excluding shares held in Home Retail Group's share trusts net of vested but unexercised share awards). As at 1 March 2014, there were 795.0m shares (2013: 800.6m) representing the weighted average number of issued ordinary shares of 813.4m (2013: 813.4m) less an adjustment of 18.4m (2013: 12.9m) representing shares held net of vested but unexercised share awards.*
Source: *Audited financial statements.*

Net cash



Despite a further year of strong operating cash generation, the Group's year-end net cash position decreased by £65m to £331m, principally as a result of increased capital expenditure in the strategic investment initiatives in both Argos and Homebase.

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

Share price performance

For all charts, FY12 is on a 52-week pro forma basis except 'net cash', which is on a 53-week basis ending 3 March 2012.

Argos business review

Argos has an outstanding offer of convenience, choice and value to meet customer needs, selling products through its 734 stores, website and mobile apps.

Argos

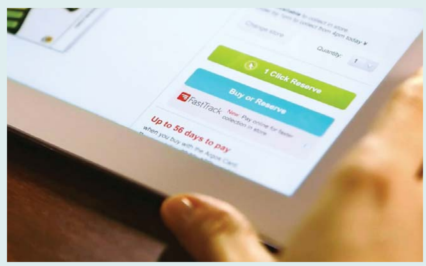
In what remained a challenging market environment in FY14, Argos made good progress against its key transformation milestones and delivered a solid trading performance throughout the year.

52 WEEKS TO	1 MARCH 2014	2 MARCH 2013
Sales (£m)	**4,051.1**	**3,931.3**
Benchmark operating profit (£m)	**112.3**	**100.3**
Benchmark operating margin	**2.8%**	**2.6%**
Like-for-like sales change	3.3%	2.1%
Net space sales change	(0.3%)	(0.6%)
Total sales change	3.0%	1.5%
Gross margin rate movement	Down c.50bps	Down c.50bps
Benchmark operating profit change	12%	6%
Number of stores at year-end	734	737

Highlights

£4,051m

Sales up 3.0% year-on-year



44%

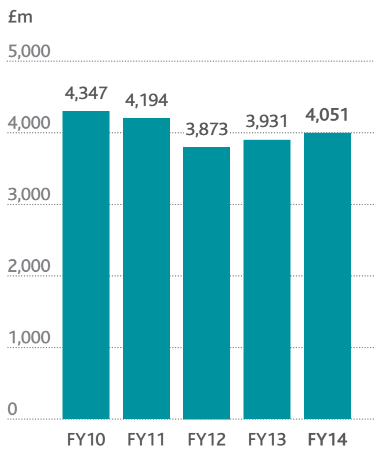
Of total sales are internet-led, including mobile commerce

734 stores

Remain a critical part of the Argos strategy

Argos key facts

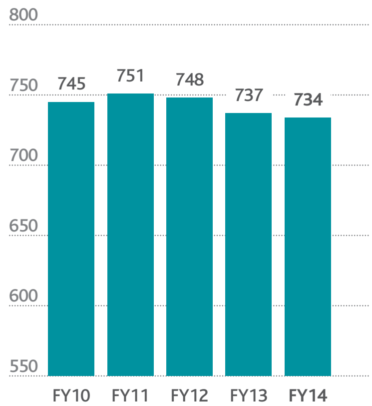
Sales



Argos sales increased by 3% or £120m in total. This was driven predominantly by strong growth in electrical products with tablets, TVs and video gaming systems reporting good growth in the year, combined with strong growth in white goods and core electricals. This helped to offset small declines in furniture, homewares and jewellery.

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

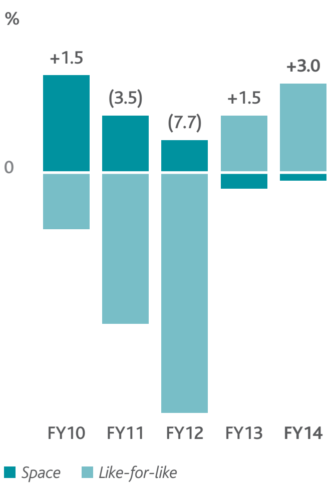
Number of stores



During the year, a net three stores were closed reducing the store portfolio to 734. All 734 stores offer around 16,000 product lines for collection, with around 27,000 additional lines available online to order for home delivery.

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

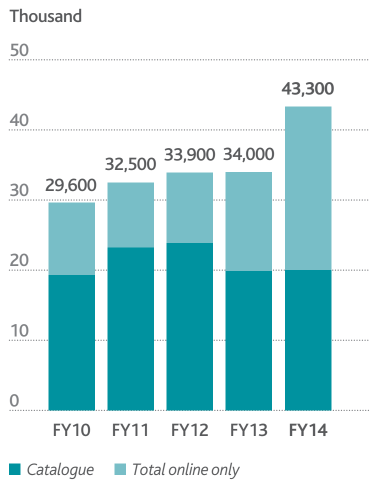
Sales trends



Like-for-like sales increased by 3.3% 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 new space is the sales performances for the first 52 weeks' trading of any newly opened stores less the sales performances for the last 52 weeks of any stores that have been closed.*
Source: *Audited financial statements/ measured internally.*

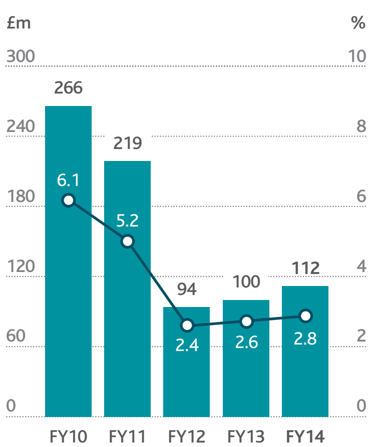
Number of products



Our spring/summer catalogue featured 20,000 lines and, combined with our online-exclusive range, this was more than doubled to around 43,300 lines.

Definition: *Total number of product lines offered in the main spring/summer catalogue and online.*
Source: *Measured internally.*

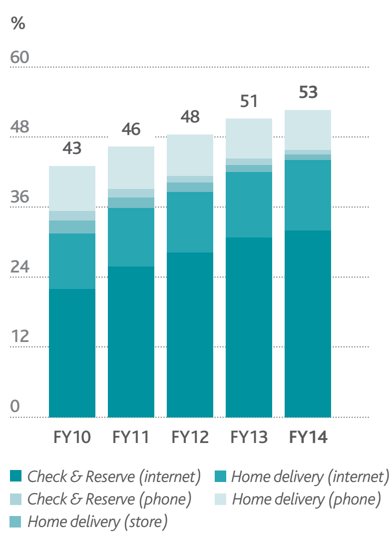
Benchmark operating profit and benchmark operating profit margin



Benchmark operating profit increased by 12% or £12m, to £112m. This recovery in profit was due to an improved level of sales, partially offset by a reduction in gross margin rate and a small increase in costs.

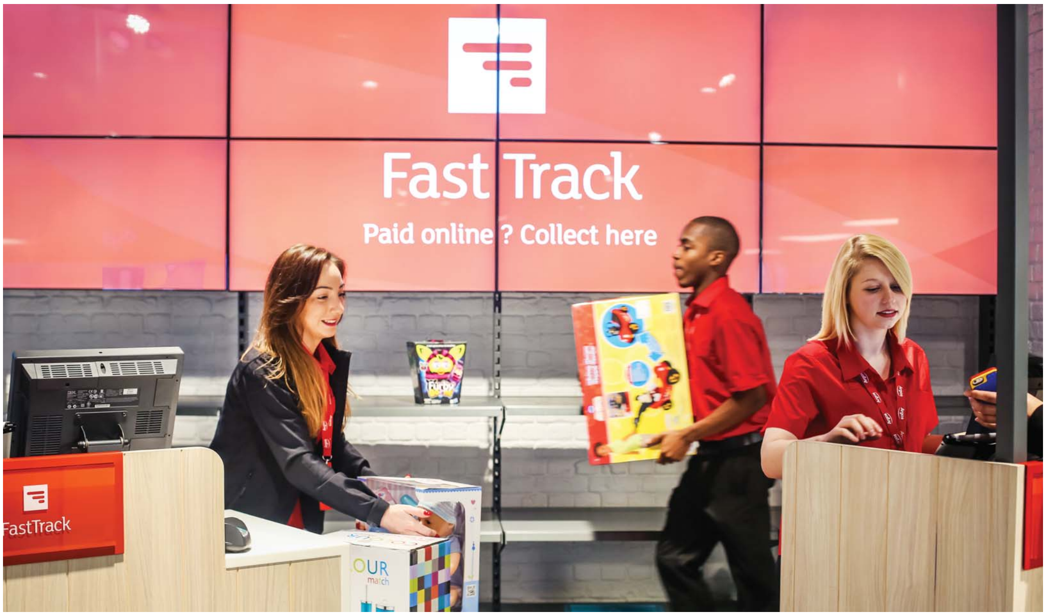
Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items.*
Source: *Audited financial statements.*

Multi-channel sales



Multi-channel sales grew to 53% or £2.1bn of Argos' sales. The internet represented 44% of Argos' sales; over two-thirds of this or 32% of Argos' total sales were customers using online Check & Reserve for store collection. Sales through mobile channels have grown over the last four years to represent 18% of Argos' sales.

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. Mobile channels are sales accessed via mobile devices through either our mobitised website or through our apps.*
Source: *Measured internally.*



The Argos store network remains a critical part of the Argos strategy by providing customers with local convenience and an important human connection for digital transactions. Six digital concept stores were trialled during the Christmas period, incorporating many new developments to streamline customers' experience.

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

There are four key elements to the Transformation plan:

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

In what remained a challenging environment in FY14, Argos made good progress against its key transformation milestones and delivered a solid trading performance throughout the year.

Operational review

Reposition Argos' channels for a digital future

Internet-led sales grew to represent 44% of total Argos sales in FY14 aided by a strong performance from both mobile phones and tablets, which grew by 89% and now represent 18% of total Argos sales. Check & Reserve also continued to grow and represented 32% of total Argos sales, with the remaining 12% of internet-led sales being fulfilled through home delivery.

Underlying its strong internet performance, Argos has improved its digital offer across both online and mobile commerce. The launch of a 'My account' function has enabled Argos to improve consistency across its online channels, whilst introducing several new features such as a single customer login, '1 Click' reservation and a persistent trolley. Further developments during the year included the functionality that enables customers to order products via their mobile device for home delivery.

Argos has made significant technological improvements during the course of the year which, as with all enhancements of this scale, had an element of execution risk. Argos dealt well with the risk involved and managed the challenges that arose while delivering a strong trading performance, particularly in the second half of the year. Argos has confidence in delivering the future upgrades required in this area.

Over its peak trading period Argos introduced the Christmas gift guide in both paper and digital forms. The digital version offered richer content together with a unique and intuitive shopping journey. The traditional paper gift guide was enriched with augmented reality through 'Blippar' in order to increase the level of customer interaction and to direct customers to the wider online offering.

Over the coming year Argos will build on these digital enhancements by redesigning its online checkout to accommodate flexible payment and credit options, improving search functions and making it easier for customers to find their product by showing real-time stock availability by location. Argos will also further personalise the shopping experience on its digital channels, which will improve its ability to offer relevant products and promotions to customers. In addition, a dynamic route scheduling system will be implemented which will allow customers to select accurate narrow timeslots for home delivery. Argos will also introduce a new secure payment infrastructure which will enable customers to store their card details safely with Argos for future use.

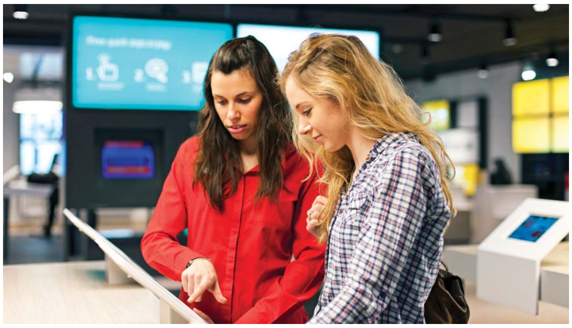
The Argos store network remains a critical part of the Argos strategy by providing customers with local convenience and an important human connection. Argos trialled six digital concept stores during the Christmas trading period that incorporated many new developments, including online prepayment, fast track product collection and a dynamic voice-driven picking system that facilitates rapid retrieval of customer orders. Argos' traditional laminated catalogues were replaced in these stores with tablet browsers which enable customers to search for products, efficiently check stock availability and streamline their store experience. The stores also incorporate the 'hub & spoke' distribution model to provide customers with access to extended product ranges for prompt collection. Early customer feedback on the digital concept stores has been encouraging, and Argos plans to extend its trial of the concept to around an additional 25 stores in FY15.

The 'hub & spoke' distribution model will allow Argos to consider different store formats that could hold little or no stock. During FY15 it will trial formats that will include Argos stores embedded within Homebase stores and a small format store within London. During FY15 Argos will also complete the roll out of the voice picking system and fast track collection across the estate.

Provide more product choice, available to customers faster

Argos is uniquely positioned, through its store estate and supply chain, to provide market-leading fulfilment options to customers on a national scale. An initial 32-store 'hub & spoke' trial in the North East provided us with good operational insight into the workings of this new model which were then implemented into a further 13-store trial in the Manchester and Lancashire region over Argos' peak trading period as well as the four London digital concept stores. In the Manchester and Lancashire trial, customers were able to take advantage of same-day access to expanded product ranges from hub stores and Argos was able to test a number of different stocking options, delivery

Argos again joined forces with the children's charity, Barnardo's, to launch the second year of the Argos Toy Exchange, which encourages parents and children to donate pre-loved toys to raise money for some of the UK's most disadvantaged children and young people. More than £1.2m has been raised so far.



Traditional laminated catalogues have been replaced with tablet browsers in our six digital concept stores which enable customers to search for products and check stock availability efficiently.

frequencies and also the ratio of the number of hub stores to the number of spoke stores. Following these trials, Argos will begin to roll out the 'hub & spoke' model during FY15.

In order to drive further improvements in stock availability, Argos is planning to pilot an enhanced home delivery offer, with time slots available for larger 'two-man' delivery items for next day delivery and will also trial a same day or next day delivery offer on 'one-man' items from hub to home.

In September, Argos and eBay announced a trial of a UK collection service, enabling shoppers at selected eBay merchants to order products for collection at around 150 Argos stores throughout the UK. This trial is still in progress with over 100 merchants having signed up to the initiative so far.

Develop a customer offer that has universal appeal

Argos continues to improve the quality of its product range whilst simultaneously rationalising its offering to suit customer needs. Argos added about 9,000 new lines during FY14, resulting in a total offering of around 43,000 lines. The new lines included several aspirational brands, such as Emma Bridgewater homewares, Oxo kitchenware, Baby Bjorn nursery products, Monsoon accessories, Denby kitchenware and Stoves appliances. During FY15 Argos will further expand its ranges of branded and own-brand products by around an additional15,000 lines and will launch a new line of own-brand home products.

Argos implemented a new dynamic price optimisation tool in certain product categories prior to the peak trading period which has enabled faster and more data driven pricing decisions, and has helped optimise its competitive pricing position. Further developments to this tool during FY15 will include its implementation across further product categories, as well as the introduction of an enhanced commercial dashboard which will bring real-time digital and customer information to Argos' trading teams, enabling better decision-making.

Argos has continued to invest in getting to know its customers better. With the launch of 'My account', Argos has now increased its customer database to 11.6 million registered customers. The customer insight gathered as a result of the increased level of registrations has enabled a more tailored product offering based on customers' needs, and has also enabled Argos to run bespoke promotional offers based on both customers' previous activity and their profiles. During FY15, Argos will continue to expand its customer database of registered customers, collect more customer data and use this data to further improve customer satisfaction with its offerings.

Operate a lean and flexible cost base

Argos has a strong track record of delivering significant organisational and infrastructure changes which have historically reduced its costs and improved the flexibility of the business, while maintaining or improving operational standards. During FY14 costs reduced by £5m during the first half as a result of ongoing cost reduction initiatives, but increased by £10m during the second half, resulting in a £5m increase in FY14. This second half increase is principally a result of the increased level of cost investment in strategic initiatives, for example the opening of a digital hub in London to accommodate the newly-hired digital team. Argos will continue to work hard on cost reduction initiatives, but the impact of ongoing inflationary cost pressures, further cost investments in strategic initiatives and an increased level of depreciation as a result of an increased level of capital expenditure are expected to result in net cost increases going forward.

Argos has continued to review its store portfolio during FY14 and to negotiate lease renewals onto shorter terms in order to improve the flexibility of its store portfolio. In the past two years Argos has closed a net 14 stores and reduced the average lease term of the estate from 7.1 to 5.5 years. Over the next five years, Argos has around a further 330 lease renewals or break clauses due.

Financial review

Total sales in the 52 weeks to 1 March 2014 increased by 3.0% to £4,051m. Net space sales change reduced sales by 0.3% with the store portfolio reducing by a net 3 stores, to 734. Like-for-like sales increased by 3.3%. Electrical products continued to deliver sales growth driven by growth in tablets, TVs and white goods, which together with strong sales of video game systems following the launch of new consoles, more than offset small declines in furniture, homewares and jewellery.

The gross margin rate was down by approximately 50 basis points. The negative drivers were an adverse sales mix impact, resulting from the growth in sales of margin dilutive electrical products, combined with a reduction from the net impact of the adverse movement in the US dollar exchange rate and sea freight costs. These reductions were partially offset by an improvement from a reduced level of stock clearance activity.

Total operating and distribution costs increased by £5m as a result of increased sales, underlying cost inflation and cost investment in strategic initiatives partially offset by further cost saving initiatives. Benchmark operating profit increased by £12.0m, or 12%, to £112.3m (FY13: £100.3m).

Homebase business review

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

Homebase is progressing with its Renewal plan, which incorporates store format development, an enhanced multi-channel offer, exclusive brands and increased levels of customer service.

52 WEEKS TO	1 MARCH 2014	2 MARCH 2013
Sales (£m)	**1,489.2**	**1,430.7**
Benchmark operating profit (£m)	**18.9**	**11.0**
Benchmark operating margin	**1.3%**	**0.8%**
Like-for-like sales change	5.9%	(4.9%)
Net space sales change	(1.8%)	(0.3%)
Total sales change	4.1%	(5.2%)
Gross margin rate movement	Down c.100bps	Up c.75bps
Benchmark operating profit change	71%	(52%)
Number of stores at year-end	323	336
Of which contain a mezzanine floor	184	186
Of which are new format	15	3
Store selling space at year-end (million sq ft)	14.9	15.4
Of which – garden centre area	3.4	3.6
– mezzanine floor area	1.8	1.8

Highlights

£1,489m

Sales up 4.1% year-on-year

53%

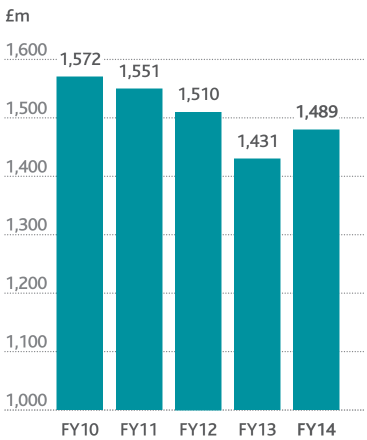
Increase in multi-channel sales year-on-year, representing 7% of total Homebase sales

323 stores

Each offering exclusive brands such as Habitat, Odina, Schreiber, Qualcast and Laura Ashley

Homebase key facts

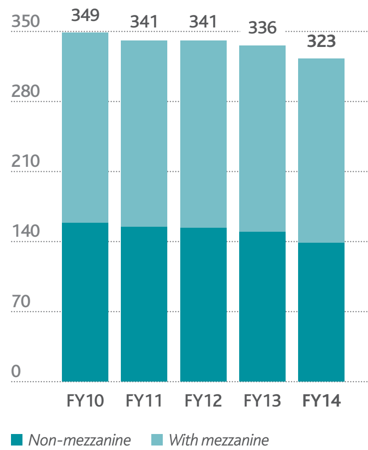
Sales



Homebase sales increased by 4% or £58m in total. 'Big ticket' and seasonal categories accounted for the majority of the growth, as a result of our continued investment in big ticket product categories and favourable weather conditions during Homebase's peak trading period. Other category sales were broadly level year-on-year.

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

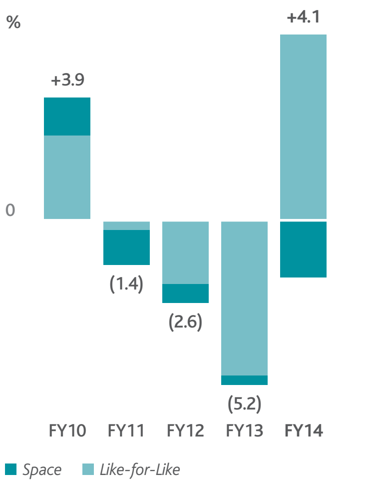
Number of stores



During the financial year 13 stores were closed reducing the Homebase store portfolio to 323. Twelve stores were renewed with the new proposition format during the year, bringing the total renewed stores to 15.

Definition: *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.*

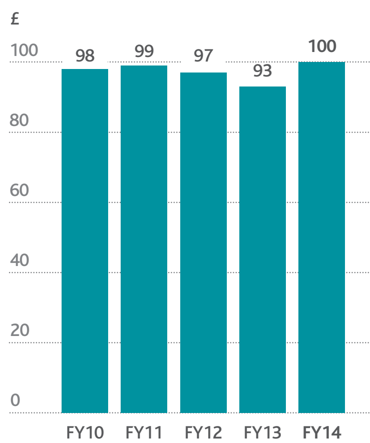
Sales trends



Like-for-like sales increased by 5.9% in the year. Net closed space reduced sales by 1.8%.

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

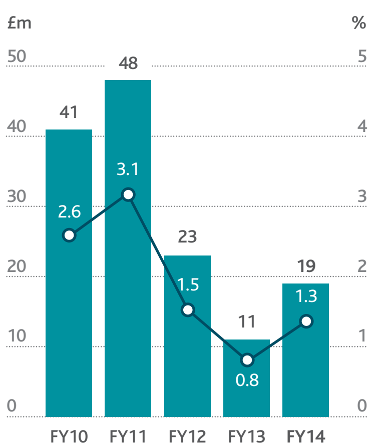
Sales per square foot



Sales per square foot based on total year-end selling space increased to £100. The increase in the year was driven principally by higher overall sales, which was supported by growth in big ticket and seasonal categories.

Definition: *Annual sales divided by year-end total selling space.*
Source: *Measured internally.*

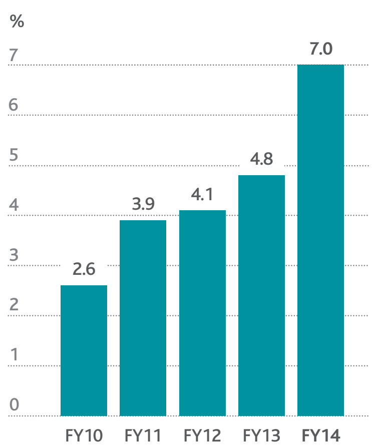
Benchmark operating profit and benchmark operating profit margin



Benchmark operating profit increased by 71%, or £8m, to £19m. This increase in profit was as a result of the improved sales performance, partially reduced by a declining gross margin rate and a small increase in cost.

Definition: *Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items.*
Source: *Audited financial statements.*

Multi-channel sales



Multi-channel sales grew by 53% to represent 7.0% of Homebase total sales. Online sales represented 4.1% of Homebase total sales with almost half of this, or 2.1%, being customers using Reserve & Collect for store collection.

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

A key differentiator for Homebase remains its strong portfolio of exclusive brands, such as Habitat, Odina, Schreiber, Qualcast and Laura Ashley. Homebase has 15 Habitat concessions and Habitat products are now available to order in all stores, across ranges such as furniture, paint and wallpaper.

Homebase's premium Odina kitchen range has now been rolled out to 49 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 look and feel. Homebase is progressing with its Renewal plan which incorporates store format development, an enhanced multi-channel offer, exclusive brands and increased levels of customer service. This plan accelerates 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

Store estate and format development

Homebase has continued to trial the new format for its stores, supported by increased levels of customer service, which creates a shopping experience that helps customers find ideas and inspiration for their homes and gardens. Following the evolution of the new proposition for its stores in Ruislip and Solihull last year, 12 additional proposition stores were completed during FY14 taking the total number completed to 15. These stores are achieving sales uplifts in line with expectations and there has been a high level of positive customer feedback to the refits.

As part of Homebase's on-going management of the store portfolio, there were 13 store closures during FY14 leading to a reduction in the store portfolio to 323 stores. This level of store closures was consistent with its plans at the start of the year and, over the next five years, Homebase has around a further 65 store lease renewals or break clauses due. During the year, Homebase's stores in Ireland were subject to an examinership process which resulted in two store closures and rent reductions across the remaining 13 Irish stores. Homebase will continue to examine the opportunity for store closures, relocations or downsizes.

Multi-channel offer

Multi-channel sales have grown by 53% year-on-year to represent approximately 7% of total Homebase sales. This growth has been driven by increased website traffic as a result of an increased investment in this channel as a route for customer acquisition, as well as the introduction of improved delivery options, allowing customers to order products via the internet for delivery to either their home or the Homebase store of their choice. This service is now available on either a standard three-day delivery basis or as a next-day or named-day offer. Both services are available on around 15,000 Homebase products and have experienced good levels of uptake. Wi-Fi is now available in all stores enabling customers to browse and shop whilst in store and allowing Homebase colleagues to assist them with their shopping mission.

Step-changing multi-channel is an important part of the Homebase strategy and during FY15 Homebase will launch a new website, providing exciting new developments such as improved search functionality, registration and login and a much quicker and simpler buying experience. This will be supported by the launch of new Apple and Android apps.

Homebase continues to use social media to engage and interact with its customers, for example videos on Homebase's YouTube channel offer customers help, advice and useful 'how to' guides.

Exclusive brands

A key differentiator for Homebase remains its strong portfolio of exclusive brands, such as Habitat, Odina, Schreiber, Qualcast and Laura Ashley. Homebase has 15 Habitat concessions and Habitat products are now available to order in all stores, across ranges such as furniture, paint and wallpaper. Habitat gives the Homebase customer greater choice with premium quality and contemporary styling, as well as some best-selling iconic designs.

Homebase's premium Odina kitchen range has now been rolled out to 49 stores (FY13: 28). The mid-market Schreiber kitchen range is now available in 317 stores either as an edited display of the range or as a cabinet display that showcases construction and material quality and provides examples of the range. This year the Qualcast range has been increased to around 100 products, a 34% increase on last year, expanding the range of garden power and garden hand tool products.

Customer service and loyalty

Homebase has continued its improvements in customer service in a number of areas during the year. A trial to improve process efficiency in stores by reallocating hours from operational tasks into customer service has been completed. Following the success of this trial, the new processes have been implemented in over 70 stores during FY14 and will be rolled out to the rest of the estate during FY15.

To monitor and react to customer feedback further, Homebase launched a customer survey called 'Paint us a picture' during the year, which gives Homebase insightful and constructive feedback on all areas of customer service. Since its launch in March 2013, the number of 'highly satisfied' customers has gone from 60% to 66% and new format stores have all experienced significant increases in customer satisfaction post launch.

Homebase has a database of about 7.1 million active Nectar customers and a Nectar card is used on around 65% of sales. Homebase sent around 37 million direct mailings and around 28 million emails during FY14 to drive relevant offers to customers. Individually tailored coupons issued at point of purchase are being trialled to drive higher levels of repeat sales.

Judges at the centenary RHS Chelsea Flower Show awarded the Homebase Garden - 'Sowing the seeds of change', in association with Alzheimer's Society – a prestigious gold medal. Designed by Adam Frost, it is a modern family garden, providing an environment where families can enjoy not only a connection with nature, but also an outdoor space where they can spend time with family and friends.

Financial review

Total sales in the 52 weeks to 1 March 2014 increased by 4.1% to £1,489m. Net space sales change reduced sales by 1.8% with 13 store closures reducing the store portfolio to 323. Like-for-like sales increased by 5.9%. After a challenging start to the year, seasonal products benefited from the improved weather in the second quarter, annualising against poor weather through the summer in the prior year. Big ticket sales were also ahead of last year, whilst remaining categories were broadly flat compared to last year.

The gross margin rate was down by approximately 100 basis points, principally driven by an adverse impact from promotional sales in the first quarter and an adverse sales mix impact resulting from the strong performance of margin dilutive seasonal and big ticket products.

Total operating and distribution costs increased by £9m, as a result of increased sales, underlying cost inflation and cost investment in strategic initiatives partially offset by further cost saving initiatives. Benchmark operating profit increased by £7.9m, or 71%, to £18.9m (FY13: £11.0m).

Homebase has continued to trial its new store format, supported by increased levels of customer service which creates a shopping experience that helps customers find ideas and inspiration for their homes and gardens.

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 and financial review

In-house store card credit sales increased by 8% to £681m and represented 10.4% (FY13: 10.0%) of Group retail sales. This increased level of credit sales and penetration is principally as a result of a retail sales mix into high credit attachment products such as televisions 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 11.6% (FY13: 11.0%) of Group retail sales. Customer use of the online account management tools continues to grow with over 800,000 registered customers.

Store card net receivables grew by £49m versus a year ago to £524m, principally as a result of the increase in credit sales. The Group finances these receivables internally with no third-party debt being required. Delinquency rates improved versus the comparable period last year. Operating costs increased slightly, driven principally by increased volumes, resulting in benchmark operating profit being unchanged at £6.0m (FY13: £6.0m).

In addition to benchmark operating profit there were two additional items which had a financial impact in FY14, which were as follows.

Financial Services offers Payment Protection Insurance ('PPI') to its customers. In response to an industry-wide review into the handling of PPI complaints by the Financial Conduct Authority, a full investigation has been undertaken with the support of an independent expert, which will result in a customer redress exercise being carried out. As a result, the existing provision was increased by £25m. This charge has been recognised in FY14 and taken as an exceptional item, outside of benchmark profit.

Until June 2010 Allianz Insurance provided Home Retail Group with an underwriting service for warranty products sold in both Argos and Homebase. Allianz Insurance has recently notified the Group that under a profit share arrangement relating to the run-off of these historical policies, the Group is due £11.4m. This credit has been recognised in FY14 and taken as an exceptional item, outside of benchmark profit.

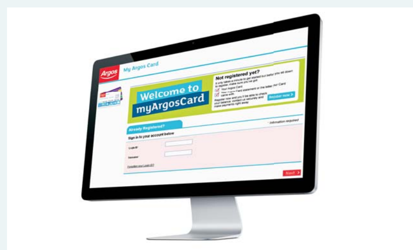
52 WEEKS TO	1 MARCH 2014	2 MARCH 2013
Sales (£m)	**122.7**	**113.4**
Benchmark operating profit before financing costs	9.3	9.1
Financing costs	(3.3)	(3.1)
Benchmark operating profit	**6.0**	**6.0**

AS AT	1 MARCH 2014	2 MARCH 2013
Store card gross receivables (£m)	594	547
Provision (£m)	(70)	(72)
Store card net receivables (£m)	524	475
Provision % of gross receivables	11.8%	13.2%

Highlights

8%

Increase of in-house store card credit sales, representing 10.4% of Group retail sales

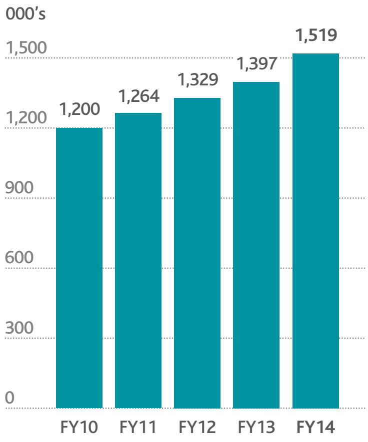


800k

Customers using our online account management tool

Financial Services key facts

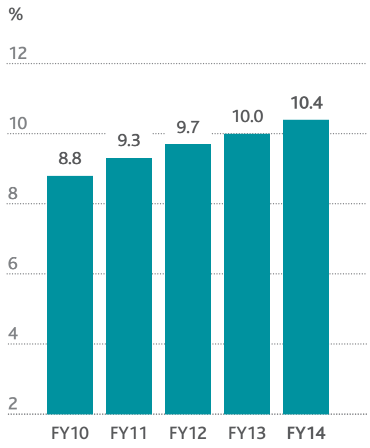
Number of active store card holders



The total number of active accounts grew to over 1.5 million. The cards offer a revolving credit proposition together with a range of promotional 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.*

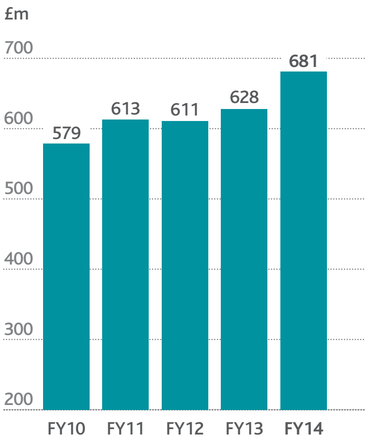
In-house credit penetration



The in-house store card operation represented 10.4% of Group retail sales, up from 10.0% last year.

Definition: *Penetration based upon total in-house retail credit sales (including VAT) divided by total UK retail sales (including VAT).*
Source: *Measured internally.*

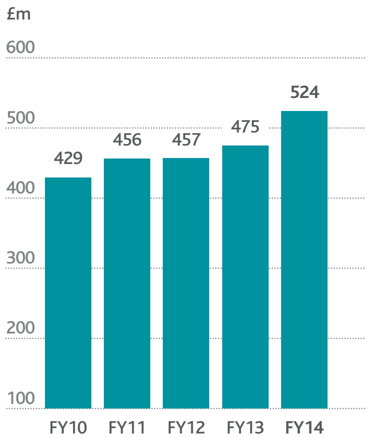
In-house retail credit sales



The in-house store card operations drove £681m of Group retail sales, an increase of £53m or 8% on the previous year. 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.

Definition: *Store card retail credit sales (excluding VAT).*
Source: *Measured internally.*

Net store card receivables



There was a £49m increase in net store card receivables in the year, driven by the increase in credit sales.

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

Responsible retailing

We call our approach to corporate responsibility "the basis of good business" because we believe acting responsibly is not only the right thing to do, but is good for our business too. We use five good business principles to communicate our strategic objectives. Here are some highlights of our achievements from the last year.

Shopping for tomorrow

We build partnerships and develop activities that support the strategies of our businesses while also creating a benefit to society for today and the future.

- Argos is becoming a digital retail leader and we are playing our part in helping Britain to reach its ambition to become the most digitally-skilled nation in the world. Argos has joined the Go ON UK alliance and John Walden, our Chief Executive, is a member of the Go ON UK Board. We are proud to be part of a unique movement of leading businesses and charities helping everyone in the UK gain digital skills
- Homebase partnered with the Group's charity partner - Alzheimer's Society - at the RHS Chelsea Flower Show in May 2013, with the show garden winning a prestigious gold medal. The garden was a modern family space, providing an environment where families can enjoy not only a connection with nature, but also an outdoor space where they can spend time with family and friends. We are partnering again with Alzheimer's at this year's Chelsea Flower Show

Building a great place to work

We support colleagues to reach their full potential, whether they work five or thirty-five hours a week, in whatever capacity.

- Home Retail Group has become a member of Business in the Community's 'Opportunity Now' and 'Race for Opportunity' campaigns to support our businesses in developing and achieving our diversity objectives
- Over 1,200 store colleagues from Argos and Homebase have completed internal apprenticeship programmes or City and Guilds accredited training programmes

Being a good neighbour

We look to create charity partnerships that deliver value, engage our colleagues and customers and create opportunities to support those who need help to move into employment. We team up with a national charity partner as well as supporting our colleagues in their charity and community activity.

- We have raised £1.4m of fundraising in the first year of our two-year partnership with Alzheimer's Society
- £500k of volunteering time has been donated as colleagues make use of our two-day volunteering policy
- We have partnered with Remploy, Ready for Work, Gingerbread and Prince's Trust to provide work placement opportunities in Argos and Homebase stores in 2014

Keeping clean and green

We work to reduce the impact of our activity on the environment through reduced landfill waste, increased recycling rates and implementation of energy-efficiency measures.

- We have continued the great work in reducing our footprint with a 33% reduction in CO_2 emissions per square foot compared to 2006
- 92% of our Group operational waste is recycled

Sourcing with care

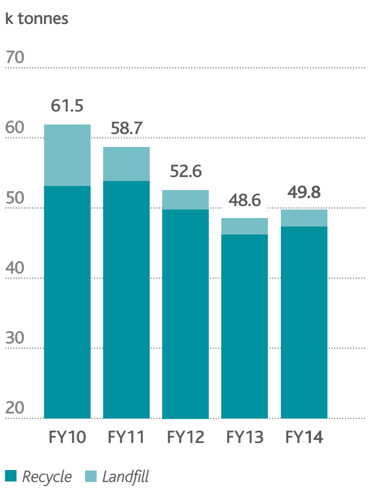
We work with our suppliers to embed the process and principles of responsible sourcing, allowing us to source our products with care for the environment and for human rights.

- We have carried out 957 ethical audits and 100% of all own-brand direct-source suppliers have a current valid audit
- We have 137 suppliers operating on Sedex, a collaborative platform that facilitates the efficient sharing of ethical supply-chain data

You can find out more on our corporate responsibility activities in the corporate responsibility section of our corporate website homeretailgroup.com/cr/

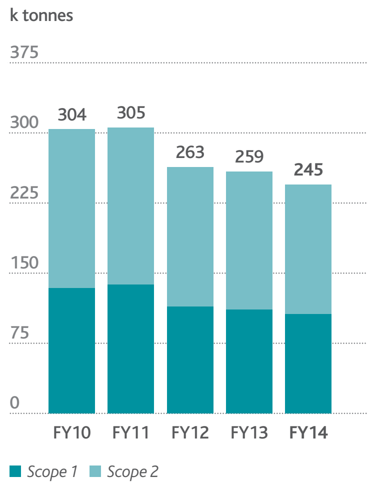
Responsible retailing key facts

Waste management



We have maintained our performance of diverting 92% of our operational waste from landfill. As sales volumes increase the volume of waste generated is unlikely to decrease but we will continue to focus on our objective to minimise waste and put our waste produced to positive use wherever possible.

Greenhouse gas footprint

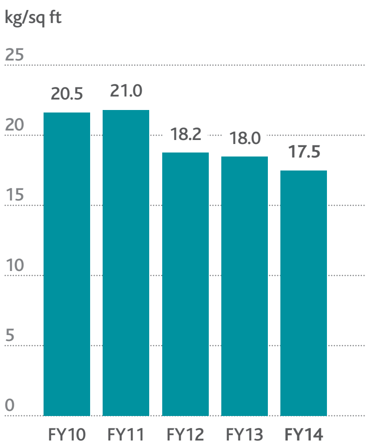


Our carbon footprint has reduced, giving an overall saving of 5%.

Greenhouse Gas (GHG) emissions Methodology: We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the activities for which we have operational control. There are no material exclusions from this data. The data has been prepared in accordance with the UK Government's Environmental Reporting Guidance (2013). As a result of changes to the DEFRA GHG conversion factors for company reporting published in 2013, our data graph has been restated.

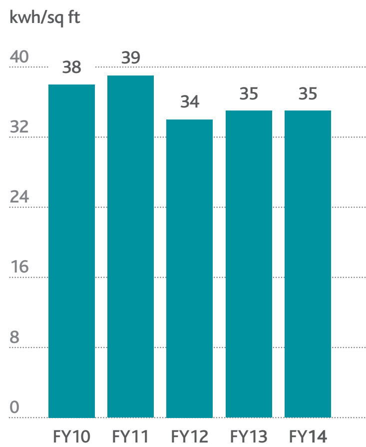
For FY14:
Scope 1 emissions = 105,384 tonnes (includes Buildings Gas CO_2e and Transport CO_2e)
Scope 2 emissions = 139,322 tonnes (includes Buildings Electricity CO_2e)

Carbon emissions



Overall, the fleet and building energy efficiency measures across the Group enable us to reduce our carbon emissions by 3%, achieving our best energy performance relative to our shop floor selling space in the last seven years.

Building energy use



The total energy consumed in buildings reduced by 2.5% aided by the milder winter weather in addition to the ongoing implementation of our energy efficiency measures. Our shop floor selling space decreased by 2.8% resulting in our energy use per square foot remaining broadly flat year-on-year.

FTSE4Good
Dow Jones Sustainability Indexes

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

CR INDEX 2014 BUSINESS IN THE COMMUNITY

We have retained Platinum status for four successive years.

CARBON DISCLOSURE PROJECT

We are members of the Carbon Disclosure Project.

FOR MORE INFORMATION ON OUR APPROACH TO CORPORATE RESPONSIBILITY VISIT:

homeretailgroup.com/cr/

Principal risks and uncertainties

We outline below the principal risks and uncertainties to achieving the Group's strategic priorities together with our mitigating activities.

For further information on how we manage risk, see the business reviews on pages 12 to 21 and also page 37 within the corporate governance section for an overview of our risk management process. Specific financial risks are detailed on page 31 of the Group financial review.

RISK AND UNCERTAINTY	DESCRIPTION AND EXAMPLES OF MITIGATING ACTIVITY	OTHER MITIGATING ACTIVITIES
Business strategy • Inappropriate strategies • Poor investment decisions • Inadequate execution	As referenced within our strategy section on page 5, both Argos and Homebase have clear strategies for growth and as a Group we will continue to make significant investment in both brands to deliver these strategies. At every Plc and Operating Board meeting, strategic issues including risks and opportunities are discussed. In addition, time is dedicated to strategic reviews at various executive meetings across the Group.	• Regular review of performance against strategic targets • Engaging with strategic advisors to enrich and challenge internal intellect • Communication with stakeholders: investors, colleagues, suppliers, government etc.
Trading environment Impact on sales, gross margins, costs, profit and cash of: • Economic and financial conditions • Cost of raw material products/services/utilities • Competitor activity • Seasonality and/or weather • UK-centric store network	Our business reviews clearly demonstrate that both brands have made progress towards the delivery of our strategic priorities as well as trading strongly in what continues to be a subdued consumer environment. Our broad customer demographic appeal, which we continue to strengthen, provides mitigation against the risk of variable levels of recovery across 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 variations. We have embedded disciplines to maintain strong management of working capital and cash generation and we have strong management of key relationships with banks and credit insurers.	• Price tracking versus our competition and dynamic pricing to ensure price competitiveness is maintained • Enhancing customer choice by continuing to strengthen product range architecture • Providing customers with a range of financing options to facilitate retail purchases • Continuous review and challenge of our cost base to maintain our low-cost operating model • Ongoing evaluation to optimise the Group's store network
Infrastructure/ development projects Delay or failure to manage and implement major business and infrastructure projects effectively	Both businesses have a demanding schedule of projects to deliver. Our governance framework will be instrumental in ensuring successful delivery of all aspects of the strategic programmes.	• Detailed approval and planning process prior to project commencement • Board review of status/progress of major change programmes • The Group has entered into a number of strategic technology partnerships to enhance innovation and delivery • 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 and external training schemes and an A-level and graduate recruitment programme alongside active succession planning enable the Group to both attract and maintain a strong workforce. We are adaptive in our quest for talent and establishing new ways of working to attract and retain the next generation of industry leaders. We are committed to open communications with colleagues at all times and monitor employee satisfaction through listening groups and employee forums.	• Competitive remuneration packages with oversight by the Remuneration Committee • Twice-yearly comprehensive succession planning sessions, up to Operating Board level • 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 • Active collaboration with pension trustee to support a sustainable reduction of the closed defined benefit fund deficit

RISK AND UNCERTAINTY	DESCRIPTION AND EXAMPLES OF MITIGATING ACTIVITY	OTHER MITIGATING ACTIVITIES
Our customers • Failing to meet expectations • Consumer preferences • Changing demographics	Both businesses are customer-centric, with the customer at the heart of their strategies. We are continuously listening and responding to our customers to enhance their shopping experience. Both businesses continue to expand both product choice and services which, combined with improved store and product presentation, will benefit our customers.	• Extend use of technology platforms and innovations to give customers choice in how they shop with us • Understanding customer engagement and building on the existing loyalty to our brands • Continuous review of key customer metrics such as mystery shopping and exit interviews • Engaging with customers through social media
Operations Failure to ensure appropriate processes are in place to manage the complexity of operations, including multi-channel and customer service	Transitioning Argos away from catalogue-centric operations, whilst retaining core competencies for competitive advantage, is being achieved via cross-functional working parties with a strong project management office. Homebase's store investment programme is supported by extensive colleague training to ensure a step-change in both customer experience as well as the in-store environment. This will provide the ability to showcase the exclusive brands that offer competitive differentiation, such as Habitat and Odina. 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.	• 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 • Exploiting existing infrastructure to develop market-leading fulfilment options
Sourcing, product quality and safety • Strength and management of supplier relationships • Appropriate quality and safety checks are in place • Purchase of products whose cost base of manufacture is in currencies other than sterling, principally the US dollar • Appropriateness of financial services products	Strong global sourcing capabilities with established buying operations in Asia continue to be leveraged to control the cost of goods sold and therefore benefit customers. 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. We look for opportunities to support ethical standards, including thorough ethical audits of all own-brand, direct-source suppliers and membership of Sedex, a collaborative platform for ethical supply chain data. 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.	• Seek opportunities for further sourcing efficiencies • Standard terms and conditions for all suppliers to meet required performance standards • Rigorous quality/safety assessment programme for products with regular review and approval of product safety management process by Trading Standards Primary Authority • Pre-shipment inspection of imports by a third party and our own quality teams in Asia • Robust risk-based approach to factory auditing • Treasury policies to hedge currencies and forward buying of freight commitments, with adjustments to customer pricing to reflect movement in hedged currency rates and freight costs • Monitoring and review of financial services products to ensure fair customer outcomes
Regulatory environment • Changes in UK and overseas legislation and regulation, eg consumer protection, environmental regulation • Changes in UK fiscal/employment policy • Changes in regulation of the financial services industry	Good governance practices are important to the Group. In addition to ensuring compliance with existing requirements such as data protection, health and safety and financial services regulations, we are active in monitoring potential future developments. For example, we continuously challenge our environmental impact by setting and achieving stretching targets for fuel efficiency, waste reduction and energy consumption. We also lobby, often with other retailers, to support and develop the industry and the interests of consumers. As a major employer in the retail sector, external influences on our cost base, such as increases to the national minimum wage, are an inherent risk which we continuously seek to offset through a pipeline of cost-efficiency initiatives.	• Membership of industry representative groups, including the British Retail Consortium • Proactive engagement with government and regulators such as the Department for Business, Innovation and Skills and Trading Standards • Dedicated working parties to manage operational change • Ongoing engagement with the Financial Conduct Authority regarding financial services products
Business interruption • Failure or unavailability of operational and/or IT infrastructure • Delay or interruption in products or services 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 regularly testing our business continuity plans. Mitigating against cyber-attacks is taken seriously by the Group to maintain confidence in the security and availability of all our shopping channels. The Group maintains good awareness of its supply base to identify vulnerabilities and works towards a sustainable outcome for all parties when issues arise.	• Business continuity and recovery planning and testing • IT recovery plans, including website resilience and penetration tests • Ongoing, real-time technology defence mechanisms • Third-party supplier management

Financial summary

£m	52 WEEKS TO 1 MARCH 2014	52 WEEKS TO 2 MARCH 2013 RESTATED[1]
Argos	4,051.1	3,931.3
Homebase	1,489.2	1,430.7
Financial Services	122.7	113.4
Sales	**5,663.0**	**5,475.4**
Cost of goods	(3,628.7)	(3,473.8)
Gross margin	**2,034.3**	**2,001.6**
Group gross margin % rate	*35.9%*	*36.6%*
Operating and distribution costs	(1,921.3)	(1,908.3)
Argos	112.3	100.3
Homebase	18.9	11.0
Financial Services	6.0	6.0
Central Activities	(24.2)	(24.0)
Benchmark operating profit	**113.0**	**93.3**
Group operating margin % rate	*2.0%*	*1.7%*
Net interest income (see below)	2.4	3.8
Share of post-tax results of associates	–	(6.0)
Benchmark PBT	**115.4**	**91.1**
Amortisation of acquisition intangibles	(1.8)	(1.8)
Post-employment benefit scheme administration costs[1]	(1.9)	(2.1)
Adjustments in respect of store impairment and property provisions	2.1	14.6
Exceptional items	(41.4)	31.3
Financing fair value remeasurements	9.0	(1.1)
Financing impact on post-employment benefit obligations[1]	(3.3)	(4.0)
Discount unwind on non-benchmark items	(6.9)	(7.1)
Profit before tax[1]	**71.2**	**120.9**
Taxation[1]	(17.2)	(34.0)
of which: taxation attributable to benchmark PBT	*(32.5)*	*(29.7)*
Benchmark effective tax % rate	*28.2%*	*30.6%*
Profit for the year[1]	**54.0**	**86.9**
Basic benchmark EPS	**10.4p**	**7.7p**
Basic EPS[1]	**6.8p**	**10.9p**
Weighted average number of shares for basic EPS	795.0m	800.6m
Full-year dividend	3.3p	3.0p
Year-end cash balance	331.0	396.0
Net interest reconciliation:		
Bank deposits and other interest	0.3	1.9
Financing costs charged to Financial Services	3.3	3.1
Discount unwind on benchmark items	(1.2)	(1.2)
Net interest income	**2.4**	**3.8**
Financing fair value remeasurements	9.0	(1.1)
Financing impact on post-employment benefit obligations[1]	(3.3)	(4.0)
Discount unwind on non-benchmark items	(6.9)	(7.1)
Income statement net financing income/(charge)[1]	**1.2**	**(8.4)**

The above table has been prepared in accordance with note 2 to the consolidated financial statements on page 74. The Group has adopted IAS 19 (revised) during the period as set out in note 37 on page 112. Prior year comparatives have been restated where marked 1. The restatement has no impact on Benchmark PBT.

Group financial review

Sales and benchmark operating profit

Group sales were up 3% at £5,663m (FY13: £5,475m) while Group benchmark operating profit increased 21% to £113.0m (FY13: £93.3m). 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. Costs for the year were broadly flat at £24.2m (FY13: £24.0m), with underlying cost inflation being offset by the continued control of central corporate costs.

Net interest income

Net interest income was £2.4m (FY13: £3.8m). Within this, third-party interest income for the year declined to £0.3m (FY13: £1.9m) as a consequence of increased levels of bank fees in respect of the Group's new bank facility, which were partially offset by the increased income earned on the Group's higher average cash balance.

Financing costs charged within Financial Services' benchmark operating profit together with the corresponding credit within net interest income increased to £3.3m (FY13: £3.1m). 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 (FY13: £1.2m). 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 £nil (FY13: loss of £6.0m), with the reduction being a result of the previously disclosed disposal of the Group's 33% shareholding in Ogalas Limited, which trades as 'home store + more' in the Republic of Ireland, and the closure of the Group's Chinese joint venture.

Benchmark PBT

Benchmark PBT for the year increased 27% to £115.4m (FY13: £91.1m) driven by the factors previously discussed.

Amortisation of acquisition intangibles

A charge of £1.8m was recorded in the year (FY13: £1.8m), relating to the amortisation of the value of the brand which arose on the Habitat UK acquisition.

Post-employment benefit scheme administration costs

A charge of £1.9m was recorded (FY13 restated: £2.1m), in respect of the administration costs incurred by the Home Retail Group Pension Scheme. Prior to the adoption of IAS 19 (revised) this cost was charged against the expected return on plan assets within the financing impact on post-employment benefit obligations.

Adjustments in respect of store impairment and property provisions

A net credit of £2.1m (FY13: £14.6m) was recorded in the year, relating to store impairment and property provisions that are no longer required. The net credit principally reflects a £3.0m (FY13: £nil) reversal of previous impairment provisions arising on the store portfolio, combined with a £0.9m net charge (FY13: £14.6m net release) in respect of property provisions.

Exceptional items

The exceptional charge recorded in the year was £41.4m (FY13: credit of £31.3m). This charge is the net result of the following three items: a credit of £11.4m relating to Warranty Insurance and a charge of £25.0m relating to an increase to existing provisions held for PPI, both of which were discussed in more detail in the Financial Services business review, and a charge of £27.8m principally relating to the ongoing programme to transform Argos into a digital retail leader together with a number of other restructuring actions.

Financing fair value remeasurements

Certain foreign exchange movements are recognised in the income statement within net

Group financial review continued

financing income. These amounted to a net gain of £9.0m (FY13: loss of £1.1m), which arose principally as a result of translation differences on overseas subsidiary currency balances and the recycling of fair value gains on the sale of assets previously classified as available for sale. Equal and opposite adjustments to the translation differences are recognised as part of the movements in reserves. As required by accounting standards, the net nil exchange adjustment is therefore split between the income statement and the statement of comprehensive income.

Financing impact on post-employment benefit obligations

The financing impact on post-employment benefit obligations is a net charge of £3.3m (FY13 restated: £4.0m). The restatement of the FY13 comparative charge, as a result of the adoption of IAS 19 (revised) for the first time during the current period, is explained in note 37 on page 112.

Discount unwind on non-benchmark items

A charge of £6.9m (FY13: £7.1m) within net financing income relates to the discount unwind on onerous lease provisions. As these provisions were items previously excluded from benchmark PBT, the discount unwind has also been excluded from benchmark PBT.

Profit before tax

The profit before tax for the year was £71.2m (FY13 restated: £120.9m).

Taxation

Taxation attributable to benchmark PBT was £32.5m (FY13: £29.7m), representing an estimated effective tax rate (excluding associates) of 28.2% (FY13: 30.6%). The lower effective tax rate principally reflects two elements: a 1% reduction in the UK corporation tax rate together with the favourable impact of a relatively fixed level of disallowable expenditure in comparison to the Group's higher level of benchmark PBT in FY14.

Taxation attributable to non-benchmark items amounted to a credit of £15.3m (FY13 restated: charge of £4.3m). The total tax expense for the year was therefore £17.2m (FY13 restated: £34.0m).

Number of shares and earnings per share

The number of shares for the purpose of calculating basic earnings per share (EPS) was 795.0m (FY13: 800.6m), representing the weighted average number of issued ordinary shares of 813.4m (FY13: 813.4m), less an adjustment of 18.4m (FY13: 12.8m) 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 26.4m (FY13: 12.4m) to 821.4m (FY13: 813.0m). Basic benchmark EPS is 10.4p (FY13: 7.7p), with diluted benchmark EPS of 10.1p (FY13: 7.6p). Reported basic EPS is 6.8p (FY13 restated: 10.9p), with reported diluted EPS being 6.6p (FY13 restated: 10.7p).

Dividends

While the Board remains mindful of the investment needs of the Group, this is balanced with the importance of the dividend to our shareholders and as a financial discipline in itself, and after careful consideration by the Board, it is recommending a final dividend of 2.3p. This takes the full-year dividend to 3.3p (FY13: 3.0p), which is a 10% increase in the full-year dividend. The final dividend, subject to approval by shareholders at the AGM, will be paid on 23 July 2014 to shareholders on the register at the close of business on 23 May 2014.

As the Group's earnings profile remains heavily weighted to the seasonal Christmas trading at Argos and hence the second half of the Group's financial year, it continues to be the Board's intention to hold the interim dividend for the year ending 28 February 2015 at 1.0p.

Balance sheet

Net assets as at 1 March 2014 were £2,673.5m, equivalent to 343p (FY13: 342p) per share excluding shares held in Group share trusts. Invested capital as at 1 March 2014 was £2,421.6m, an increase of £44.8m versus the balance sheet as at 2 March 2013. This increase in invested capital was principally driven as a result of an increase in the combined value of intangible assets and property, plant and equipment, which reflects the increased level of capital expenditure in the year, principally as a result of the strategic investment initiatives in both Argos and Homebase. In addition, as previously discussed, there was also an increase in the Financial Services loan book. The increase in invested capital was partially offset by both a reduction in inventories and an increase in provisions.

The increase in invested capital of £44.8m was more than offset by the reduction in forward foreign exchange contracts and the reduction in net cash, the result of which was an overall decrease in net assets of £59.0m.

BALANCE SHEET

As at	1 March 2014	2 March 2013
£m		
Goodwill	1,543.9	1,543.9
Intangible assets	193.6	129.2
Property, plant and equipment	456.7	474.9
Inventories	902.4	941.8
Financial Services loan book	524.1	474.7
Other assets	199.7	198.8
	3,820.4	3,763.3
Trade and other payables	(1,162.7)	(1,168.7)
Provisions	(236.1)	(217.8)
	(1,398.8)	(1,386.5)
Invested capital	**2,421.6**	**2,376.8**
Post-employment benefit obligations	(76.6)	(85.1)
Net tax assets	33.0	10.7
Forward foreign exchange contracts	(35.5)	34.1
Net cash	331.0	396.0
Net assets	**2,673.5**	**2,732.5**

Group financial review continued

CASH FLOW AND NET CASH POSITION

£m	52 weeks to 1 March 2014	52 weeks to 3 March 2013 Restated[1]
Benchmark operating profit	113.0	93.3
Exceptional items	(41.4)	31.3
Post-employment benefit scheme administration costs[1]	(1.9)	(2.1)
Amortisation of acquisition intangibles	(1.8)	(1.8)
Adjustments in respect of store impairment and property provisions	2.1	14.6
Statutory operating profit[1]	70.0	135.3
Depreciation and amortisation	129.5	124.7
Movement in trade working capital	18.4	131.9
Movement in Financial Services loan book	(49.4)	(18.0)
Financing costs charged to Financial Services	3.3	3.1
Cash flow impact of restructuring charges	(28.2)	(9.0)
Pension scheme deficit recovery payments	(22.0)	(8.0)
Movement in post-employment benefit obligations[1]	(13.6)	(34.2)
Other operating items	53.0	(3.7)
Cash flows from operating activities	**161.0**	**322.1**
Net capital expenditure	(173.1)	(78.7)
Taxation	(17.6)	(26.1)
Net interest	0.6	1.7
Other investments	25.2	(11.6)
Cash inflow before financing activities	**(3.9)**	**207.4**
Dividends paid	(23.9)	(8.0)
Purchase of own shares for Employee Share Trust	(37.1)	–
Net (decrease)/increase in cash and cash equivalents	**(64.9)**	**199.4**
Effect of foreign exchange rate changes	(0.1)	2.3
(Decrease)/increase in financing net cash	**(65.0)**	**201.7**
Opening financing net cash	396.0	194.3
Closing financing net cash	**331.0**	**396.0**

The Group has adopted IAS 19 (revised) during the period as set out in note 37 on page 112. Prior year comparatives have been restated where marked 1.

Cash flows from operating activities were £161.0m (FY13: £322.1m). This £161.1m decrease was principally attributable to a decrease in the cash inflow from trade working capital combined with an increase in the Financial Services loan book. There was also an increase in the outflow in respect of restructuring charges and pension scheme deficit recovery payments. Other operating items principally relate to the adding back of the non-cash impact of the exceptional charges.

Net capital expenditure was £173.1m (FY13: £78.7m), representing an increased level of investment across the Group in the previously outlined strategic initiatives of both retail businesses. Tax paid was £17.6m (FY13: £26.1m). Other investments inflow of £25.2m (FY13: outflow £11.6m) principally reflects the cash received in respect of the disposal of the Group's 33% shareholding in Ogalas Limited, which trades as 'home store + more' in the Republic of Ireland, and the receipt of a loan repayment in respect of the Group's, now closed, Chinese joint venture.

Dividends paid to shareholders amounted to £23.9m (FY13: £8.0m). A payment of £37.4m (FY13: £nil) was made to the Home Retail Group Employee Share Trust to fund the purchase of 22.5m shares. The shares are in addition to those already held by the Trust and are needed to satisfy obligations arising from employee share schemes, a significant proportion of which relate to the save-as-you-earn plans offered to the Group's c.50,000 colleagues. This payment was partially offset by the cash receipt in respect of the exercise of a small number of share options.

The Group's financing net cash position at 1 March 2014 was £331.0m, a decrease of £65.0m over the year.

Group pension arrangements

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

The IAS 19 valuation as at 1 March 2014 for the defined benefit pension schemes was a net deficit of £76.6m (FY13: £85.1m). The reduction in the deficit of £8.5m was driven by an increase of £58.3m in the scheme assets to £891.8m (FY13: £833.5m), partially offset by an increase of £49.8m in the present value of scheme liabilities to £968.4m (FY13: £918.6m). The increase in the scheme liabilities was driven principally by a decrease in the assumed discount rate to 4.4% (FY13: 4.7%).

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 £516m (FY13: approximately £429m) over the year.

The Group has a £165m committed unsecured borrowing facility, which is currently undrawn and which expires in March 2016. In addition, as at 1 March 2014 the Group's Financial Services business held a net loan book balance of £524m (FY13: £475m).

The Group has additional liabilities through its obligations to pay rents under operating leases; the operating lease charge for the year amounted to £347.9m (FY13: £353.9m). Total lease commitments stood at £2,627m at 1 March 2014 (FY13: £2,962m), which is a £1,703m, or 39%, reduction from the peak total lease commitments of £4,330m held at 1 March 2008. Based upon the discounted cash flows of these expected future operating lease charges, the capitalised value of these liabilities is £2,046m (FY13: £2,362m) utilising a discount rate of 5.0% (FY13: 4.2%).

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 was unchanged in FY14 at 0.7% (FY13: 0.7%).

Currency risk management

The Group's key objective is to minimise the effect of exchange rate volatility. Transactional currency exposures that could significantly impact the income statement are hedged using forward purchase contracts. Approximately one quarter of the Group's product costs are paid for in US dollars. FY14 has seen a relatively stable period of hedged rates as noted in the table below.

US dollar hedged rates	FY14	FY13	Change cents
First half	1.57	1.60	c.(3)
Second half	1.57	1.59	c.(2)
Full year	**1.57**	**1.59**	**c.(2)**

Share price and total shareholder return

The Group's share price ranged from a low of 121.7p to a high of 207.6p during FY14. On 28 February 2014, the closing mid-market price was 196.2p, giving a market capitalisation of £1.6bn.

Total shareholder return (the change in the value of a share including reinvested dividends) increased by 58% over the year. This compares to an increase of 48% 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 1 March 2014. The basis of preparation is outlined in note 2 to the consolidated financial statements on page 74.

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 81.

Board of Directors and Operating Board

John Coombe
Chairman

John Walden
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

Greg Ball
Managing Director, Financial Services

Peter Connor
Information Systems Director

Maria Thompson
Commercial and Supply Chain Director

Julie Elder
Human Resources Director

Gordon Bentley
Company Secretary

BOARD OF DIRECTORS' PROFILES

John Coombe (69)
Chairman
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 July 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 Takeovers and Mergers and of the UK Accounting Standards Board.

John Walden (54)
Chief Executive
John started his retail career in the US with Peapod. He joined Best Buy in 1999 as President of its internet and direct channels division and also served as Executive Vice President, Human Capital and Leadership, and ultimately as Executive Vice President of its Customer Business Group. John later moved to Sears where he led marketing, merchandising and the internet, catalogue and home services divisions. He joined Argos as Managing Director in February 2012 and was appointed Chief Executive of Home Retail Group on 14 March 2014.

Richard Ashton (47)
Finance Director
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 July 2006, became Finance Director of Home Retail Group.

Mike Darcey (48)
Non-Executive Director
Mike became Chief Executive Officer of News UK in 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 (55)
Non-Executive Director
Ian is a former Finance Director of Liberty International (renamed Intu Properties) and is Chairman of Capital & Counties Properties, Chairman of Greggs and a Non-Executive Director of Greene King. 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 Sea Containers. Ian joined the Home Retail Group Board in July 2011.

Cath Keers (49)
Non-Executive Director
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 of O2, Chairman of Tesco Mobile and Customer Director of 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 (51)
Non-Executive Director
Jacqueline has held business and technology leadership roles within major enterprise software businesses including McAfee, Novell, Business Objects and Informix. Most recently she was the Vice President and General Manager of CA United Kingdom & Ireland. She sits on the board of techUK and is a judge on the Women in Technology and EY Entrepreneur of the Year awards. Jacqueline is also a member of the Prince's Trust Technology Leadership Group. Jacqueline joined the Home Retail Group Board in December 2012.

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

Terry Duddy (58)
Chief Executive until 14 March 2014

Terry began his career at Letraset and joined Dixons Stores Group in 1984, holding positions of 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 July 2006 and stepped down from this role and as a director on 14 March 2014. He is a Non-Executive Director of Hammerson.

BOARD COMMITTEES

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

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

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

Corporate governance

Chairman's introduction

The Board is collectively responsible for the long-term success of the Group, providing strategic leadership and oversight by monitoring performance and the management of risk. In recent years there has been considerable debate about the way in which boards report on their stewardship. In this corporate governance section, my aim is provide insight into how the Board fulfils its stewardship responsibilities.

A number of new disclosure and reporting requirements have been introduced during the period under review. We have taken the opportunity to review our annual report and have made a number of changes. These changes included separate reports on the work and activities of the Audit Committee (page 40) and Nomination Committee (page 39). In relation to remuneration matters, we had implemented early a number of the changes last year and, this year, the Remuneration Committee has addressed the remaining requirements.

Effective boards exhibit a range of characteristics. There needs to be the right balance of skills, experience and knowledge, ideally enhanced by a diverse range of backgrounds. Over the last four years, the representation of these attributes on the Board has been enhanced by our non-executive appointments. John Walden brings to the Board wide-ranging experience of online retailing both in entrepreneurial and large-scale environments which will strengthen the capabilities of the Board. I believe that the Board is well balanced with our directors bringing a broad range of skills and awareness of the challenges which our businesses face right now and those they may face in the future as well as the opportunities open to us.

Effective boards, also exhibit a culture of openness, challenge and debate, supported by constructive relations between executive and non-executive directors and effective communication channels with other members of senior management. This has been particularly important in the period under review as we have developed our strategy; monitored performance against strategic objectives; monitored management of risks; reviewed remuneration policy and incentive arrangements; and ensured an orderly succession to a new Chief Executive. I am grateful to my Board colleagues, both executive and non-executive, and the senior management team for their commitment to this culture and to effective and constructive engagement.

Encouraging diversity within the organisation is an essential driver of long term, sustainable success. It is important that our colleagues represent a wide range of perspectives and skills so they can better understand and serve our customers. This diverse talent pool also helps us to drive innovation and supports us in meeting our strategic goals. We need to identify and nurture potential at every level in the organisation. In this corporate governance section (on page 36) and in the Nomination Committee report (on page 39), we provide information on gender diversity across all levels of our organisation. We will continue to focus on how we can make progress in this important area.

Good governance delivers an environment within which innovation and performance can flourish. This in turn leads to long-term, sustainable success for the Group and benefits for all our stakeholders. 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 2012 (the 'Code').

This statement, together with the directors' report and the directors' remuneration report, provide 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 Group has applied the principles of the Code as below.

The role and effectiveness of the Board

The Board is responsible for the long-term success of the Group by creating and delivering sustainable shareholder value. The Board seeks to achieve this through the monitoring of performance against strategic objectives and providing oversight of the implementation of plans by management. By monitoring its strategy and management of risk, the Board considers the impact of decisions on wider stakeholders including employees, the pension scheme trustee, suppliers and the environment.

The Board consists of the Chairman, John Coombe; Chief Executive, John Walden; Finance Director, Richard Ashton; and four non-executive directors: Mike Darcey (the Senior Independent Director), Ian Durant, Cath Keers and Jacqueline de Rojas. John Walden succeeded Terry Duddy as Chief Executive on 14 March 2014.

In order for any board to discharge its duties and responsibilities effectively, it must comprise the right balance of skills, experience and knowledge ideally gained in a diverse range of backgrounds. In addition, directors must exhibit independence of mind, integrity and the courage to challenge constructively when appropriate.

- John Coombe, appointed to the Board in 2006 and as Chairman in 2012, 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 e-commerce.
- Jacqueline de Rojas, appointed in 2012, has wide-ranging experience in software technology businesses.

The 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 Group has in place formal procedures regarding conflicts of interest, which are reviewed on an annual basis.

There is a clear division of responsibilities between the Chairman and the 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 management 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, managing directors and directors of the 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, 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. Upon appointment, non-executive directors undertake 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, attending management conferences and monitoring developments both in 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 activities of these committees.

Board
Strategic leadership
Monitoring of performance against strategic objectives
Monitoring management of risk

Audit Committee
The committee supports the Board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls. It oversees internal audit and the relationship with the external auditor, including the effectiveness of the external audit and the provision of non-audit services by the external auditor.

Remuneration Committee
The committee is responsible for making recommendations to the Board on remuneration policy for executive directors and other members of the Operating Board as well as the specific remuneration packages for these executives.

Nomination Committee
The committee's focus is on strengthening, balancing and understanding the range of skills, experience and diversity of the Board and key roles below Board level. It is responsible 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.

Corporate governance continued

Certain matters are specifically reserved for the Board's approval and are not delegated to management. These include matters relating to the Group's strategy; approval of any major acquisition; disposals; significant capital expenditure; financial results; and overseeing the Group's systems of internal control, governance and risk management. A formal schedule of matters reserved for the Board is reviewed annually and the following specific responsibilities have remained unchanged this year:

- 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 the Board 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.
- 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, except on one occasion due to the proximity of the previous 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 development and implementation of the Argos Transformation plan including the systems, infrastructure and management resources required to deliver the plan and risks and opportunities. More information on our progress is set out in the Argos business review section on pages 12–15.
- A review of Homebase initiatives and the development and implementation of the Homebase Renewal plan including the rollout of new proposition stores and the development of multi-channel capability and risks and opportunities. More information on our progress is set out in the Homebase business review section on pages 16–19.
- The development of IT infrastructure and service management to complement and support the strategic plans of Argos and Homebase.
- The development of Financial Services to support the Argos and Homebase propositions including the implications of regulatory changes. More information on our progress is set out in the Financial Services business review section on pages 20 and 21.
- The financial performance of the Group and its Operating Companies including financial planning, variances to forecasts and the provision of appropriate financial resources to support the strategic plans of Argos and Homebase.

Other matters considered by the Board included the launch with eBay of a UK collection service; the examinership process in relation to Homebase stores in Ireland; health and safety; business continuity arrangements; and the Group's corporate responsibility strategy, including the Group's approach to human rights. In relation to human rights, the Group maintains and applies appropriate policies in relevant areas of our businesses including our supply chain and in relation to our employees. The Board also approved an updated diversity and inclusion policy as part of a continued focus on progress in this important area. As at 1 March 2014, 24,208 (53%) of a total colleague number of 45,675 were women (FY13: 24,132; 52%) and 24 (26%) of 91 senior executives were women (FY13: 22; 26%). If statutory directors of corporate entities whose financial information is included in the Group financial statements are aggregated with senior executives, 25 (26%) of the total number of 97 were women. 29% (two out of seven) of the Board are women. The Group will continue to support and encourage increased diversity across all parts of its business and at every management level of the organisation. More information on our approach in these areas is set out in the responsible retailing section on page 22 and in the CR section of our corporate website homeretailgroup.com/cr/.

The Company Secretary ensures that the Board receives regular briefings on corporate governance matters and company legislation.

In the previous financial year, an independent formal evaluation of the performance of the Board was undertaken by ICSA Board Evaluation. ICSA Board Evaluation has no connection with the Group. During the period under review, ICSA Board Evaluation undertook a follow-up review. Each director and each of the managing directors of Argos and Homebase was asked to review a summary of their original comments 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. In the case of the director who did not participate in the previous year's review, ICSA Board Evaluation met with the director and a summary of the discussion was reviewed by the interviewee. A report on the findings was produced by ICSA Board Evaluation and reviewed by the Board. Based on the interviewees' assessments of each topic, ICSA Board Evaluation assessed that, overall, the Board was continuing to perform well. The Board considered the findings and recommendations of the follow-up assessment including progress on previous recommendations. Actions to enhance the effectiveness of the Board were agreed and are being addressed including the scheduling of additional opportunities for Board members to review and receive updates on digital developments and a review of succession planning.

Individual appraisals of directors have been undertaken by the Chairman. Under the leadership of the senior independent director, the non-executive directors met without the Chairman present to appraise the Chairman's performance, taking account of any views expressed by the executive directors. In line with the requirements of the Code, all directors are required to submit themselves for re-election each year.

Board committees

The Board has appointed the following committees: Remuneration Committee, Nomination Committee and Audit Committee. The terms of reference of each of these committees are available on the Group's website at homeretailgroup.com. For information on the work of the Audit Committee see page 40, the Nomination Committee see page 39, and the Remuneration Committee see page 44 onwards. The attendance of directors at meetings of the Board and the Board committees during the period under review was as follows:

COMMITTEE ATTENDANCE

Board member	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Terry Duddy	13/14	–	–	1/6
Richard Ashton	13/14	–	–	–
John Coombe	14/14	–	9/9	6/6
Mike Darcey	14/14	4/4	8/9	6/6
Ian Durant	13/14	4/4	8/9	6/6
Cath Keers	13/14	4/4	9/9	6/6
Jacqueline de Rojas	13/14	2/4	7/9	5/6

Note:
There were no Board changes during the period under review. On 14 March 2014, John Walden was appointed to the Board. Terry Duddy stepped down on the same date.

Internal control

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'. This process is overseen by a risk committee chaired by the Finance Director and comprised of all divisional finance directors, the director of Group treasury and taxation, the Company Secretary, the risk assurance manager and the Head of Internal Audit. The risk committee met six times in the period under review.

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board. As part of the process that the Group 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

- The Board considered and reviewed the Group's strategy, including the Argos Transformation plan and Homebase Renewal plan, taking into account the risks it was willing for the Group to take in achieving its strategic objectives.
- During the period under review, the Group's risk standards were updated, including a statement on the Group's willingness or tolerance for different categories of risk.
- Current and longer-term emerging risks in relation to the Group's strategy and the delivery of the strategy (including any risks that could threaten the Group's solvency or liquidity) were identified and reviewed by management on the basis of the likelihood and impact of these risks materialising, 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 ensure 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

Corporate governance continued

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 Group'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. John Coombe has held meetings with a number of shareholders during the period under review. Cath Keers, as chair of the Remuneration Committee, has also engaged with larger shareholders on remuneration matters. Additionally, during the year, the Board obtained an independent insight into the views of major shareholders by commissioning research from a third-party adviser across a balanced sample of investors. These shareholders controlled some 41% of the Company's issued share capital. The findings of the research were presented to the Board by the third-party adviser.

Through these processes the Board is kept abreast of key issues. Shareholders have a direct line of communication to the Chairman, particularly if there are areas for concern, whether it be about performance, strategy or governance. The senior independent director is also available should shareholders have concerns which contact through the normal channels of the Chairman, the Chief Executive and the Finance Director has failed to resolve, or for which such contact is inappropriate.

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

Nomination Committee report

Membership

The Nomination Committee is chaired by John Coombe and its other members are Mike Darcey, Ian Durant, Cath Keers, Jacqueline de Rojas and John Walden (appointed 14 March 2014). Terry Duddy stepped down from the committee on 14 March 2014.

Meetings

The committee met six times during the year and attendance at those meetings is shown on page 37 of the corporate governance section. Terry Duddy did not attend meetings relating to the appointment of his successor as Chief Executive.

Main activities

The committee's focus is on strengthening, balancing and understanding the range of skills, experience and diversity of the Board and key roles below Board level. The Nomination Committee is responsible 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.

Appointment of Chief Executive

The committee led the process that resulted in the appointment of John Walden as Chief Executive on 14 March 2014. The key steps in this process were as follows:

- An external search consultancy, JCA Group, was appointed to facilitate and advise upon the search. JCA Group has no other connection with the Group and is a signatory to the Voluntary Code of Conduct for Executive Search Firms.
- The committee considered the knowledge and experience required for the role, taking into account the strategy of the Group and its businesses, and prepared a description of the role and the capabilities and experience required.
- A preliminary long-list of potential candidates was prepared by JCA Group from which a shortlist of candidates was identified. The shortlisted candidates were interviewed by each of the committee members.
- The committee considered the respective skills, experience and capabilities of the shortlisted candidates. Taking into account the advice of JCA Group, the committee recommended and the Board approved the appointment of John Walden to succeed Terry Duddy as Chief Executive. Biographical details of John Walden and Terry Duddy are shown in the Board of Directors' profiles section on page 33.

Board committees

The committee considered and reaffirmed the membership of Board committees.

Board succession planning

The committee considered the balance of skills, experience, independence and knowledge on the Board and it was agreed that succession planning should be reviewed in the current financial year.

Development of talent and diversity

The committee considered the management and development of talent and activities to support and develop diversity. The committee focused on the importance of developing the talent pipeline and the challenge of ensuring succession plans for key roles. From a gender perspective, as at 1 March 2014, the Company had two female directors representing 29% of the Board (FY13: 29%) and 22% of Operating Board members were women (FY13: 22%). The committee discussed gender diversity in senior management and supported the work taking place to help inform areas of focus including developing measures that enable the Group to monitor its progress in achieving a diverse colleague base. More information on our policy and approach to diversity can be found in the corporate responsibility section of our website, homeretailgroup.com.

Audit Committee report

Chairman's introduction

The Audit Committee has an important role to play in effective reporting to our stakeholders and ensuring high standards of quality and effectiveness in the external audit process. For the first time, the committee has provided a separate report on its activities. In line with the feedback from investors reflected in the Financial Reporting Lab report on Reporting of Audit Committees published in October 2013, my intention has been to provide a report that focuses on matters relevant to Home Retail Group and the work of the committee during the year and to avoid unnecessary standardisation wherever possible.

Ian Durant
Chair – Audit Committee

Membership

The Audit Committee comprises all of the independent non-executive directors and is chaired by Ian Durant, whom the Board considers has both recent and relevant financial experience. Ian Durant is a Chartered Accountant and a former Finance Director of Liberty International (renamed Intu Properties) and other companies. Further biographical details of Ian Durant are shown in the Board of Directors' profiles on page 33.

Meetings

The committee met four times during the year and attendance at those meetings is shown on page 37 of the corporate governance section. At the invitation of the committee chairman, the Group Chairman, Chief Executive and Finance Director attend committee meetings. The Group head of internal audit and the external auditors also attend meetings of the committee at the invitation of the committee chairman. After each of its meetings, the committee met with the external auditors and the head of internal audit, in each case without the presence of executive directors or management.

Main activities

The committee supports the Board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls. It oversees internal audit and the relationship with the external auditor including the effectiveness of the external audit and the provision of non-audit services by the external auditor.

The committee has a structured annual programme developed from its terms of reference and linked to the Group's financial calendar. The programme includes standing items the committee considers at each meeting as well as topical items on which the committee has chosen to focus. The committee's terms of reference are reviewed annually and were last reviewed in February 2014. They can be found on the Group's website homeretailgroup.com. Specific issues considered by the committee included the Group's response to risks arising in relation to information and cyber security.

At each meeting, the committee considered reports from the head of internal audit 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.

Fair, balanced and understandable

Following the revision to the UK Corporate Governance Code, which applies to financial years commencing on or after 1 October 2012, the Board asked the committee to advise on whether the annual report and financial statements, taken as a whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's business model, strategy and performance. The committee reviewed the process for preparing the annual report and accounting statements. This process included the following key elements:

- Review of new regulations and reporting requirements with external advisers to identify additional information and disclosures that may be appropriate.
- Preparation of a detailed timetable and allocation of drafting responsibility to relevant internal teams with review by an appropriate senior manager.
- Provision of an explanation of the requirements of "fair, balanced and understandable" to those with drafting responsibility.
- Monitoring of the integrity of the financial statements and other information provided to shareholders to ensure they represented a clear and accurate assessment of the Group's financial performance and position.
- Review of significant financial reporting issues and judgements contained in the financial statements.
- Review of all sections of the report by relevant external advisers.
- Review by senior manager working group responsible for the annual report process.
- Review by Operating Board members.
- Interim progress review of process and report content with Audit Committee chair.

- Review of a paper presented to the committee which set out to review the contents of the annual report and substantiate why it provided a fair, balanced and understandable view of the year under review.

The committee reviewed the annual report and has confirmed it is fair, balanced and understandable.

Financial reporting

The committee reviewed the full-year and half-year results announcement, annual report and financial statements and considered reports from the external auditors identifying any accounting or judgemental issues requiring its attention.

To inform the Board's assessment of whether it was appropriate for the Group 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 Group's financial plans, in relation to liquidity and solvency taking into consideration the Group's cash position, bank facilities and store card receivables and a range of sensitivities.

Significant issues considered by the committee in relation to the FY14 financial statements and how these were addressed are set out below.

Goodwill carrying values

The committee reviewed management's assessment of the carrying value of the Group's goodwill. In doing so the committee considered the key judgements including the discount rate, long-term growth rate, and the projected future cash flows of each cash-generating unit to which goodwill is allocated, based upon financial plans approved by the Board. The committee concluded that the projected value-in-use calculations based on these cash flows supported the carrying value of the Group's goodwill, and therefore that no impairment had occurred. Details of the assumptions applied in calculating the value-in-use of the Group's goodwill are set out in note 14 to the consolidated financial statements on page 94.

Impairment of assets

A review by management concluded that given the ongoing subdued trading environment, indicators of impairment existed for Homebase's store portfolio, but for no other cash-generating units. The Homebase store portfolio was therefore tested for impairment, using value-in-use calculations, based on projected future cash flows from financial plans approved by the Board. The committee concurred with the conclusion that no impairment charges were required, as the value-in-use calculations supported the carrying value of Homebase's store portfolio and £3.0m of previously recognised impairment charges were reversed during the year.

Onerous lease provisions

The committee considered the provisions made for onerous lease contracts for stores that had either closed or where projected future trading income was insufficient to cover the lower of exit cost or cost of running the store. The onerous lease model is judgemental and dependent on future events such as trading conditions at a particular store. The provisions represent management's best estimate of the liability at the balance sheet date based on financial plans approved by the Board. The committee agreed with the judgements made and conclusions drawn by management, and therefore concluded that the accounting for and recognition of these provisions was appropriate.

Impairment of trade receivables

Store card receivables of £524m represent a significant asset on the Group's balance sheet. The provision for impairment has been established on a portfolio basis, taking into account the level of arrears, past loss experience and defaults based on portfolio trends, and also judgements made by management to assess the appropriateness of the provision. The committee concurred with management's assessment and judgements and agreed that the provisioning level was appropriate. Further details of provisions against receivables are disclosed in note 20 to the consolidated financial statements on page 99.

Inventory provisions

Inventory of £902m represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value. Net realisable value takes into account slow moving, obsolete and defective inventory. Provision is also made against inventory losses arising, for example, due to theft. The committee considered and concurred with management's assessment of the net realisable value of inventory because the methodology used in calculating provisions against inventory has been consistently applied by management, taking into account previous experience of impairment or inventory losses.

Exceptional items

Argos Transformation plan

Given the scale of the Argos Transformation plan, the committee considered the judgements made by management when assessing the items to be reported as exceptional. The committee agreed with management's assessment that the exceptional items in respect of the Argos Transformation plan which have been reported in note 9 to the consolidated financial statements have been calculated and reported in accordance with the policy set out in note 3.

Financial Services provisions

The Group's Financial Services division offers PPI to its customers. In response to an industry-wide review by the Financial Conduct Authority, a full investigation has been undertaken with the support of an independent expert, which will result in a customer redress exercise being carried out. As a result, management have increased the provisions taken for customer redress in respect of financial services products by £25m during the year, to a total of £37m, of which £3m has already been utilised, resulting in a provision as at 1 March 2014 of £34m. These provisions represent management's best estimate of the liability at the balance sheet date.

The committee agreed with the judgements made and conclusions drawn by management, and therefore concluded that the accounting for and recognition of these provisions was appropriate.

Audit Committee report continued

External audit

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 committee took a number of factors into account in its assessment including but not limited to:

- The quality and scope of the planning of the audit. In September 2013, the external auditors presented their strategy for FY14 to the committee. The committee reviewed and agreed with the external auditor's assessment of risks. The committee also reviewed the audit approach including how the external auditors planned to evolve the audit to respond to changes in the business including the Transformation plan in Argos and the external auditors' approach to assessing materiality for the Group;
- The quality of reports provided to the committee and the Board and the quality of advice given;
- The level of understanding demonstrated of the Group's businesses and the retail sector;
- The objectivity of the external auditors' views on the controls around the Group and the robustness of challenge and findings on areas which required management judgement; and
- The key messages highlighted in the Public Report on the 2012/13 inspection of PricewaterhouseCoopers by the FRC's Audit Quality Review Team and the findings highlighted for audit committees in the AQRT's annual report for 2012/13.

In addition, a review was undertaken by the Group's internal audit department of the effectiveness of the external audit for the previous financial year.

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 stakeholders within management 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 committee reviewed and discussed the findings of the report with the head of internal audit and the lead audit engagement partner.

After taking into account all of the above factors, the committee concluded that the external auditors were effective.

Taking into consideration the audit strategy and proposed areas of work and the assessment of the effectiveness of the external audit for the previous financial year, the Audit Committee discussed and approved the external auditors' audit fee proposal.

Independence

External auditor independence is an essential part of the audit framework and the assurance it provides. The committee reviews the independence of the external auditor when considering their reappointment. 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 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. The current external auditors, PricewaterhouseCoopers LLP, were appointed in 2006 and, since that time, the external audit has not been formally tendered. The committee is aware of the developments on auditor rotation in Europe and will monitor the knock-on implications that this may have to the Competition Commission's recommendations on the matter. Once greater clarity is available consideration will be given to the auditor retendering/rotation. However it is the Group's current intention to review the arrangements on rotation of the existing audit partner following the FY16 year end.

Non-audit services

The Group's policy on the provision of non-audit services is that the external auditors may only provide such services provided these do not conflict with their statutory responsibilities and ethical guidance. These services are:

- Further assurance services – where the external auditors' 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 support to the Group's tax position and, where this is not the case, the work is put out to tender.
- 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 Group uses non-audit services that exceed £50,000.

For the period under review, non-audit fees paid to the Group's auditors, PricewaterhouseCoopers LLP, did not exceed audit fees. Non-audit services provided by the external auditors were primarily in respect of the examinership process undertaken for Homebase stores in Ireland and related taxation services. 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 Group and their cost effectiveness. The fees in respect of assignments carried out by the external auditor in addition to their normal work in the period under review were:

	£m
Taxation services	0.1
All other services	–

Internal audit and control

The Group has an internal audit department and the Group head of internal audit reports jointly to the Chairman of the committee and to the Finance Director. The committee agreed the audit plan to be undertaken by the internal audit team at its meeting in February 2013 prior to the start of the financial year and at each meeting throughout the year progress against this plan was reviewed. The plan was assessed on the basis of providing appropriate coverage over the internal control environment to provide the committee with a balanced overview across the Group, taking into account the level of risk and previous coverage. Additional areas of review were added to the plan as required where circumstances gave rise to an increased level of risk and any changes to the agreed audit plan were reviewed by the committee.

At each meeting, the committee considered reports from the head of internal audit on the results of all internal audit reviews, significant findings and progress on management actions agreed from previous audits. A review of the effectiveness of internal audit was carried out during the year by way of a questionnaire to stakeholders. Having considered the results of this survey and a number of other factors, including the quality of reporting to the committee and impartiality of the internal auditors, the committee concluded that internal audit was effective. In February 2014, the committee considered and approved internal audit's audit plan for FY15.

Risk management

The committee has delegated responsibility from the Board for considering operational, financial and compliance risks on a regular basis. Information on the Group's approach to internal control and risk management is set out in the corporate governance section on pages 37 to 38. In September 2013 and February 2014, the committee reviewed reports on the Group's risk management process and risk profile with particular focus on those risks classified as high-level risks by management. A summary of the principal risks and uncertainties that could impact the Group's performance can be found on pages 24 and 25.

Directors' remuneration report

Cath Keers
Chair – Remuneration Committee

Dear fellow shareholders, I am pleased to present the remuneration report for the year ended 1 March 2014.

The purpose of the Remuneration Committee is to ensure that the remuneration offered to our executive directors provides incentive to retain and motivate them to deliver strong business performance aligned with shareholder interests.

This year, the committee dealt with a number of key issues, including a review of policy for the executive directors for FY15 and beyond; dealing with the remuneration arrangements around the change in Chief Executive; and appointing new advisors. More detail is provided below and in the policy and annual reports that follow. In addition, we have continued to build on the structure of last year's remuneration report and have fully adopted the new reporting principles from the Department for Business, Innovation and Skills, which were passed into law from October 2013. The format of this report is, therefore, a policy report detailing remuneration policy, and an annual report, which details implementation of the policy during the financial year.

Link to strategy

The strategy for the Group is set out in the strategic report on pages 4 to 31 and is focused on creating long-term value for our shareholders by delivering sustainable growth in our retail brands through the continuation of the Argos Transformation plan and the Homebase Renewal plan. The committee takes a strategic approach to determining remuneration policy to ensure alignment with the strategic plan and the interests of our shareholders through the design and delivery of meaningful and tailored incentives with stretching performance targets for our executive team.

The links to strategy that support specific elements of remuneration are set out in the policy report on pages 45 to 52.

Review of policy

This year we have reviewed our remuneration policy for executive directors and have made a number of changes which are described in more detail below and in the remuneration report. The key outcome of this review is a material reduction in the maximum long-term and short-term incentive levels for our executive directors, accompanied by a revised approach to targeting. The revised structure and levels continue to provide a meaningful incentive for executive directors which is aligned with shareholder interests.

Under the new policy, the maximum opportunity for executive directors under the annual bonus scheme will be 130% of base salary. As described above, this is a reduction from previous years, from 150%, but, combined with the revised approach to targeting, continues to provide a meaningful incentive. To further align the interests of executive directors with our shareholders, the committee has also introduced an element of deferral under the annual bonus which sees 25% of any bonus earned deferred into shares for three years. Performance targets for FY15 will continue to be set by reference to the Group's annual budget and are described in the annual report on remuneration on pages 53 to 59.

For long-term incentives, the value of performance shares awarded under the Performance Share Plan (PSP or 'the Plan') going forward will be 200% of base salary, again a reduction from the current level of 250%, that we believe provides an incentive to the executive directors that is aligned with shareholder interests. To reflect the importance of cash to the Group, we are introducing a third performance metric – cumulative adjusted cash flow. It will generate 30% of long-term incentive opportunity alongside the current metrics of earnings per share (EPS) growth and relative total shareholder return (TSR), which will provide 30% and 40% of the maximum opportunity respectively. Together, these measures support our strategy of maximising growth and delivering our Group strategy. Performance targets for awards made in FY15 are described in the annual report on remuneration on pages 53 to 59.

In addition, shareholding guidelines have been updated to include only unencumbered shares. This is in line with best practice and further strengthens alignment of our executive directors with shareholders. Proportionate changes have also been made to the maximum incentives available to the most senior executives below Board level.

Our new policy is subject to a binding vote by shareholders at the AGM, and, if approved, will become effective from 2 July 2014.

Chief Executive transition

Terry Duddy stepped down as Chief Executive on 14 March 2014 and has been succeeded by John Walden, formerly managing director of Argos. We worked closely with the Nomination Committee during the appointment process and the committee is satisfied that the appointment package for John Walden in his new role is fully aligned with shareholder interests. Further details are provided in the annual report on remuneration on pages 53 to 59.

Review of advisors

During the year we carried out a full tender process to review our committee advisors. A number of prospective advisors were considered against a set of criteria agreed by the committee at the start of the review. Following a full review, the committee appointed Deloitte LLP, an independent firm of remuneration consultants and a founding member of the Remuneration Consultants Group, as advisors from September 2013.

Remuneration outcomes in FY14

At the end of FY14, the committee reviewed performance against set targets for both benchmark PBT and adjusted cash flow to determine annual bonus performance. The committee used its discretion when finalising the bonus award against benchmark PBT, recognising that provision has been made against potential future PPI misselling claims. Further details are provided on page 54. As such, bonus payouts were scaled back to 28% of maximum opportunity for benchmark PBT. Performance achieved was 100% of opportunity for adjusted cash flow. This resulted in a total bonus payout for executive directors of 96% of base salary against the maximum opportunity of 150% of base salary.

PSP awards granted in 2011 with three-year performance targets based on relative TSR and EPS did not meet the threshold level of performance required and therefore lapsed in full.

For the third year in a row, there will be no increases to base salaries for executive directors in April 2014. The base salary agreed for the new Chief Executive on appointment is positioned in line with the market but significantly below that of the previous Chief Executive.

Engagement

During the year I have met with a number of major shareholders and I am grateful for the support and input I received, especially in connection with our proposed incentive arrangements but also on wider executive remuneration and linkage to shareholder interests.

I hope that shareholders will be supportive of both the binding resolution on the policy report and the advisory resolution on the annual report on remuneration. I will be available at the AGM to answer any questions you may have.

Cath Keers
Chair – Remuneration Committee

Directors' remuneration report for the year ended 1 March 2014

The directors' remuneration report has been prepared in accordance with the relevant provisions of the Listing Rules and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

As last year, and in line with the new reporting regulations, this report is split into two sections:

- The policy report (pages 45 to 52), which is intended to last three years and be effective from 2 July 2014. This section of the report will be subject to a binding shareholder vote at the 2014 AGM.
- The annual report on remuneration (pages 53 to 59), which provides details on how directors were paid in FY14 and how we intend to implement the remuneration policy in FY15. This section of the report will be subject to an advisory shareholder vote at the 2014 AGM.

Policy report (non-audited)

The Remuneration Committee has reviewed the operation of the remuneration of executive directors during the year and the policy table on pages 46 to 49 reflects proposed policy going forward. If approved, the policy will be effective from the date of the 2014 Annual General Meeting and it is intended to apply for three years unless a revised policy is approved by shareholders before this date.

Group policy on the remuneration of executive directors, as described in the table on pages 46 to 49, is underpinned by the following principles:

- Remuneration arrangements support the attraction and retention of senior executives with the necessary skills and capability to deliver key strategic priorities for the Group without paying any more than necessary.
- The interests of shareholders and senior executives should be aligned through the use of performance metrics that support the creation of shareholder value by providing a strong link to the business strategy and financial performance of the Group.
- Total reward packages will be aligned with the relevant market (comparable UK listed retailers and companies of a similar size and complexity to the Group) but will be affordable in the context of overall business performance.
- The levels of short-term and long-term variable remuneration and the mix of equity and cash are set to provide stretching performance hurdles and incentives without encouraging unnecessary risk-taking.
- Individual executive contribution to delivering sustained, long-term business performance will be recognised and rewarded.
- Executive directors will be encouraged to acquire and retain Group shares through both the PSP and all-employee plans to further support alignment with shareholders.

The same principles apply for the remuneration decisions for the Operating Board (comprising senior executives, including the executive directors) and other senior colleagues across the Group where relevant.

The committee engages pro-actively with the Group's major shareholders on remuneration matters. As set out in her introductory letter, the committee chair consulted with major shareholders in early 2014 on the proposed changes to the long-term and short-term incentive arrangements and other executive remuneration matters.

Directors' remuneration report continued

Remuneration policy table – executive directors

Base salary

STRATEGIC OBJECTIVES	To attract and reward executives of a suitable calibre to deliver the Group strategy.
OPERATION	• Contractual fixed-cash amount paid monthly • Generally reviewed on an annual basis with any salary changes typically effective in March • When reviewing salaries, account is taken of the following: – Benchmark data for other comparable UK listed retailers and companies of a similar size and complexity to Home Retail Group – Movements in the employment market – The general economic environment – Individual performance – Increases awarded to other colleagues in the Group
MAXIMUM	• Whilst there is no set maximum, the committee would expect any increases to be broadly in line with increases awarded to other colleagues in the broad-banded population (which covers a range of roles, both management and non-management) across the Group • The committee retains the discretion to make increases above this level in certain circumstances, for example, but not limited to: – an increase in the individual's scope of responsibilities – in the case of a new executive director who may be initially positioned on a lower initial salary whilst they gain experience in the role • Details of the base salaries for the executive directors for FY15 are provided in the annual report on remuneration on page 55
PERFORMANCE METRICS	None – although performance of the individual is taken into account when setting and reviewing base salary levels.

Short-term incentive – annual bonus

STRATEGIC OBJECTIVES	To incentivise and recognise the delivery of the Group's strategic annual goals.
OPERATION	• Targets are set at the beginning of each year • Performance is determined by the committee after the year end, based on assessment against targets measured over one financial year • The committee retains the discretion to scale back payment of any bonus after assessing the formulaic outcome against targets, should it consider it appropriate to do so • 75% of any annual bonus payment is paid in cash, with the remaining 25% deferred into share awards • The committee may, at its discretion, claw-back bonus awards in the event of material misstatement, an error in the calculation of the bonus or misconduct • The committee will set the deferral period applicable to the deferred bonus awards, which will normally be three years • Deferred share awards are subject to malus during the deferral period. The committee retains discretion to lapse unvested deferred awards in the event of material misstatement, error or misconduct • Deferred share awards will normally be delivered to participants after the normal vesting date, subject to the underlying financial performance of the Group and any other performance conditions that may apply • Awards may incorporate the right to receive dividend equivalents in the form of cash or shares during the vesting period
MAXIMUM	Maximum bonus opportunity for executive directors is 130% of base salary with up to 20% of maximum bonus opportunity payable for meeting threshold performance.
PERFORMANCE METRICS	• Performance measures for the annual bonus are normally based on annual financial performance measures, such as profit and adjusted cash flow. The committee may decide to include other, non-financial, key strategic targets in future years to reflect alignment with business strategy and shareholder interests, subject to at least 50% of measures being financial in nature • For FY15, targets will be based on benchmark PBT and adjusted cash flow and are equally weighted • The committee will review the targets and weighting each year and reserves the right to change measures and weightings in future years to reflect alignment with shareholder interests and business strategy • Whilst the deferred bonus awards are not subject to any further performance conditions, awards will vest subject to the satisfactory underlying financial performance of the Group up until the date of vesting • The approach to targets that will apply for FY15 is provided in the annual report on remuneration on page 55

Long-term incentive – PSP

STRATEGIC OBJECTIVES	To incentivise and reward delivery of long-term returns for shareholders and support retention.
OPERATION	• Awards are normally granted annually and vest at the end of a three-year performance period, subject to assessment of the achievement of performance conditions by the committee, unless the committee determines otherwise • Award levels are determined based on market practice amongst other retailers and companies of a similar size and complexity as the Group with a face value set by reference to multiples of base salary • Performance measures are selected by the committee to incentivise the delivery of value to shareholders over the longer term through the achievement of key strategic measures • A malus rule applies to executive directors for awards granted since FY13 giving the committee the discretion to scale back unvested awards in the event of misstatement, error or misconduct • Awards may include the right to receive (in cash or shares) the value of dividends payable on award shares that vest over the vesting period
MAXIMUM	• The usual maximum value of shares awarded to executive directors in respect of a financial year will be 200% of base salary. 25% of the award – ie up to 50% of base salary – vests for achieving threshold performance • The PSP rules allow awards in shares in respect of a financial year of up to a maximum of 300% of base salary. However, the committee does not intend to make awards above the usual maximum of 200%, other than in exceptional circumstances – for example, to facilitate the buyout of awards forfeited by a new recruit on cessation of their previous employment
PERFORMANCE METRICS	• Performance is assessed against three measures weighted as follows: – 40% relative TSR performance against a group of sector peers – 30% EPS growth – 30% cumulative adjusted cash flow • The committee reserves the right to alter the measures and weightings year-on-year if it deems it appropriate, for example to focus executives on one measure to align better with the Group's strategy and shareholder interests • The approach to the targets that will apply for the FY15 awards are provided in the annual report on remuneration on page 55 • The committee may change a performance condition in accordance with its terms or if any event happens which causes the committee reasonably to consider this is appropriate

Approved HMRC addendum to the PSP

STRATEGIC OBJECTIVES	To support retention by delivering a proportion of the PSP award in a tax-efficient way.
OPERATION	• Provides the opportunity to have an element of any PSP award delivered using an HMRC approved plan • Where a gain is made on the HMRC approved options under the PSP, conditional awards to the same value are forfeited to deliver the same gross value in a tax-efficient way
MAXIMUM	Will not exceed the current tax thresholds permitted by HMRC (currently £30,000).
PERFORMANCE METRICS	• Performance of the metrics will be assessed in line with those outlined under the PSP award • In addition, the share price at the time of vesting must be greater than the share price at award date for this element of the PSP to trigger

All-employee share schemes

STRATEGIC OBJECTIVES	To support alignment of executives with shareholders.
OPERATION	• Executive directors are entitled to participate in the same all-employee share schemes offered to other Group colleagues • The Group currently operates a Save As You Earn (SAYE) scheme under which participants can make monthly savings over a period of three or five years linked to the grant of options over Home Retail Group shares
MAXIMUM	• Participation limits for the SAYE scheme are upto those set by HMRC • The committee reviews the structure of the all employee scheme on an annual basis to set the maximum. However, this will not exceed the limits set by HMRC
PERFORMANCE METRICS	None.

Directors' remuneration report continued

Benefits	
STRATEGIC OBJECTIVES	To support the attraction and retention of executives of the calibre required to deliver the Group strategy.
OPERATION	• The benefits provided take into account market practice and may include, but are not limited to, the following: – Car benefits, including a driver – Private medical insurance and US healthcare for the executive director's family – Relocation – Life insurance – Limited personal travel and home office expenses – Subscription to professional bodies • The committee retains the discretion to change the benefits provided (including providing additional benefits) in line with market practice
MAXIMUM	• There is no maximum. The value of benefits will vary year-on-year depending on the cost of providing these benefits • Set at an appropriate market level in the context of the market/role/individual
PERFORMANCE METRICS	None.

Retirement benefits	
STRATEGIC OBJECTIVES	To support the attraction and retention of executives of the calibre required to deliver the Group strategy.
OPERATION	• Executive directors are provided with retirement benefits which, at the choice of the executive director, may be delivered in the form of either a cash allowance or as a payment into the Group's Defined Contribution scheme • The value of the retirement benefit is the same regardless of the form chosen and executive directors receive no additional benefit/contribution if this allowance is delivered as payment into the Defined Contribution scheme
MAXIMUM	• The maximum employer contribution in respect of a financial year for any director is 30% of base salary
PERFORMANCE METRICS	None.

Remuneration policy table – legacy plans

The following tables set out a summary of any legacy plans under which outstanding awards are currently operating:

Home Retail Group non-approved Share Option Plan	
STRATEGIC OBJECTIVES	Legacy plan.
OPERATION	• Rolled-over 'market value' options were granted over Group shares following the demerger from GUS plc. The options are governed by the rules of the GUS plc executive share option scheme • Vested options normally lapse on the tenth anniversary of grant, or if earlier, six months after cessation of employment (excluding time where dealing in shares is restricted under the Model Code) or twelve months in the case of death
MAXIMUM	• All outstanding options are now exercisable. Details of outstanding options granted to the current executive directors are set out on page 57
PERFORMANCE METRICS	Performance conditions measuring historic GUS plc EPS growth have already been assessed and fully met.

Home Retail Group Secured Unapproved Retirement Benefit Scheme

STRATEGIC OBJECTIVES	Legacy plan.
OPERATION	• The Finance Director has retained benefits under a Secured Unapproved Retirement Benefit Scheme which is now closed to future accrual. This arrangement is designed to replicate the benefits available from the Home Retail Group Pension Scheme for earnings over a certain limit. No further benefits will accrue under this Scheme • Subject to the consent of the independent trustee of the Scheme, the Group may offer members the opportunity to take a cash equivalent transfer offer from the Scheme. The cash equivalent offer would be calculated using the same factors as those used by the Trustee of the Home Retail Group Pension Scheme with the exception of the mortality assumption which would be changed to reflect the assumed mortality of the membership of the Scheme • The cash equivalent transfer value would not typically provide any additional or uplifted benefit to the individual. Group National Insurance costs relating to individuals accepting a cash equivalent offer may be covered by the Group at the discretion of the committee
MAXIMUM	n/a – legacy plan.
PERFORMANCE METRICS	None.

Notes:
- The performance measures selected for the purposes of the annual bonus plan and the long-term incentive plan are key performance indicators for the Group. They support and reward sustainable and long-term shareholder value creation. Performance targets are set taking into account prior-year performance, annual budgets and longer-term financial plans, strategic imperatives and external factors including analyst forecasts.
- The claw-back mechanism under the annual bonus plan will be facilitated through the reduction in value of whichever of the following payments come first:
  - The vesting of any deferred bonus (if such arrangements exist) linked to the performance year to which the claw-back related; or
  - The next vesting under the PSP (at its value when it vests); or
  - The next bonus.

  Only after these possibilities have been exhausted would the Group seek to recover a net-of-tax cash payment from the individual.

The elements of remuneration for executive directors apply to a significant number of employees within the Group. Award levels and participation vary depending upon seniority and market factors. Further details are provided on page 50.

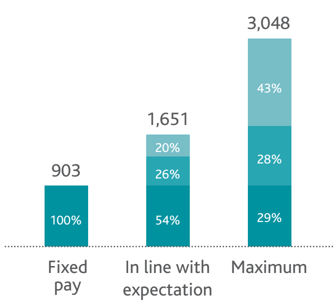
General

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Group and, in the opinion of the committee, the payment was not in consideration of the individual becoming a director of the Group. For these purposes 'payments' includes (but is not limited to) the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. The committee may also make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

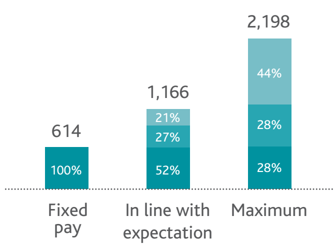
Illustration of our executive remuneration policy for FY15

The charts below show how the composition of each of the executive directors' remuneration packages varies at different levels of performance achievement: The chart for the Chief Executive is based on the remuneration arrangements for John Walden, who was appointed with effect from 14 March 2014. The values exclude share price appreciation and dividends.

John Walden
Chief Executive (£000)



Richard Ashton
Finance Director (£000)



■ *Fixed pay* ■ *Annual bonus* ■ *Long-term share awards*

The assumptions used in the charts, left, are as below (continued overleaf).

Fixed pay – minimum performance
- Base salary, benefits and pension (total fixed pay)
  - Base salary – As effective for FY15
  - Benefits – For the Finance Director this is the value received for FY14. For the new Chief Executive this is the value received for FY14, but also includes the increased benefits allowances agreed on his promotion to Chief Executive
  - Pension – Based on pension provision of 30% for the Chief Executive and 25% for the Finance Director
- No bonus pays out
- No vesting under the PSP

Directors' remuneration report continued

In line with the Group's expectations

- Total fixed pay as outlined under 'minimum performance'
- 50% of maximum bonus opportunity (65% of base salary for both of the executive directors)
- 25% of long-term incentive share awards (50% of base salary for both of the executive directors)

Maximum performance

- Total fixed pay as outlined under 'minimum performance'
- 100% of annual bonus opportunity (130% of base salary for both of the executive directors)
- 100% of long-term incentive share awards (200% of base salary for both of the executive directors)

All-colleague remuneration policy

The remuneration policy for colleagues across the Group enables us to provide a reward package that supports the recruitment of individuals with the skills we need to deliver both service to our customers and the broader strategic priorities of the Group.

Circa 6,600 colleagues are eligible to participate in annual bonus arrangements, which are subject to stretching Group or Operating Company targets and their personal performance. Performance measures are broadly aligned with those of the executive directors.

Management colleagues who have the greatest potential to influence Group performance are also invited to participate in the long-term incentive arrangements. Circa 350 colleagues are invited to participate on an annual basis.

All permanent colleagues in the UK are eligible to participate in the all-employee share schemes.

Remuneration policy table – non-executive directors

The following 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 and strategic objective	▪ Fees should be broadly 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.
Policy and maximum	▪ Fees are a combination of cash fees paid monthly and shares, purchased twice each year. Shares purchased must be retained until retirement from the Board of Directors. ▪ Whilst there is no maximum fee level for individuals, the total fees paid to the non-executive directors will not exceed the aggregate limit set out in the Group's Articles of Association, currently £1.5m. ▪ The fee structure is as follows: – The chairman fee comprises a single, consolidated fee. – The non-executive directors are paid a basic fee, plus additional fees for chairmanship of the Audit and Remuneration Committees and to the senior independent director. ▪ The Group reserves the right to pay additional non-cash benefits if considered appropriate, the value of which would be within the limit described above. ▪ Actual fee levels are disclosed in the annual report on remuneration for the relevant financial year

Recruitment remuneration arrangements

When determining the remuneration of a new executive director, the committee's principle is to ensure that the arrangements are in the best interests of both the Group and the shareholders by paying only what is considered necessary to recruit an individual of the right calibre to deliver the Group strategy.

The committee will consider all relevant factors when determining the arrangements for a new executive director. This may include, but is not limited to, the skills/experience of the individual, market practice and any remuneration being forfeited by the individual. Typically, a new recruit will be brought in on, or be transitioned onto, the same package structure that applies to other executive directors as set out in the policy table. However, in exceptional circumstances, the committee retains discretion to make appropriate remuneration decisions that fall outside the limits and structure of the policy if it considers this to be necessary to recruit the individual. This may include, but is not limited to, the provision of additional benefits. Notwithstanding this, the maximum level of variable remuneration which may be awarded (excluding any buy-outs) will be within the limits set out in the policy table.

To facilitate recruitment, the committee may buy-out any remuneration arrangements forfeited by a new director on leaving their former employment. The committee will generally seek to structure any buy-out on a like-for-like basis, considering all relevant factors including the form of the awards (ie cash or equity), performance conditions attached to the awards, the likelihood of such conditions being met and the time frame of the awards.

In structuring the buyout, the committee retains discretion to grant awards under Listing Rule 9.4.2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment of an executive director without seeking prior shareholder approval. The value of buy-outs is excluded from the maximum variable remuneration on recruitment. However, the committee will determine the value of buy-out arrangements within the principle of not paying more than is necessary to facilitate the recruitment of the preferred candidate.

On the appointment of a new chairman or non-executive director, remuneration arrangements will normally be consistent with the policy set out in this report. The rationale for any changes to policy will be clearly explained in the remuneration report following the appointment.

Service contracts and letters of appointment

Executive directors – service contracts

Both Terry Duddy and Richard Ashton were appointed as executive directors on 5 July 2006. Terry Duddy had a service contract dated 27 July 1999 and Richard Ashton has a contract dated 1 March 2005. John Walden was appointed as an executive director on 14 March 2014 following his promotion to the Board as Chief Executive. John Walden has a contract dated 15 January 2014.

Both of the executive directors may be invited to participate in the Group's incentive arrangements as and when determined by the committee. All outstanding awards will be treated in accordance with the relevant plan rules.

Group policy is that service contracts for an executive director may be terminated with twelve months' notice by the Group or six months' notice by the individual. The Group may make a payment in lieu of notice based on the value of base salary and benefits including pension during the unexpired period of notice. This may be paid in instalments.

John Walden's service contract includes a duty to mitigate any payment made in lieu of notice by seeking comparable alternative employment. As part of his leaving arrangements, Terry Duddy also has a duty to mitigate should he find alternative employment before 2 July 2014. Whilst Richard Ashton's contract does not include specific terms relating to mitigation in respect of a payment in lieu of notice, the committee would expect to require a similar duty to mitigate should any payment in lieu of notice be agreed at the time of Richard Ashton's departure.

Copies of the service contracts may be viewed at the Group's registered office.

Non-executive directors – letters of appointment

The non-executive directors, including the chairman, are appointed via letters of appointment. Non-executive directors are initially appointed for a three-year term and are typically expected to serve up to a maximum of three three-year terms subject to review by the Board every three years.

The appointment of a non-executive director may be terminated with one month's notice by either the Group or the individual. The chairman is subject to a notice period of three months.

Copies of the letters of appointment may be viewed at the Group's registered office.

Policy on departing directors

The committee's approach to determining any payment for loss of office should an executive director leave employment will be based on the following principles:

- The committee will satisfy any contractual obligations agreed with the departing executive director, providing that such obligations are not in contradiction with the policy set out in this report, or if so, having not been entered into on a date later than 27 June 2012.
- The committee will apply mitigation where appropriate, for example by making payment in lieu of notice in the form of monthly instalments, to be reduced should the individual secure alternative employment before the end of the notice period.
- The committee will use its discretion as to the treatment of any outstanding share awards at cessation, in accordance with the rules of each plan. The policy for leavers is summarised in the table below. The normal treatment is as follows:
  - PSP – Awards would normally be released at the normal vesting date and pro-rated for time served during the vesting period, and subject to achievement of any performance conditions that apply.
  - Deferred Bonus Plan – Unvested awards under the Deferred Bonus Plan will normally be delivered to the individual in full at the normal vesting date, subject to the underlying financial performance of the Group, and any other performance conditions that may apply.

The committee will consider the specific circumstances of the cessation of employment, including the manner of departure and performance to date, with any payments made on an individual case by case. Discretion to allow payment of bonus or vesting of awards would not normally be exercised where the director has resigned and would never be used where employment was terminated for cause.

The table below sets out the specific policy in relation to each element of remuneration:

Element	Policy
Base pay and benefits	The policy in relation to base pay and benefits is as described in relation to the executive directors' service contracts above.
Short-term incentive – annual bonus	The committee may make a payment under the annual bonus in respect of the financial year of cessation, subject to the achievement of the performance targets that apply to the bonus. However, the committee is not under any obligation to make such a payment and any such payment will typically take into consideration the manner of departure and individual performance up to the date of cessation. Discretion would not normally be exercised where the director has resigned and would never be used where employment was terminated for cause.
Long-term incentive – PSP	PSP awards will typically lapse if the executive director ceases to hold office and employment before they vest. However, awards may continue in effect if the participant ceases to hold office and employment for any of the following reasons and is therefore considered a 'good leaver': ▪ Ill-health, injury or permanent disability ▪ Retirement with the agreement of the Group ▪ Sale of the Company or business the director works for out of the Group ▪ Redundancy ▪ Death Outstanding awards will normally vest at the end of the performance period, subject to the extent the relevant performance conditions have been satisfied. However, the committee retains discretion to allow awards to vest at the date of cessation subject to the extent that the performance conditions have been satisfied at this date. Unless the committee decides otherwise, awards for leavers in these circumstances are pro-rated (calculated on a monthly basis) to reflect the proportion of the performance period that has elapsed on cessation of employment or, in relation to a non-performance related award, the vesting period. The committee may also apply this treatment if the director leaves for any other reason if exceptional circumstances are deemed to exist or if it terminates a director's employment (other than for cause) within six months of the change of control of the Group. Discretion would not normally be exercised where the director has resigned and would never be used where employment was terminated for cause. If a participant dies, awards vest at the date of death. Unless the committee determines otherwise, relevant performance conditions do not apply. Awards will be pro-rated for time, unless the committee determines otherwise.

Directors' remuneration report continued

Element	Policy
Sharesave	Options are exercisable for a limited period from the date of leaving using savings made to the date of exercise.
Deferred Bonus Plan	Outstanding awards will vest at the original vesting date subject to the satisfactory underlying financial performance of the Group up until the date of vesting. Deferred shares will normally be released in full at the usual vesting date except in the case of death, injury, disability, ill-health and redundancy when awards may vest wholly or in part on cessation. To the extent that awards do not vest, they will continue in effect. Awards will lapse where an individual leaves for reasons of misconduct, malfeasance or any other reason at the committee's discretion.
Other	The committee may also at its discretion approve the provision of reasonable outplacement benefits to a departing executive.

Corporate events

Change of control

In the event of a takeover or if shares are acquired by scheme of arrangement, PSP awards would normally vest to the extent that any performance conditions, as determined by the committee, have been satisfied up to that date. Such awards would be reduced by reference to the performance period that has elapsed at the time of the relevant event. Alternatively, the committee may determine that awards be exchanged for awards in the acquiring company (similarly, a participant may accept an offer to exchange awards if one is made by the acquiring company).

In the event of a change of control, Deferred Bonus Plan awards would normally vest at the date of the change of control unless the committee determines that the underlying financial performance of the Group up until the event has not been satisfactory. Unless the committee determines otherwise, such awards would not be reduced on a time pro-rata basis. Alternatively, the committee may determine that awards be exchanged for awards in the acquiring company (similarly, a participant may accept an offer to exchange awards if one is made by the acquiring company).

Sharesave options will become exercisable for a limited period to the extent of savings made to the date of exercise or can be exchanged for shares in the company which acquires control of the Group (or a related company).

Any cash received for shares held for a director in the Share Incentive Plan (SIP) as a result of the transaction will be paid to the participant and securities received will normally continue to be held in the SIP on broadly the same terms.

Other corporate events

If other corporate events occur (such as a demerger, delisting, distribution (other than an ordinary dividend), or any other significant corporate event which, in the opinion of the committee, would affect the current or future value of any awards), the committee may allow PSP awards to vest to the extent that any performance condition has been satisfied to that date as determined by the committee and subject to any other conditions the committee may decide to impose. The committee may also decide to time pro-rate such awards.

The committee may also allow Deferred Bonus Plan awards to vest unless it is determined that the underlying financial performance of the Group up until the corporate event has been unsatisfactory. Unless the committee decides otherwise, such awards would not be time prorated.

Adjustments may be made to the number or kind of shares subject to awards and options (and/or the exercise price of options) if there is a demerger, distribution, special dividend, any variation of capital or any other corporate event that might affect the current or future value of awards. Where an individual is transferred overseas and is likely to suffer a tax disadvantage in relation to their award or become restricted in their ability to hold shares, the committee may, in exceptional circumstances, allow awards to vest.

Where the committee considers it appropriate awards may be settled in the form of cash.

External appointments

Executive directors and members of senior management may be invited to become non-executive directors of other companies subject to the agreement of the Group. 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.

Individuals are limited to holding one external PLC board appointment, other than at the discretion of the committee. Other external appointments, such as school governor appointments or appointments to the boards of charities, are at the discretion of the committee.

Employment considerations elsewhere in the Group

The committee does not consult with colleagues when formulating the remuneration policy for executive directors. However, it recognises that there is a need to understand the wider context of remuneration across the Group when setting levels of pay for executive directors.

The committee considers budgeted salary increases for the wider broad-banded colleague group (which covers a range of roles, both management and non-management) when determining increases for the executive directors. Additionally, the committee reviews and approves all long-term incentive plan (LTIP) awards and reviews bonus outcomes for a range of colleagues below executive director level.

Consideration of shareholder views

The committee is committed to engaging in an open dialogue with the Company's shareholders and will seek views and opinions on significant matters relating to the remuneration of the executive directors as appropriate. During the year, the committee chair met with a number of investors to discuss the proposed changes to the executive director remuneration arrangements and took their views into account when finalising the policy.

Annual report on remuneration

This section provides information about the Remuneration Committee, and decisions made around the transition of Chief Executive. Details are then given on how directors were paid in FY14 and how the committee intends to implement the revised remuneration policy in FY15.

Committee roles and advisors (non-audited)

The following directors were members of the committee during FY14:

- Cath Keers (Chair)
- John Coombe
- Mike Darcey
- Ian Durant
- Jacqueline de Rojas

At the invitation of the committee, Terry Duddy, the Chief Executive (until 14 March 2014), attended the meetings to give background information on remuneration matters. The committee was also advised by Richard Ashton, the Finance Director; Julie Elder, Human Resources Director; and Kate Woodhouse, Head of Reward and Policy (until December 2013). The secretary to the committee was Gordon Bentley, Company Secretary.

Following a tender process Deloitte LLP were appointed as advisors to the committee in September 2013. Following appointment, Deloitte has advised the committee on a number of executive remuneration matters including a review of the executive remuneration framework, developments in market practice and appointment of the new Chief Executive. Prior to the appointment of Deloitte, New Bridge Street (an Aon Hewitt company, part of Aon plc) acted as advisers to the Group and provided advice on performance conditions for the long-term incentive plans, executive remuneration issues and salary benchmarking data. Total fees for advice provided to the committee during the year under review amounted to £125,199 (£50,549 New Bridge Street and £74,650 Deloitte).

Both New Bridge Street and Deloitte LLP are members of the Remuneration Consultants Group and the committee is satisfied that their advice is independent.

The terms of reference of the committee can be found on the Group's website at homeretailgroup.com.

Chief Executive transition

Terry Duddy stepped down on 14 March 2014 and John Walden was appointed as Chief Executive on the same date. His base salary was reviewed on appointment in line with the policy on pages 45 to 52 and was set at £650,000. Other elements of his package are in line with the policy on pages 45 to 52.

Terry Duddy will continue to receive base salary and all benefits, including pension supplement, up to the date of the AGM – 2 July 2014 – in line with contractual obligations. As part of his leaving arrangements, Terry Duddy will be paid £100 for loss of office and will retain a duty to mitigate if he secures new employment before the AGM.

Terry Duddy served for the full year in FY14. The committee has afforded Terry Duddy good leaver status in recognition of his valuable contribution to the strong financial performance of the Group during the year. He will therefore receive a full year's annual bonus, subject to the achievement of performance conditions. Page 54 sets out the details of the FY14 annual bonus. All unvested share awards will be pro-rated to the date of the AGM – 2 July 2014 – and, subject to performance conditions, will be released on the normal vesting date along with any dividend equivalent payments due. The GUS legacy options will lapse six months after Terry Duddy's leaving date. Terry Duddy will not be eligible for any future share awards made by the Group. Following committee approval, Terry Duddy received the deferred shares relating to the 2013 bonus that he voluntarily deferred. These were delivered in full after leaving the business in line with the terms agreed at the time they were awarded.

The details below and over the following pages shows the implementation of policy, firstly looking back to FY14 and secondly looking forward to FY15 under our new policy.

Executive directors – single total figure of remuneration (audited)

The following table sets out the single figure for total remuneration for executive directors for FY14 and FY13.

£000	Salary FY14	Salary FY13	Benefits FY14	Benefits FY13	Bonus FY14	Bonus[1] FY13	LTIP FY14	LTIP FY13	Pension FY14	Pension FY13	Total FY14	Total FY13
Terry Duddy	838	838	55	49	804	662	–	–	286	585	1,983	2,134
Richard Ashton	480	480	14	14	461	379	–	–	217	267	1,172	1,140

Note:
1. Terry Duddy deferred his entire FY13 bonus into shares, which were transferred to him on departure.

Notes to the single-figure table and remuneration outcomes

This section provides supplementary information in relation to the single-figure table above and remuneration outcomes for the year.

Benefits

Benefits include values relating to all employee share schemes, healthcare, insurance and car benefits, for example, SAYE, private medical insurance, life assurance and company car. Terry Duddy also had access to a pool driver.

The value of the SAYE benefit has been calculated as £250 x 20% x 12 to reflect the value of the share price discount which applies, based on directors saving the maximum amount over the course of the year. The calculation for Terry Duddy in FY14 has been pro-rated to reflect the number of contributions made.

The benefits figure for FY13 has been restated on the same basis as FY14, so that payments relating to the defined benefit closure previously included in the benefits column are now included in pension.

Directors' remuneration report continued

FY14 annual bonus

During FY14 the executive directors were eligible for an annual bonus of up to 150% of salary, payable in cash. The payment of bonus was subject to targets based on two equally weighted measures: benchmark PBT and adjusted cash flow. The table below sets out the performance achieved against each metric and corresponding bonus pay out.

The targets have not been disclosed as they are considered by the Board to be commercially sensitive information and as such could be damaging to the Group's and shareholders' interests. The committee will give consideration to disclosing targets if they are deemed to be no longer commercially sensitive.

	Benchmark PBT	Adjusted cash flow	Total
% weighting	50%	50%	100%
% maximum bonus opportunity	75%	75%	150%
FY14 performance achieved	28%	100%	64%
% of salary	21%	75%	96%
£000 value – Terry Duddy, Chief Executive	£176	£628	£804
£000 value – Richard Ashton, Finance Director	£101	£360	£461

The committee has exercised discretion when determining the bonus payouts for FY14. Whilst the Group has delivered strong financial results, with year-on-year benchmark PBT growth of 27% and continuing strong cash performance, the committee is mindful that provision has been made for potential future PPI misselling claims relating to historic policies. As such, payments relating to the benchmark PBT element of the bonus have been scaled back to 28% of the maximum for that element.

FY12 PSP awards performance tested in FY14

Performance conditions for executive directors for the FY12 PSP award were based 40% on relative TSR and 60% on benchmark EPS targets. These were tested at the end of the performance period, 1 March 2014, and, as threshold performance was not achieved for either condition, these awards lapsed in full.

Total pension entitlements (audited)

Pension entitlements for Terry Duddy 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, in respect of earnings below £137,400, and through a non-contributory unapproved unfunded retirement benefit scheme for earnings above £137,400 until 30 April 2013. From 1 February 2013 to 30 April 2013, Richard Ashton received a cash allowance in respect of his earnings below £137,400. From 1 May 2013, pension provision for both executive directors was provided in the form of an annual cash allowance.

As per the terms of the members' scheme offer letters, all relevant colleagues were offered the opportunity to exchange deferred pension for a cash alternative during the year. A number of scheme members, including Terry Duddy, elected to receive the cash alternative.

Executive directors – remuneration for FY14

The following section provides information about remuneration arrangements for executive directors during the year under review, FY14.

FY14 base salary

As set out in the single-figure table, the base salary for Terry Duddy, Chief Executive was £838,000, and for Richard Ashton, Finance Director was £480,000.

FY14 annual bonus

As described in the notes to the single-figure table above, the executive directors were eligible for annual bonus awards of 150% of salary, subject to benchmark PBT and adjusted cash flow targets.

FY14 PSP award

During FY14 the executive directors were granted PSP awards equivalent to 250% of base salary. The awards were based on relative TSR and benchmark EPS performance conditions, compound annual growth rate (CAGR) as set out below, and will vest on a straight-line basis between the relevant points:

	Benchmark EPS[1]	Relative TSR[2]
% of award	60%	40%
Threshold (25% of element)	15% CAGR	50th percentile
Maximum (100% of element)	35% CAGR	90th percentile

Notes:
1. Benchmark EPS is one of our key profit measures that is included under 'Group key performance indicators' at the front of this annual report. This measure reflects the profitability of the Group and therefore helps to align awards with growth in this key financial metric. For the FY14 awards, growth rates are measured over the three financial years FY14, FY15 and FY16 on a point-to-point basis.
   For FY14 awards, the committee set exceptionally stretching Benchmark EPS growth targets to reflect the superior maximum award opportunity. For these awards, threshold vesting (25% of the element) requires CAGR of 15%, with full vesting (100% of the element) requiring CAGR of 35%. Vesting occurs on a straight-line performance basis between these two points. Below 15% CAGR no award will vest.
2. Relative TSR measures the growth in share price in a hypothetical shareholding (assuming any dividends received are reinvested) for Home Retail Group compared to that of selected retail comparators across the performance period. This provides a direct link between the remuneration of executive directors and the value generated for shareholders.
   For the awards made in FY14, 25% of the award vests for TSR performance at median of the comparator group, with full vesting for TSR performance at the 90th percentile. Vesting occurs on a straight-line performance basis between these two points. Below median performance no award will vest.
   For these awards, TSR will be measured over the period of three consecutive financial years of the Group commencing 3 March 2013.

The comparator group for FY14 is as follows:

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

In the event of material changes to companies within the comparator group, the committee will use its discretion to determine the appropriate method of assessment.

In accordance with the rules of the plan, the committee may determine to waive or change any performance condition in accordance with its terms or if any significant corporate event occurs which causes the committee to reasonably consider it appropriate to do so.

The committee has the discretion to review any additional adjustments at the time of vesting.

If the committee uses its discretion in relation to any performance targets, details will be provided of how the discretion was exercised and how the resulting level of award was determined in the annual report on remuneration following the relevant year end.

Executive directors – implementation of our revised remuneration policy for FY15 (non-audited)

Review of arrangements

This year, in the context of the change in Chief Executive and introduction of the binding vote on remuneration policy, the committee has undertaken a full review of remuneration arrangements. We have sought to develop a new forward-looking policy that provides appropriate levels of remuneration including meaningful, relevant incentives to support the strategic ambitions of the Group and provide better alignment with shareholders. As a result of this review, the following changes have been made:

- Reduction in the maximum opportunity under both the annual bonus and LTIP, whilst still retaining a meaningful incentive.
- Introduction of a new compulsory deferral policy so that 25% of earned annual bonus is deferred.
- Changes to the performance metrics under the LTIP, including a new measure relating to cumulative adjusted cash flow.
- Amendment to the shares which are counted towards shareholding guidelines so that only unencumbered shares count.
- Positioning the base salary and total remuneration of our new Chief Executive significantly below that of the previous Chief Executive.

Further information on these changes is provided as follows.

FY15 base salary

Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the executive directors. The salaries for the outgoing Chief Executive and incumbent Finance Director have been frozen for FY15 compared to a budgeted increase for the wider employee group of circa 2%.

The base salary of the new Chief Executive has been set in line with our stated policy, and at a level which reflects market practice in companies of a similar size and complexity, and new promotion to the role.

	FY15 base salary	FY14 base salary	Increase (%)
Terry Duddy*	£838,000	£838,000	0.0%
John Walden**	£650,000	n/a	n/a
Richard Ashton	£480,000	£480,000	0.0%

* Paid until the date of AGM, or an earlier date if Terry Duddy secures alternative employment prior to that date.
** From date of appointment.

Pension entitlements

For FY15, the executive directors will continue to receive allowances in line with policy. At the choice of the executive director, this may be delivered in the form of either a cash allowance or as a payment into the Group's Defined Contribution scheme. The allowances for the new Chief Executive and Finance Director are 30% of base salary and 25% of base salary respectively.

As per the terms agreed relating to his departure, Terry Duddy continues to receive a cash allowance of 30% of base salary to the AGM, 2 July 2014, or earlier if alternative employment is secured prior to that date.

FY15 annual bonus

Following the committee's review of remuneration, the maximum annual bonus opportunity for executive directors in FY15 has been reduced to 130% from 150% in previous years. Additionally, 25% of any bonus will be deferred into shares for three years. Both these changes are reflected in the policy report on pages 45 to 52.

Given the strategy of the Group for FY15, the committee feels it appropriate to continue to structure bonuses with equally weighted benchmark PBT and adjusted cash flow targets as set out below:

Metrics and weighting	Benchmark PBT	Adjusted cash flow
Threshold to maximum as a range around budget	95% to 120%	£15m below to £50m above
Chief Executive, John Walden	50%	50%
Finance Director, Richard Ashton	50%	50%

Due to the competitive nature of the retail sector, the targets have not been disclosed as it is considered by the Board to be commercially sensitive information and as such could be damaging to the Group's and shareholders' interests. The committee will give consideration to disclosing targets if they are deemed to be no longer commercially sensitive.

Terry Duddy will receive no bonus in respect of time served during FY15.

Directors' remuneration report continued

FY15 awards under the PSP

For FY15, awards under the PSP for the executive directors will be reduced to 200% of base salary from 250% in previous years. This change, alongside those to annual bonus, results in a significant reduction to overall remuneration opportunity, whilst retaining a meaningful incentive for the executive directors.

In conjunction with this reduction in maximum opportunity, the committee has also reviewed the performance targets applied to the PSP awards, to ensure they are set at a level to provide meaningful incentive, whilst continuing to support the delivery of the Group's strategic and growth ambitions. To reflect the continued focus on cash as part of the Group's strategy, a new target based on cumulative adjusted cash flow will be introduced in addition to relative TSR and benchmark EPS.

The FY15 awards will be subject to the following measures and will vest as set out below, on a straight-line basis between the relevant points:

	Relative TSR	Benchmark EPS	Cumulative adjusted cash flow
% of award	40%	30%	30%
Threshold (25% of element)	50th percentile	7% CAGR	£835m
Maximum (100% of element)	75th percentile	20% CAGR	£1,030m

Further details of these measures are provided below.

Relative TSR

As for FY14, relative TSR measures the growth in share price in a hypothetical shareholding (assuming any dividends received are reinvested) for Home Retail Group compared to that of selected retail comparators across the three-year performance period. 25% of this element of the award vests for achieving median performance, with 100% of this element vesting for achieving upper quartile TSR performance versus the comparator group.

The TSR comparator group for FY15 is unchanged from last year, as follows:

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

Benchmark EPS

Benchmark EPS continues to be one of our key profit measures. This measure reflects the profitability of the Group and therefore helps to align awards with growth in this key financial metric. For the FY15 awards, growth rates will be measured over the three financial years FY15, FY16 and FY17 on a point-to-point basis.

The committee continues to set stretching benchmark EPS growth targets which are aligned to our growth ambitions. 25% of this element of the award vests for EPS CAGR of 7%, with full vesting (100% of this element) requiring CAGR of 20%. Vesting occurs on a straight-line performance basis between these two points.

Cumulative adjusted cash flow

Cumulative adjusted cash flow has been introduced as a measure for the FY15 awards to reflect the importance of cash generation in delivering our strategic plan. The successful management of cash generation is important in supporting the Group's investment plans and future earnings growth.

Cumulative adjusted cash flow is defined in a consistent manner to that utilised within the annual bonus scheme and is calculated as the Group's reported cash flow excluding capital expenditure, shares issued or purchased (including those acquired to fulfil incentive scheme share awards), acquisitions or divestments, dividends paid to shareholders, payments made to reduce the Group's defined benefit pension scheme deficit, increases or decreases in the Group's Financial Services loan book and cash flows in respect of exceptional restructuring items.

It is intended that the committee should have the discretion to adjust the target, on an exceptional basis only, for material factors that may otherwise distort performance in either direction to allow performance to be assessed against targets that have been set on a consistent basis. Any use of discretion to adjust performance targets or the assessment of performance will be disclosed to shareholders in the annual report on remuneration following the relevant year end.

For FY15 awards, cumulative adjusted cash flow is measured over the three financial years FY15, FY16 and FY17. Threshold vesting (25% of the element) will require cumulative adjusted cash flow of £835m, with full vesting (100% of the element) requiring cumulative adjusted cash flow of £1,030m. Vesting occurs on a straight-line performance basis between these two points.

Non-executive directors – single total figure of remuneration (audited)

As outlined in the policy table on page 50, non-executive director fees should broadly be in line with market levels, set to reflect the responsibilities undertaken and sufficient to attract and retain high-calibre non-executives. In 2013, the fees were reviewed and a decision taken to hold the fees at their current level until February 2015.

The following table sets out the single figure for total remuneration for non-executive directors for FY14 and FY13. Non-executive directors did not receive any performance-related payments or benefits during either year.

£000	Fees FY14	Fees FY13
John Coombe	250	202
Mike Darcey[1]	87	96
Ian Durant	100	92
Cath Keers	92	81
Jacqueline de Rojas[2]	77	15

Notes:
1 Remuneration Committee chair until July 2012 with an additional prorated fee of £25,000 and appointed senior independent director July 2012 with an additional prorated fee of £10,000 in FY13.
2 Appointed during FY13. Fees for this period are prorated to reflect service.

The fees shown above include the element used to purchase shares.

Non-executive directors – arrangements for FY15 (non-audited)

The table below provides information on the Group's forward looking arrangements for non-executive directors in relation to FY15.

£000	Cash element of fee	Element of fee to be used to purchase shares[1]	Total
Chairman	200	50	250
Non-executive director base fee	50	27	77
Senior independent director fee	10	–	10
Audit Committee chairman fee	22.5	–	22.5
Remuneration Committee chair fee	15	–	15

Note:
1 This element of the fee must be used to purchase Group shares after the payment of tax. Shares purchased must be retained until retirement from the Board of Directors.

Audited information relating to share awards

Awards made to executive directors during FY14 (audited)

The table below sets out details of the awards made under the PSP to the executive directors during FY14. These awards are subject to the performance conditions set out on page 47.

	Type of award	Date of grant	Number of shares granted	Face value[1] (£000)	Face value (% of salary)	Threshold vesting (% of face value)	End of performance period
Terry Duddy	PSP	22/05/13	1,397,783	2,095	250%	25%	27/02/16
Richard Ashton	PSP	22/05/13	800,640	1,200	250%	25%	27/02/16

Note:
1 Face value calculated using the average of the preceding ten days mid-market closing price as per the scheme rules, which is the share price used to determine the number of shares awarded.

Outstanding scheme interests of executive directors (audited)

The table below provides details of the position as at the end of FY14 (or position as at the date of resignation of the executive director from the Board if earlier) of outstanding awards made to the executive directors who served in the period under review.

PSP and deferred bonus plan

		Date of grant	Plan shares at 2 March 2013	Plan shares awarded during the period	Plan shares exercised during the period[1]	Plan shares lapsed during the period	Total Plan shares held at 1 March 2014	Market price at date of grant[2]	Vesting date
Terry Duddy	PSP	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
		22/05/13	–	1,397,783	–	–	1,397,783	149.9p	23/05/16
	DBP	10/05/10	228,794	–	228,794	–	–	268.8p	10/05/13
Richard Ashton	PSP	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
		22/05/13	–	800,640	–	–	800,640	149.9p	23/05/16
	DBP	10/05/10	117,188	–	117,188	–	–	268.8p	10/05/13

Notes:
1 Dividend equivalent payments were made. Terry Duddy received £69,553 and Richard Ashton received £35,625.
2 Share price has been rounded to one decimal place.

Directors' remuneration report continued

Share options

The following table shows the share options granted under the sharesave 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.

		Date of grant	Options held at 2 March 2013	Options awarded during the period	Options exercised during the period	Options lapsed during the period	Total options held at 1 March 2014	Exercise price[1]	Date from which exercisable	Expiry date
Terry Duddy	Options	10/06/10	12,599	–	–	12,599	–	238.1p	10/06/13	10/06/13
	Legacy	31/05/05	197,277	–	–	–	197,277	359.9p	31/05/08	30/05/15
	SAYE	01/07/08	8,565	–	–	8,565	–	190.0p	01/09/13	01/03/14
Richard Ashton	Options	10/06/10	12,599	–	–	12,599	–	238.1p	10/06/13	10/06/13
	Legacy	31/05/05	80,576	–	–	–	80,576	359.9p	31/05/08	30/05/15
	SAYE	04/07/12	15,384	–	–	–	15,384	58.5p	01/09/15	01/03/16

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

Statement of directors' shareholding and share interests (audited)

The Group requires executive directors to hold shares equivalent to 150% of base salary for the Chief Executive and 100% of base salary for the Finance Director. 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. During FY14, both executive directors have met the shareholding requirement in full.

The table below sets out the directors' current interests in Home Retail Group shares as at the year end.

Executive directors

	Shares owned outright at 1 March 2014	Interest in share options without performance conditions as at 1 March 2014	Total shares and options not subject to performance conditions as at 1 March 2014[1]
Terry Duddy[2]	3,231,547	197,277	3,428,824
Richard Ashton	615,200	95,960	711,160

Notes:
1 The split of these holdings is shown in the share options table above.
2 2,619,355 shares are held by the director and 612,192 are held by a connected person.

Non-executive directors

	Shares owned outright at 1 March 2014	Shares owned outright by connected persons at 1 March 2014
John Coombe	10,000	108,775
Mike Darcey	42,534	–
Ian Durant	28,366	–
Cath Keers	29,983	–
Jacqueline de Rojas	8,908	–

External appointments

Terry Duddy is a non-executive director of Hammerson for which he received and retained an annual fee of £58,000.

Payments made to past directors (audited)

No payments were made during FY14.

Payments for loss of office (audited)

No payments were made during FY14.

Percentage change in remuneration (non-audited)

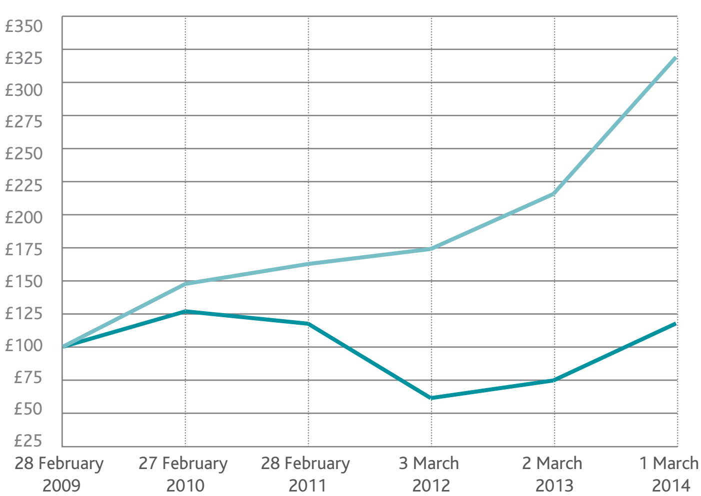
The table below illustrates the percentage change in salary, benefits and annual bonus for the Chief Executive compared with that of colleagues in the broad-banded population (which covers a range of roles, both management and non-management) across the Group. Remuneration for broad-banded colleagues is not subject to union negotiations and as such is felt by the committee to provide the most reasonable comparator group.

	% change in base salary (FY13–FY14)	% change in benefits (FY13–FY14)	% change in annual bonus (FY13–FY14)
Chief Executive	0.0% increase	12.2% increase	21.5% increase
Broad-banded colleagues	2.1% increase	3.9% increase	26.7% decrease

Notes:
- Figures for the Chief Executive relate to Terry Duddy.
- The most significant increase in benefit values for the Chief Executive results from a change in method of providing drivers. Other general benefit cost changes also affected eligible broad-banded colleagues.
- Bonus for the Chief Executive in FY13 was reduced by the committee by one third to reflect overall Group performance. The FY14 bonus is subject to a smaller reduction in connection with the provision for potential PPI misselling. The increase from FY13 to FY14 is reflective of the impact of both changes. Bonuses for broad-banded colleagues in FY13 were not reduced by one third and are based on metrics that are relevant for their role and reflect Group and personal performance.

Historic TSR performance and Chief Executive remuneration outcomes (non-audited)

The graph below compares the TSR of Home Retail Group against the FTSE 350 Index of General Retailers for a five-year period. The FTSE 350 Index of General Retailers is considered the most appropriate choice of index as it is a relevant comparator group for a retail business.



Value of £100 invested on 28 February 2009

The table below illustrates the Chief Executive single figure for total remuneration, annual bonus pay out and PSP vesting as a percentage of maximum opportunity for the same five-year period.

	Chief Executive single figure of remuneration (£000)	Annual bonus pay out (% of maximum)	LTIP vesting (% of maximum)
FY14	1,983	64%	0%
FY13	2,134	53%	0%
FY12	1,732	17%	0%
FY11	1,709	25%	0%
FY10	4,676[1]	100%	62%

Note:
1 The FY10 single figure includes vesting from a number of legacy award schemes from GUS plc, as well as bonus and LTIP pay-out for that year.

Relative importance of spend on pay (non-audited)

The table below illustrates the year-on-year change in total remuneration compared to benchmark profit after tax and distributions to shareholder for FY14 and FY13.

	FY14 £m	FY13 £m	Percentage change year-on-year
Total remuneration	659.8	669.6[1]	1.5% decrease
Benchmark profit after tax	82.9	61.4	35.0% increase
Shareholder distributions[2]	25.8	24.0	7.5% increase

1 Excludes exceptional credit of £33.0m relating to the closure of the Group's defined benefit pension scheme.
2 Shareholder distributions refers to the dividends paid or declared in respect of the financial year.

Shareholder voting (non-audited)

The table below sets out the results of the vote on the FY13 remuneration report at the 2013 AGM:

	Votes	%
Votes in favour	560,339,295	93.61
Votes against	38,227,567	6.39
Total votes	598,566,862	100.00
Votes withheld	34,754,483	–

The committee is pleased with the level of shareholder support for the FY13 remuneration report and is committed to ongoing dialogue with shareholders.

Cath Keers
Chair – Remuneration Committee
30 April 2014

Directors' report

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 1 March 2014 (the 'period').

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.

Sections required to be included in this Annual Report and Accounts in accordance with the Companies Act 2006 are set out below. Pages 60 to 62 inclusive (together with sections of the Annual Report incorporated by reference) form part of the directors' report which is presented in accordance with, and with reliance upon, applicable English company law. The liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

In accordance with s. 414C(11) of the Companies Act 2006, the Company has chosen to include certain information in the strategic report as follows:

- Particulars of important events affecting the Group since the last financial year.
- Indication of likely future development of the business of the Group.

Other information, which forms part of the directors' report, can be found in the following sections and locations within the Annual Report:

Section	Page No's/Note
Audit Committee report	Page 40
Board and committee membership	Page 33
Chairman's statement	Page 7
Corporate governance	Page 34
Corporate responsibility, including greenhouse gas emissions	Page 22
Directors' biographies	Page 33
Directors' responsibilities statement	Page 63
Diversity	Page 36
Financial results and dividends	Page 26 and page 93
Nomination Committee report	Page 39
Post balance sheet events (financial statements)	Note 35 on page 111
Risk management (Principal risks and uncertainties)	Page 24
Strategic report	Pages 4 to 31

Profit and dividends

The Group's consolidated income statement on page 68 shows a profit for the year of £54.0m. The directors recommend the payment of a final dividend of 2.3p per ordinary share, to be paid on 23 July 2014 to shareholders on the register at the close of business on 23 May 2014. An interim dividend of 1.0p per ordinary share was paid on 22 January 2014, giving a total dividend for the year of 3.3p per ordinary share.

Directors

The names and biographical details of the directors are shown in the Board of Directors and Operating Board section on page 33. On 14 March 2014, Terry Duddy stepped down from the Board as Chief Executive and John Walden joined the Board as Chief Executive. Particulars of directors' remuneration are shown in the Remuneration Report on pages 44 to 59. 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 on pages 50 to 52. 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.

Shareholder rights, appointment, removal of directors and directors' powers

The internal regulation of the Company is set out in its Articles of Association which 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 Group's website at homeretailgroup.com. In accordance with the Articles of Association, directors can be appointed or removed by the Board or shareholders in general meeting. 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 section on page 35.

Share capital and control

As at 30 April 2014, 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 financial statements on page 107. 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 Conduct 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.

Purchase of own shares

At the Annual General Meeting of the Company held on 3 July 2013, 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 2 July 2014, 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 financial statements on pages 107 and 108.

Substantial shareholdings

As at 30 April 2014, the Company had been notified under Rule 5 of the Financial Conduct 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	80,972,305	9.95
Sanderson	59,246,016	7.28
AXA S.A.	42,510,359	5.23
Silchester International	40,606,717	4.99
Citibank	37,392,176	4.60
RBC cees Trustee Limited	34,314,121	4.21
Capital Group Companies Inc	32,774,159	4.02
Norges Bank	25,570,045	3.14

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 SAYE 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 price, credit, liquidity and cash flow risk are set out in note 4 to the consolidated financial statements on pages 82 to 85.

Political donations

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

Directors' report continued

Relevant audit information

As at 30 April 2014, so far as each director is aware, there is no relevant audit information of which the Company's 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 strategic report and financial highlight reviews on pages 4 to 31 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 24 and 25.

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

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors to the Company and a resolution proposing their reappointment 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 2 July 2014. The Notice of Meeting is included in a separate circular to shareholders which is available on the Group's website at homeretailgroup.com/investor-centre/. Paper copies will have been posted to shareholders who have elected to receive documents in that format.

The strategic report and the directors' report were each approved by the Board and authorised for issue on 30 April 2014.

By order of the Board
Gordon Bentley
Secretary
30 April 2014

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 information on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Having taken advice from the Audit Committee, the directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on page 33 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 management report contained in the strategic report 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.

By order of the Board

John Walden
Chief Executive
30 April 2014

Richard Ashton
Finance Director
30 April 2014

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

Report on the Group financial statements

Our opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 1 March 2014 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements, which are prepared by Home Retail Group plc, comprise:

- the Consolidated balance sheet as at 1 March 2014;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the Analysis of net cash/(debt) for the year then ended; and
- the notes to the Consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Financial Statements (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £8.6 million. In arriving at this judgement we have had regard to average benchmark profit before tax over the previous five-year period because in our view, this is an appropriate measure of performance in a business that has had relatively stable volumes but volatile profits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along four operating segments being Argos, Homebase, Financial Services and Central Activities.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's four operating segments, we identified the largest three (Argos, Homebase and Financial Services), that in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. This, together with additional procedures performed at the Group level including testing parts of the Central Activities segment and with respect to goodwill impairment testing and consolidation adjustments, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 41.

Area of focus	How the scope of our audit addressed the area of focus
Goodwill impairment assessment We focused on this area because the determination of whether or not an impairment charge was necessary involved significant management judgement about the future results of the Argos and Homebase segments of the business, including future cash flow projections using sales, gross margin and cost based assumptions. The cash flow projections were extrapolated using long-term growth rates and were discounted using a post-tax discount rate.	We evaluated management's future cash flow projections, including comparing them to the latest Board approved budget and five-year plan. We tested the underlying calculations in the impairment models. We challenged: • the directors' key assumptions for long term growth rates in the forecasts by comparing them to market information and economic forecasts; and • the discount rate by assessing the cost of capital for the Group and comparable organisations. We also performed sensitivity analysis around the key drivers of the cash flow projections, which included future revenue, gross margin and cost projections. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired, we considered the likelihood of such movement in those key assumptions arising.
Impairment of store card receivables The provision for credit risk on store card receivables is calculated using a model based on inputs including analysis of historic losses, current level of arrears and economic factors, with management judgement overlaid. We focused on this area as there is a complex and significant judgement involved in estimating such provisions.	We evaluated and tested the controls in place around arrears management and bad debt monitoring. We then tested the accuracy of the calculations in management's provision model. We challenged the model and key assumptions therein including: • testing historic losses to customer data; • testing the reconciliation and allocation of arrears to supporting information; and • testing of manual adjustments to the model such as additional provisions made for specific risks by understanding the basis for these adjustments and agreeing to supporting information.
Provisions for customer redress in respect of Financial Services products The Group's Financial Services division offers PPI to customers for which a provision is recognised in respect of estimated future customer redress. We focused on this area as there is significant judgement involved in estimating such provisions.	We obtained the results of management's testing of closed cases, and assessed the customer redress provision with reference to actual claim experience, rates of redress and costs associated with historic redress payments. We also considered industry information available in these areas. We performed sensitivity analysis around the key drivers in the model, which included customer response rates and rates of redress.
Inventory provisions Inventory represents a significant asset on the Group's balance sheet and is carried at the lower of cost and net realisable value. We focused on this area as judgement is required when assessing the need for and the value of obsolescence provisions.	In testing the inventory provisions we focused on historic loss experience to assess the provisions for loss, theft or damage of inventory. We assessed the net realisable value and obsolescence provisions against the historic rate of provisioning and actual recoveries achieved on clearances during the year. We tested the accuracy of the provision calculation and we evaluated updates to the provision calculation for the impact of changes in product mix and clearance routes.

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

Area of focus	How the scope of our audit addressed the area of focus
Store based provisions for onerous leases and store asset impairment Onerous lease provisions are established for stores that have either closed or where the projected future trading income is insufficient to cover the lower of exit cost or cost of running the store. In addition, store assets are assessed for impairment with reference to trading performance. We focused on this area because of the complexity of judgements management need to form about the future results of the business.	We evaluated the basis adopted by management for determining whether an onerous lease or store asset impairment exists. This involved obtaining an analysis of stores and challenging the trading income and the nature of costs included in management's provision models. We compared the cash flow forecasts used in the provision models to those used in the goodwill impairment model and tested any differences arising. We tested the accuracy of the underlying calculations in the provision models.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. We focused on whether revenue recorded had been earned and whether the treatment of manual adjustments to revenue were appropriate. We tested this area as a consequence of the magnitude and judgemental nature of these manual adjustments which relate to discounts and commission.	We evaluated the IT systems as the foundation of the evidence that we obtained regarding the revenue recognised during the period. We evaluated the management controls in place over revenue, including business performance reviews at an Operating Company and Group level. We tested the key revenue account reconciliations to identify unusual or irregular items and we tested such entries. We tested the calculations supporting the discounts and commission, challenging the appropriateness of assumptions applied. We also tested material journal entries posted to revenue accounts and obtained appropriate evidence for any unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and discussed fraud with senior management and the head of the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We tested some smaller value items and some higher risk areas in an unpredictable manner compared with previous periods. We also tested a sample of journal entries.

Going Concern
Under the Listing Rules we are required to review the directors' statement, set out on page 63, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 34 to 38 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a Corporate Governance Statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 63 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 41, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Group financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 63, 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 ISAs (UK & 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.

Other matter

We have reported separately on the Parent Company financial statements of Home Retail Group plc for the year ended 1 March 2014 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
30 April 2014

Consolidated income statement

For the 52 weeks ended 1 March 2014

	Notes	52 weeks ended 1 March 2014 Before exceptional items £m	52 weeks ended 1 March 2014 Exceptional items (note 9) £m	52 weeks ended 1 March 2014 After exceptional items £m	52 weeks ended 2 March 2013 (restated) Before exceptional items £m	52 weeks ended 2 March 2013 (restated) Exceptional items (note 9) £m	52 weeks ended 2 March 2013 (restated) After exceptional items £m
Revenue		**5,663.0**	**–**	**5,663.0**	5,475.4	–	5,475.4
Cost of sales		**(3,899.2)**	**–**	**(3,899.2)**	(3,743.3)	–	(3,743.3)
Gross profit		**1,763.8**	**–**	**1,763.8**	1,732.1	–	1,732.1
Net operating expenses	7	**(1,652.4)**	**(41.4)**	**(1,693.8)**	(1,628.1)	31.3	(1,596.8)
Operating profit/(loss)		**111.4**	**(41.4)**	**70.0**	104.0	31.3	135.3
– Finance income		**10.5**	**–**	**10.5**	3.1	–	3.1
– Finance expense		**(9.3)**	**–**	**(9.3)**	(11.5)	–	(11.5)
Net financing income/(expense)	10	**1.2**	**–**	**1.2**	(8.4)	–	(8.4)
Share of post-tax loss of associates	17	**–**	**–**	**–**	(6.0)	–	(6.0)
Profit/(loss) before tax		**112.6**	**(41.4)**	**71.2**	89.6	31.3	120.9
Taxation	11	**(26.6)**	**9.4**	**(17.2)**	(26.5)	(7.5)	(34.0)
Profit/(loss) for the year attributable to equity holders of the Company		**86.0**	**(32.0)**	**54.0**	63.1	23.8	86.9
				pence			pence
Earnings per share							
– Basic	13			**6.8**			10.9
– Diluted	13			**6.6**			10.7

Non-GAAP measures	*Notes*	***52 weeks ended 1 March 2014 £m***	*52 weeks ended 2 March 2013 £m*
Reconciliation of profit before tax (PBT) to benchmark PBT			
Profit before tax		***71.2***	*120.9*
Adjusted for:			
Amortisation of acquisition intangibles		***1.8***	*1.8*
Post-employment benefit scheme administration costs		***1.9***	*2.1*
Adjustments in respect of store impairment and property provisions	*16, 24*	***(2.1)***	*(14.6)*
Exceptional items	*9*	***41.4***	*(31.3)*
Financing fair value remeasurements	*10*	***(9.0)***	*1.1*
Financing impact on post-employment benefit obligations	*10*	***3.3***	*4.0*
Discount unwind on non-benchmark items	*10*	***6.9***	*7.1*
Benchmark PBT		***115.4***	*91.1*
		pence	*pence*
Benchmark earnings per share			
– Basic	*13*	***10.4***	*7.7*
– Diluted	*13*	***10.1***	*7.6*

Consolidated statement of comprehensive income

For the 52 weeks ended 1 March 2014

	Notes	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 (restated) £m
Profit for the year attributable to equity holders of the Company		**54.0**	86.9
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of cash flow hedges			
– Foreign currency forward exchange contracts		**(72.2)**	33.4
Net change in fair value of cash flow hedges transferred to inventory			
– Foreign currency forward exchange contracts		**13.7**	(5.3)
Fair value movements on available-for-sale financial assets		**1.1**	2.0
Fair value movements on available-for-sale financial assets transferred to the income statement		**(3.4)**	–
Currency translation differences		**(3.6)**	0.6
Tax credit/(charge) in respect of items that will be or have been recycled	11	**13.1**	(6.1)
		(51.3)	24.6
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of the net defined benefit liability	25	**(23.8)**	(8.0)
Tax credit in respect of items not recycled	11	**3.3**	–
		(20.5)	(8.0)
Other comprehensive income for the year, net of tax		**(71.8)**	16.6
Total comprehensive income for the year attributable to equity holders of the Company		**(17.8)**	103.5

Consolidated balance sheet

At 1 March 2014

	Notes	1 March 2014 £m	2 March 2013 £m
ASSETS			
Non-current assets			
Goodwill	14	**1,543.9**	1,543.9
Other intangible assets	15	**193.6**	129.2
Property, plant and equipment	16	**456.7**	474.9
Investments in associates	17	**–**	–
Deferred tax assets	26	**41.3**	40.7
Trade and other receivables	20	**1.8**	2.7
Other financial assets	18	**9.9**	24.4
Total non-current assets		**2,247.2**	2,215.8
Current assets			
Inventories	19	**902.4**	941.8
Trade and other receivables	20	**712.1**	636.8
Current tax assets		**10.4**	8.3
Other financial assets	18	**1.0**	36.9
Cash and cash equivalents	21	**331.0**	396.0
Total current assets		**1,956.9**	2,019.8
Non-current assets classified as held for sale	22	**–**	9.6
Total assets		**4,204.1**	4,245.2
LIABILITIES			
Non-current liabilities			
Trade and other payables	23	**(47.4)**	(52.6)
Provisions	24	**(190.0)**	(179.5)
Deferred tax liabilities	26	**(12.9)**	(26.6)
Post-employment benefits	25	**(76.6)**	(85.1)
Total non-current liabilities		**(326.9)**	(343.8)
Current liabilities			
Trade and other payables	23	**(1,115.3)**	(1,116.1)
Provisions	24	**(46.1)**	(38.3)
Other financial liabilities	18	**(36.5)**	(2.8)
Current tax liabilities		**(5.8)**	(11.7)
Total current liabilities		**(1,203.7)**	(1,168.9)
Total liabilities		**(1,530.6)**	(1,512.7)
Net assets		**2,673.5**	2,732.5
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	**(52.3)**	31.9
Retained earnings		**2,986.5**	2,961.3
Total equity		**2,673.5**	2,732.5

The financial statements on pages 68 to 113 were approved by the Board of Directors on 30 April 2014 and were signed on its behalf by:

John Walden,
Chief Executive

Richard Ashton,
Finance Director

Consolidated statement of changes in equity

For the 52 weeks ended 1 March 2014

		Attributable to equity holders of the Company					
	Notes	Share capital £m	Capital redemption reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 3 March 2013		81.3	6.4	(348.4)	31.9	2,961.3	2,732.5
Profit for the year		–	–	–	–	54.0	54.0
Other comprehensive income		–	–	–	(49.0)	(22.8)	(71.8)
Total comprehensive income for the year ended 1 March 2014		–	–	–	(49.0)	31.2	(17.8)
Transactions with owners:							
Movement in share-based compensation reserve	29	–	–	–	–	14.5	14.5
Net movement in own shares	28	–	–	–	(35.2)	(1.9)	(37.1)
Tax credit related to share-based compensation reserve		–	–	–	–	5.5	5.5
Equity dividends paid during the year	12	–	–	–	–	(23.9)	(23.9)
Other distributions		–	–	–	–	(0.2)	(0.2)
Total transactions with owners		–	–	–	(35.2)	(6.0)	(41.2)
Balance at 1 March 2014		**81.3**	**6.4**	**(348.4)**	**(52.3)**	**2,986.5**	**2,673.5**

		Attributable to equity holders of the Company (restated)					
	Notes	Share capital £m	Capital redemption reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
Balance at 4 March 2012		81.3	6.4	(348.4)	8.6	2,877.5	2,625.4
Profit for the year		–	–	–	–	86.9	86.9
Other comprehensive income		–	–	–	21.9	(5.3)	16.6
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

Consolidated statement of cash flows

For the 52 weeks ended 1 March 2014

	Notes	**52 weeks ended 1 March 2014 £m**	52 weeks ended 2 March 2013 £m
Cash flows from operating activities			
Cash generated from operations	33	**161.0**	322.1
Tax paid		**(17.6)**	(26.1)
Net cash inflow from operating activities		**143.4**	296.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(72.5)**	(55.3)
Purchase of other intangible assets		**(102.8)**	(25.3)
Proceeds from the disposal of property, plant and equipment		**2.2**	1.9
Loans granted to associates		**–**	(6.8)
Loans repaid by associates		**3.5**	–
Purchase of investments		**–**	(4.8)
Disposal of investments		**21.7**	–
Interest received		**0.6**	1.7
Net cash used in investing activities		**(147.3)**	(88.6)
Cash flows from financing activities			
Purchase of shares for Employee Share Trust		**(37.4)**	–
Proceeds from disposal of shares held by Employee Share Trust		**0.3**	–
Dividends paid	12	**(23.9)**	(8.0)
Net cash used in financing activities		**(61.0)**	(8.0)
Net (decrease)/ increase in cash and cash equivalents		**(64.9)**	199.4
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	21	**396.0**	194.3
Effect of foreign exchange rate changes		**(0.1)**	2.3
Net (decrease)/increase in cash and cash equivalents		**(64.9)**	199.4
Cash and cash equivalents at the end of the year	21	**331.0**	396.0

Analysis of net cash/(debt)

At 1 March 2014

Non-GAAP measures	*Notes*	***1 March 2014 £m***	*2 March 2013 £m*
Financing net cash:			
Cash and cash equivalents	*21*	***331.0***	*396.0*
Total financing net cash		***331.0***	*396.0*
Operating net debt:			
Off balance sheet operating leases		***(2,046.2)***	*(2,361.7)*
Total operating net debt		***(2,046.2)***	*(2,361.7)*
Total net debt		***(1,715.2)***	*(1,965.7)*

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 £2,046.2m (2013: £2,361.7m), based upon discounting the existing lease commitments at the Group's estimated long-term cost of borrowing of 5.0% (2013: 4.2%).

Notes to the financial statements

For the 52 weeks ended 1 March 2014

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 30 April 2014. The financial year represents the 52 weeks to 1 March 2014 (prior financial year 52 weeks to 2 March 2013).

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

Changes in accounting standards
In June 2011, the International Accounting Standards Board (IASB) issued amendments to International Accounting Standard (IAS) 19 'Employee Benefits' (IAS 19 (revised)). The revised standard is effective for the first time during the 52 weeks to 1 March 2014 and is required to be applied retrospectively. The impact on the Group's post-employment benefits is to replace the interest expense on post-employment 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 post-employment benefit surplus or deficit; currently a net deficit for the Group. In addition, the administration costs of the Home Retail Group Pension Scheme, previously charged against the expected return on plan assets, are now charged within operating costs. Prior year comparatives have been restated, and the impact of these restatements is set out in note 37. As the Group has always recognised actuarial gains and losses immediately, there has been no change to the Group's net assets as a result of the adoption of IAS 19 (revised), so no restatement of the balance sheet is required. The adjustments to the income statement resulting from adoption of IAS 19 (revised) relate only to items previously excluded from the Group's reported benchmark profit before tax, so the adoption of IAS 19 (revised) has had no impact on reported benchmark profit before tax.

The Group has also adopted IFRS 13 'Fair Value Measurement', issued by the IASB in May 2011, and the amendment to IAS 1 'Presentation of Financial Statements', issued in June 2011.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The application of IFRS 13 has not impacted the fair value measurements carried out by the Group. IFRS 13 requires specific disclosures on fair values. The Group provides these disclosures in note 4. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

In accordance with the amendment to IAS 1 the consolidated statement of comprehensive income is now required to group together those items that may subsequently be reclassified to profit and loss, and those that will not. This change is presentational only, and has had no impact on previously reported amounts.

There are no other new standards, amendments to existing standards or interpretations which are effective for the first time during the year ended 1 March 2014 that have a material impact on the Group.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective, including IFRS 9 'Financial Instruments', which is being issued in phases by the IASB. 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.

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

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

2. BASIS OF PREPARATION CONTINUED

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 the expected future cash flows based on management's assumptions and estimates of the future performance of the asset and an appropriate discount rate. 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 property (including 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, including expected costs or income associated with store closures, the incidence of insurance claims against the Group or the anticipated costs of related customer contact and redress. 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. 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.

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.

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.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 changes in 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.

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.

Corporation tax

Corporation tax is 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. Corporation tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised in the consolidated statement of comprehensive income or directly in the consolidated statement of changes in equity, in which case it is recognised in the consolidated statement of comprehensive income or directly in the consolidated statement of changes in equity, respectively.

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.

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 property provisions, including 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 for other costs and income on store closures are recognised where such an outflow or inflow is likely.

Provisions are made for potential customer redress in respect of financial services products to cover claims made by customers, including estimated redress payments, and specific costs incurred in remediation.

Provisions are also made for legal claims, 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.

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.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

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. The movements in fair value are recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

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 future purchases of inventory. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is 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.

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

Exceptional items
Items which are both 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 and/or losses on the disposal of businesses.

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

- Benchmark operating profit is defined as operating profit before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items.
- Benchmark profit before tax (benchmark PBT) is defined as profit before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures, exceptional items, financing fair value remeasurements, financing impact on post-employment benefit obligations, the discount unwind on non-benchmark items and taxation.
- Basic benchmark earnings per share (benchmark EPS) is defined as benchmark PBT less taxation attributable to benchmark PBT, divided by the weighted average number of shares in issue (excluding shares held in Home Retail Group's share trusts net of vested but unexercised share awards).

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

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

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

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 24 and 25.

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.

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 1 March 2014, the last day of the financial year, sterling had been 5 cents, or approximately 3.0% (2013: approximately 3.3%), weaker/stronger against the US dollar, with all other variables held constant, post-tax profit would have been £1.2m lower/higher (2013: £1.0m 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 £11.1m higher/lower (2013: £12.0m higher/lower), arising mainly from the revaluation of US dollar forward currency contracts.

If on 1 March 2014, the last day of the financial year, sterling had been 5 cents, or approximately 4.1% (2013: approximately 4.3%), weaker/stronger against the euro, with all other variables held constant, post-tax profit would have been £0.1m lower/higher (2013: £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 £2.6m lower/higher (2013: £2.5m lower/higher), arising mainly from the revaluation of euro forward currency contracts net of foreign exchange gains or losses on retranslation of euro-denominated net assets held by subsidiary companies with a euro functional currency.

Market risk – cash flow and fair value interest rate risk

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

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

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. 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 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 3 months a bank must have a minimum long-term rating of A- or better;
- for an additional 3 month term deposit of up to £50m a bank must have a minimum long-term rating of A+, or a minimum long-term rating of A if the UK Government holds a minimum shareholding of 25%;
- for 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 long-term 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 1 March 2014**	**Maturity date**	**Cash and short-term cash deposits £m**
AAA	AAA	n/a	**6.8**
A	A	n/a	**250.0**
A-	A-	n/a	**50.0**
BB+	BB+	n/a	**24.2**
			331.0

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

Marked to market forward foreign exchange contracts

Bank and institution rating at year-end	**2014 £m**	2013 £m
AA-	**–**	4.5
A+	**–**	10.3
A	**(27.2)**	19.3
A-	**(8.4)**	–
BB+	**0.1**	–
	(35.5)	34.1

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

4. FINANCIAL RISK MANAGEMENT CONTINUED

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. This facility was cancelled on 27 March 2013 prior to its contractual maturity date as a result of agreeing 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. The Group has not drawn down on either of the facilities and has been in compliance with the requirements of the covenants throughout the year.

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

	At 1 March 2014				
	Less than 3 months £m	**3-6 months £m**	**6-9 months £m**	**9-12 months £m**	**Total £m**
Trade and other payables	**(639.9)**	**–**	**–**	**–**	**(639.9)**

	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)

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 1 March 2014				
	Less than 3 months £m	**3-6 months £m**	**6-9 months £m**	**9-12 months £m**	**Total £m**
Forward foreign exchange contracts					
– outflow	**(307.2)**	**(197.1)**	**(214.0)**	**(87.0)**	**(805.3)**
– inflow	**290.6**	**185.5**	**208.1**	**85.6**	**769.8**

	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

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 commitments 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 £524m (2013: £475m) as at 1 March 2014. The Group's net debt varies throughout the year due to trading seasonality, and the position as at 1 March 2014 is set out in the analysis of net cash/(debt) on page 73.

Foreign currency

The principal exchange rates used were as follows:

	Average		Closing	
	52 weeks ended 1 March 2014	52 weeks ended 2 March 2013	**1 March 2014**	2 March 2013
US dollar	**1.58**	1.58	**1.67**	1.50
Euro	**1.18**	1.23	**1.21**	1.15

Fair value estimation

IFRS 13 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).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	9.8	–	0.1	9.9
Forward foreign exchange contracts	–	1.0	–	1.0
Total assets	**9.8**	**1.0**	**0.1**	**10.9**
Liabilities				
Forward foreign exchange contracts	–	(36.5)	–	(36.5)
Total liabilities	**–**	**(36.5)**	**–**	**(36.5)**

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 1 March 2014, these instruments, which are classified as available-for-sale financial assets, had a carrying value of £9.8m (2013: £20.7m).

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. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date. As at 1 March 2014, the fair value of derivative instruments used for hedging purposes was a net liability of £35.5m (2013: £34.1m 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 available-for-sale financial asset within the level 3 hierarchy is measured at cost less impairment. The impairment has been calculated to write down the asset to its recoverable value based on the actual financial position of the Group's associate. The fair value measurement is therefore not sensitive to changes in inputs.

The movements in level 3 financial assets during the period are:

	£m
Balance at 2 March 2013	3.7
Disposals	(3.5)
Exchange differences	(0.1)
Balance at 1 March 2014	**0.1**

There have been no transfers of assets or liabilities between levels of the fair value hierarchy.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

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 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Revenue		
Argos	**4,051.1**	3,931.3
Homebase	**1,489.2**	1,430.7
Financial Services	**122.7**	113.4
Central Activities	**–**	–
Total revenue	**5,663.0**	5,475.4
Benchmark operating profit		
Argos	**112.3**	100.3
Homebase	**18.9**	11.0
Financial Services	**6.0**	6.0
Central Activities	**(24.2)**	(24.0)
Total benchmark operating profit	**113.0**	93.3
Benchmark net financing income	**2.4**	3.8
Share of post-tax loss of associates	**–**	(6.0)
Benchmark profit before tax	**115.4**	91.1
Amortisation of acquisition intangibles	**(1.8)**	(1.8)
Post-employment benefit scheme administration costs	**(1.9)**	(2.1)
Adjustments in respect of store impairment and property provisions	**2.1**	14.6
Exceptional items	**(41.4)**	31.3
Financing fair value remeasurements	**9.0**	(1.1)
Financing impact on post-employment benefit obligations	**(3.3)**	(4.0)
Discount unwind on non-benchmark items	**(6.9)**	(7.1)
Profit before tax	**71.2**	120.9
Taxation	**(17.2)**	(34.0)
Profit for the year attributable to equity holders of the Company	**54.0**	86.9

	2014 £m	2013 £m
Segment assets		
Argos	**2,286.3**	2,299.9
Homebase	**896.6**	896.3
Financial Services	**563.0**	500.9
Central Activities	**75.5**	103.1
Total segment assets	**3,821.4**	3,800.2
Tax assets	**51.7**	49.0
Cash and cash equivalents	**331.0**	396.0
Total assets per balance sheet	**4,204.1**	4,245.2

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 and cash and cash equivalents are not allocated to segments. Central Activities' segment assets include £nil (2013: £9.6m) in respect of associates, including those associated reported within non-current assets classified as held for sale.

	2014 £m	2013 £m
Segment liabilities		
Argos	**(741.0)**	(739.9)
Homebase	**(517.7)**	(520.9)
Financial Services	**(67.2)**	(41.8)
Central Activities	**(109.4)**	(86.7)
Total segment liabilities	**(1,435.3)**	(1,389.3)
Tax liabilities	**(18.7)**	(38.3)
Post-employment benefit obligations	**(76.6)**	(85.1)
Total liabilities per balance sheet	**(1,530.6)**	(1,512.7)

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

		52 weeks ended 1 March 2014				
Other segment items	Notes	**Argos £m**	**Homebase £m**	**Financial Services £m**	**Central Activities £m**	**Total £m**
Depreciation of property, plant and equipment	16	**(55.2)**	**(32.9)**	**–**	**(3.3)**	**(91.4)**
Reversal of impairment losses	16	**–**	**3.0**	**–**	**–**	**3.0**
Amortisation of intangible assets	15	**(27.6)**	**(7.8)**	**(0.5)**	**(2.2)**	**(38.1)**
Share-based payment expense	29	**(7.7)**	**(3.4)**	**(0.8)**	**(2.6)**	**(14.5)**
Additions to property, plant and equipment	16	**46.4**	**26.1**	**–**	**–**	**72.5**
Additions to other intangible assets	15	**80.3**	**21.8**	**0.3**	**0.4**	**102.8**

		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

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.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

6. ANALYSIS OF REVENUE BY CATEGORY

	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Sale of goods	**5,540.3**	5,362.0
Provision of services by Financial Services	**122.7**	113.4
Total	**5,663.0**	5,475.4

7. NET OPERATING EXPENSES

	52 weeks ended 1 March 2014			52 weeks ended 2 March 2013 (restated)		
Expenses by function	Before exceptional items £m	Exceptional items £m	After exceptional items £m	Before exceptional items £m	Exceptional items £m	After exceptional items £m
Net operating expenses comprise:						
Selling costs	**(1,349.8)**	**–**	**(1,349.8)**	(1,330.8)	–	(1,330.8)
Administrative costs	**(302.6)**	**(41.4)**	**(344.0)**	(297.3)	31.3	(266.0)
Total net operating expenses	**(1,652.4)**	**(41.4)**	**(1,693.8)**	(1,628.1)	31.3	(1,596.8)

	Notes	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Profit before tax is stated after (charging)/crediting:			
Operating lease rental expense		**(347.9)**	(353.9)
Cost of inventories recognised as an expense in cost of sales		**(3,778.9)**	(3,624.5)
Write down of inventories		**(117.7)**	(118.8)
Profit/(loss) on sale of property, plant and equipment and other intangible assets		**0.2**	(0.2)
Depreciation of property, plant and equipment	16	**(91.4)**	(91.9)
Reversal of impairment losses	16	**3.0**	–
Amortisation of intangible assets	15	**(38.1)**	(32.8)
Employee benefit costs	8	**(659.8)**	(636.6)

Auditors' remuneration	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Audit services:		
Fees payable for the audit of the Company and the consolidated financial statements	**(0.8)**	(0.8)
Audit of the Company's subsidiaries pursuant to legislation	**(0.1)**	(0.1)
	(0.9)	(0.9)
Other services:		
Fees payable to the Company's auditors and its associates for other services		
– services relating to taxation	**(0.1)**	–
– all other services	**–**	(0.2)
Total fees payable to PricewaterhouseCoopers LLP	**(1.0)**	(1.1)

8. EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS

Employee costs	Notes	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Wages and salaries		**(587.5)**	(598.9)
Social security costs		**(42.4)**	(38.7)
Other pension costs	25	**(15.4)**	12.9
Share-based payments	29	**(14.5)**	(11.9)
		(659.8)	(636.6)

Other pension costs within employee costs includes a net credit of £nil (2013: £33.0m) in respect of the net exceptional gain arising on the closure of the Group's defined benefit pension scheme to future accrual.

	52 weeks ended 1 March 2014		52 weeks ended 2 March 2013	
Average number of employees	Number of employees	Full time equivalent	Number of employees	Full time equivalent
Argos	**29,040**	**14,458**	29,271	14,302
Homebase	**17,775**	**9,396**	18,561	9,817
Financial Services	**575**	**518**	550	486
Central Activities	**61**	**60**	51	51
	47,451	**24,432**	48,433	24,656

Key management compensation	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Short-term employee benefits	**(5.7)**	(5.5)
Post-employment benefits	**(0.2)**	(1.2)
Share-based payments	**(3.2)**	(2.4)
	(9.1)	(9.1)

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

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

9. EXCEPTIONAL ITEMS

	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Argos transformation and other restructuring charges	**(27.8)**	–
Customer redress – Payment Protection Insurance	**(25.0)**	–
Warranty Insurance	**11.4**	–
Net gain on employee benefits	**–**	31.3
Exceptional items in operating profit	**(41.4)**	31.3
Tax on exceptional items in profit before tax	**9.4**	(7.5)
Exceptional (loss)/profit after tax for the year	**(32.0)**	23.8

Exceptional charges totalling £27.8m were incurred during the 52 weeks ended 1 March 2014, in respect of the ongoing project to transform Argos into a digital retail leader, combined with a number of other restructuring actions.

Financial Services offers Payment Protection Insurance to its customers. In response to an industry wide review by the Financial Conduct Authority, a full investigation has been undertaken with the support of an independent expert, which will result in a customer redress exercise being carried out. As a result, there has been an increase to the existing provision of £25.0m.

Until June 2010, Allianz Insurance provided Home Retail Group an underwriting service for warranty products sold in both Argos and Homebase. Allianz Insurance has recently notified Home Retail Group that under a profit share arrangement relating to the run off of these historical policies, the Group is due commission income of £11.4m.

The Home Retail Group defined benefit pension scheme closed to future accrual with effect from 31 January 2013. This led to a net gain of £31.3m for the 52 weeks ended 2 March 2013, which included a non-cash curtailment gain of £37.4m, offset by costs of £6.1m related to closure of the scheme.

10. NET FINANCING INCOME/(EXPENSE)

	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 (restated) £m
Finance income:		
Bank deposits	**0.3**	1.9
Financing fair value remeasurements – net exchange gains	**6.8**	1.2
Financing fair value remeasurements – available-for-sale financial assets	**3.4**	–
Total finance income	**10.5**	3.1
Finance expense:		
Unwinding of discounts	**(8.1)**	(8.3)
Financing fair value remeasurements – net exchange losses	**(1.2)**	(2.3)
Net finance expense on post-employment benefit obligations	**(3.3)**	(4.0)
Total finance expense	**(12.6)**	(14.6)
Less: finance expense charged to Financial Services cost of sales	**3.3**	3.1
Total net finance expense	**(9.3)**	(11.5)
Net financing income/(expense)	**1.2**	(8.4)

Included within unwinding of discounts is a £6.9m charge (2013: £7.1m) relating to the discount unwind on non-benchmark property provisions.

11. TAXATION

Analysis of charge in year	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 (restated) £m
Current tax:		
UK corporation tax	**(20.3)**	(32.3)
Double tax relief	**–**	1.2
Adjustments in respect of prior years	**12.8**	7.4
Total current UK tax charge	**(7.5)**	(23.7)
Overseas tax	**(2.1)**	(1.8)
Total current tax charge	**(9.6)**	(25.5)
Deferred tax:		
Origination and reversal of temporary differences	**(3.2)**	(3.9)
Adjustments in respect of prior years	**(4.6)**	(4.7)
Rate change impact	**0.2**	0.1
Total tax charge in income statement	**(17.2)**	(34.0)

Tax included in other comprehensive income	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Items that may be reclassified subsequently to profit and loss:		
Cash flow hedges	**13.8**	(6.8)
Rate change impact	**(0.7)**	0.3
Other	**–**	0.4
	13.1	(6.1)
Items that will not be reclassified subsequently to profit and loss:		
Post-employment benefit obligations	**5.6**	(2.1)
Rate change impact	**(2.3)**	2.1
	3.3	–
Total tax credit/(charge) in other comprehensive income	**16.4**	(6.1)

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

11. TAXATION CONTINUED

Factors affecting the tax charge

The effective tax rate for the year of 24.2% (2013: 28.1%), is higher than (2013: higher than) the standard rate of corporation tax in the UK of 23.0% (2013: 24.0%). This is analysed below:

	52 weeks ended 1 March 2014 £m	52 weeks ended 2 March 2013 (restated) £m
Profit before tax	**71.2**	120.9
Profit before tax multiplied by the standard rate of corporation tax in the UK	**(16.4)**	(29.0)
Effects of:		
Benchmark:		
Expenses not deductible for tax purposes	**(10.7)**	(6.8)
Differences in effective tax rates on overseas earnings	**1.5**	0.5
Tax (charge)/credit on non-benchmark profit items	**(6.9)**	5.6
Benchmark tax expense	**(32.5)**	(29.7)
Non-benchmark:		
Tax credit/(charge) on exceptional items	**9.4**	(7.5)
Tax (charge)/credit on non-benchmark items	**(2.5)**	0.4
Adjustments in respect of prior years	**8.2**	2.7
Rate change impact	**0.2**	0.1
Total tax charge in income statement	**(17.2)**	(34.0)

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 23.0% (2013: 24.0%). 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 23.0% to 20.0% from 1 April 2015, this is the substantively enacted rate, which differs from the substantively enacted rate of 21% from 1 April 2014. 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 1 March 2014 £m**	52 weeks ended 2 March 2013 £m
Final dividend of 2.0p per share (2013: nil) for the prior year	**(16.0)**	–
Interim dividend of 1.0p per share (2013: 1.0p) for the current year	**(7.9)**	(8.0)
Ordinary dividends on equity shares	**(23.9)**	(8.0)

A final dividend in respect of the year ended 1 March 2014 of 2.3p per share (2013: 2.0p), amounting to a total final dividend of £17.9m, 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 3.3p per share, amounting to £25.8m. The final dividend of 2.3p per share will be paid on 23 July 2014 to shareholders who are on the register of members at close of business on 23 May 2014. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends to the amount of £0.5m (2013: £0.1m).

13. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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

Earnings	**52 weeks ended 1 March 2014 £m**	52 weeks ended 2 March 2013 (restated) £m
Profit after tax for the financial year	**54.0**	86.9
Adjusted for:		
Amortisation of acquisition intangibles	**1.8**	1.8
Post-employment benefit scheme administration costs	**1.9**	2.1
Adjustments in respect of store impairment and property provisions	**(2.1)**	(14.6)
Exceptional items	**41.4**	(31.3)
Financing fair value remeasurements	**(9.0)**	1.1
Financing impact on post-employment benefit obligations	**3.3**	4.0
Discount unwind on non-benchmark items	**6.9**	7.1
Attributable taxation (credit)/charge	**(6.9)**	7.1
Non-benchmark tax charge in respect of prior years	**(8.2)**	(2.7)
Tax rate change	**(0.2)**	(0.1)
Benchmark profit after tax for the financial year	**82.9**	61.4

Weighted average number of shares	**millions**	millions
Number of ordinary shares for the purpose of basic EPS	**795.0**	800.6
Dilutive effect of share incentive awards	**26.4**	12.4
Number of ordinary shares for the purpose of diluted EPS	**821.4**	813.0

EPS	**pence**	pence
Basic EPS	**6.8**	10.9
Diluted EPS	**6.6**	10.7
Basic benchmark EPS	**10.4**	7.7
Diluted benchmark EPS	**10.1**	7.6

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For the 52 weeks ended 1 March 2014

14. GOODWILL

	Argos £m	Homebase £m	Central Activities £m	Total £m
Cost				
At 3 March 2013 and 1 March 2014	**1,152.3**	**770.4**	**2.9**	**1,925.6**
Accumulated impairment				
At 3 March 2013 and 1 March 2014	**–**	**(381.7)**	**–**	**(381.7)**
Net book value at 1 March 2014	**1,152.3**	**388.7**	**2.9**	**1,543.9**

	Argos £m	Homebase £m	Central Activities £m	Total £m
Cost				
At 4 March 2012 and 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 and 3 March 2012	1,152.3	388.7	2.9	1,543.9

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 £112.3m for Argos (2013: £100.3m) and £18.9m for Homebase (2013: £11.0m), 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 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% (2013: 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% (2013: 8.5%), which equates to a pre-tax rate of approximately 10.6% (2013: 11.0%), 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.

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:

	2014		2013	
	Argos	**Homebase**	Argos	Homebase
Compound annual increase in sales	**2.7%**	**4.9%**	3.2%	4.1%
Compound annual decrease in gross margin rate	**(0.2%)**	**(0.5%)**	(0.3%)	(0.3%)
Compound annual increase in operating costs	**0.2%**	**2.7%**	0.4%	1.3%
Long-term growth rate beyond five years	**2.0%**	**2.0%**	2.0%	2.0%
Post-tax discount rate	**8.5%**	**8.5%**	8.5%	8.5%

At 1 March 2014, the excess in the estimated recoverable amount of each business segment, calculated on a value-in-use basis, over its carrying value was £1,298m (2013: £1,286m) for Argos and £494m (2013: £420m) 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:

2014	**Argos**		**Homebase**	
	In isolation	**Including mitigating actions**	**In isolation**	**Including mitigating actions**
Decrease in the compound annual growth rate in sales	**(1.9%)**	**(2.7%)**	**(1.1%)**	**(1.7%)**
Decrease in the compound annual growth rate in gross margin rate	**(1.8%)**	**(2.2%)**	**(1.0%)**	**(1.3%)**
Increase in the compound annual growth rate in operating costs	**2.4%**	**2.4%**	**1.2%**	**1.2%**

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%

No sensitivities to the discount rate and growth assumptions have been disclosed as management believes that no reasonably possible change in these assumptions 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.

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15. OTHER INTANGIBLE ASSETS

	Computer software £m	Brands £m	Total £m
Cost			
At 3 March 2013	270.0	40.5	310.5
Additions	102.8	–	102.8
Disposals	(4.0)	–	(4.0)
At 1 March 2014	**368.8**	**40.5**	**409.3**
Accumulated amortisation			
At 3 March 2013	(169.1)	(12.2)	(181.3)
Charge for the year	(34.1)	(4.0)	(38.1)
Disposals	3.7	–	3.7
At 1 March 2014	**(199.5)**	**(16.2)**	**(215.7)**
Net book value at 1 March 2014	**169.3**	**24.3**	**193.6**
Assets in the course of construction included above at 1 March 2014	68.6	–	68.6

	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
Net book value at 3 March 2012	104.7	32.4	137.1
Assets in the course of construction included above at 2 March 2013	14.0	–	14.0

Amortisation of £2.6m (2013: £2.9m) is included in cost of sales in the income statement and £35.5m (2013: £29.9m) in net operating expenses.

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 3 March 2013	129.8	1.7	359.9	996.2	1,487.6
Exchange differences	–	–	(1.0)	(3.0)	(4.0)
Additions	–	–	3.6	68.9	72.5
Disposals	–	–	(5.2)	(21.8)	(27.0)
At 1 March 2014	**129.8**	**1.7**	**357.3**	**1,040.3**	**1,529.1**
Accumulated depreciation and impairment losses					
At 3 March 2013	(24.9)	(0.4)	(269.7)	(717.7)	(1,012.7)
Exchange differences	–	–	0.9	2.5	3.4
Charge for the year	(1.7)	(0.1)	(15.1)	(74.5)	(91.4)
Reversal of impairment losses	0.1	–	1.6	1.3	3.0
Disposals	–	–	4.9	20.4	25.3
At 1 March 2014	**(26.5)**	**(0.5)**	**(277.4)**	**(768.0)**	**(1,072.4)**
Net book value at 1 March 2014	**103.3**	**1.2**	**79.9**	**272.3**	**456.7**
Assets in the course of construction included above at 1 March 2014	–	–	0.8	22.0	22.8

	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
Net book value at 3 March 2012	106.6	1.3	94.6	313.8	516.3
Assets in the course of construction included above at 2 March 2013	–	–	0.3	12.8	13.1

Store assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. Store assets (or CGU to which the assets belong) are written down to the higher of fair value less costs to sell and value-in-use. The key assumptions for the value-in-use calculations are the same as those detailed for the goodwill impairment model in note 14. The reversal of previous impairment losses arose principally due to improvements in stores' performances over the last year, which increased the net present value of future cash flows. Management believes that no reasonably possible change in any of these key assumptions would cause the carrying value of store assets to materially exceed their recoverable amounts.

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17. INVESTMENTS IN ASSOCIATES

	2014 £m	2013 £m
At 3 March 2013	–	8.3
Exchange differences	–	0.3
Additions	–	2.4
Share of net loss after tax	–	(2.1)
Other equity movements	–	0.7
Reclassification to non-current assets classified as held for sale	–	(9.6)
At 1 March 2014	**–**	–

The Group had 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 was reported as an associate. On 8 March 2013, the Group sold its shareholding in Ogalas Limited and, as a result, the Group's interest in Ogalas Limited was reclassified to non-current assets held for sale in the Group's balance sheet as at 2 March 2013.
- 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 1 March 2014 is £nil (2013: £14.7m) and its share of the loss after tax is £nil (2013: £6.0m loss). At 1 March 2014, the Group's share of the net assets of its associates amounted to £nil (2013: £5.9m), consisting of assets of £nil (2013: £17.6m), which includes goodwill of £nil (2013: £4.8m), and liabilities of £nil (2013: £11.7m).

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 18. Therefore, the amount reported for the Group's investment in associates at the year-end is £nil.

18. OTHER FINANCIAL ASSETS AND LIABILITIES

	Current 2014 £m	Non-current 2014 £m	Current 2013 £m	Non-current 2013 £m
Other financial assets				
Forward foreign exchange contracts – cash flow hedges	**0.9**	**–**	32.1	–
Forward foreign exchange contracts – fair value hedges	**0.1**	**–**	4.8	–
Available-for-sale financial assets	**–**	**9.9**	–	24.4
Total other financial assets	**1.0**	**9.9**	36.9	24.4
Other financial liabilities				
Forward foreign exchange contracts – cash flow hedges	**(30.1)**	**–**	(2.8)	–
Forward foreign exchange contracts – fair value hedges	**(6.4)**	**–**	–	–
Total other financial liabilities	**(36.5)**	**–**	(2.8)	–

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 14 months 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 1 March 2014 were £805.3m (2013: £781.8m). 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. During the year, the Group disposal of available-for-sale financial assets totalling £15.5m (2013: £nil). In addition, impairment charges totalling £nil (2013:£3.9m) had been taken against the Group's loans to associates following the decision to close HH Retail Limited, the Group's associate in China.

19. INVENTORIES

	2014 £m	2013 £m
Goods for resale	**902.4**	941.8

20. TRADE AND OTHER RECEIVABLES

	Current 2014 £m	Non-current 2014 £m	Current 2013 £m	Non-current 2013 £m
Trade receivables:				
– Instalment receivables	**594.2**	**–**	546.8	–
– Other trade receivables	**54.6**	**–**	47.1	–
	648.8	**–**	593.9	–
Less: provision for impairment of receivables	**(73.1)**	**–**	(75.7)	–
	575.7	**–**	518.2	–
Other receivables	**80.2**	**1.8**	66.5	2.7
Prepayments and accrued income	**56.2**	**–**	52.1	–
	712.1	**1.8**	636.8	2.7

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

As at 1 March 2014, trade receivables of £66.4m (2013: £65.1m) 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:

	2014 £m	2013 £m
At 2 March 2013	**(75.7)**	(82.0)
Charge for the year	**(23.6)**	(21.0)
Utilised	**26.2**	27.3
At 1 March 2014	**(73.1)**	(75.7)

As at 1 March 2014, trade receivables of £7.6m (2013: £10.0m) were past due but not impaired. These mainly relate to other trade receivable balances. The ageing analysis of these trade receivables is as follows:

	2014 £m	2013 £m
Less than 3 months	**6.2**	8.1
3 to 6 months	**1.0**	1.7
6 to 9 months	**0.1**	–
9 to 12 months	**0.3**	0.2
	7.6	10.0

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

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21. CASH AND CASH EQUIVALENTS

	2014 £m	2013 £m
Cash at bank and in hand	**331.0**	396.0

The effective interest rate during the year ended 1 March 2014 for cash and cash equivalents was 0.7% (2013: 0.7%). The Group has provided letters of credit totalling £12.5m (2013: £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.

22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2014 £m	2013 £m
Investments in associates	**–**	9.6

At 2 March 2013, the Group's 33% shareholding in Ogalas Limited had 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.

23. TRADE AND OTHER PAYABLES

	Current 2014 £m	Non-current 2014 £m	Current 2013 £m	Non-current 2013 £m
Trade payables	**(523.1)**	**–**	(560.9)	–
Social security costs and other taxes	**(69.5)**	**–**	(61.7)	–
Accruals and deferred income	**(405.9)**	**(47.4)**	(379.8)	(52.6)
Other payables	**(116.8)**	**–**	(113.7)	–
	(1,115.3)	**(47.4)**	(1,116.1)	(52.6)

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

24. PROVISIONS

	Property £m	Insurance £m	Restructuring £m	Customer redress £m	Other £m	Total £m
At 3 March 2013	(150.9)	(41.5)	(11.8)	(12.3)	(1.3)	(217.8)
Exchange differences	2.4	–	–	–	–	2.4
Charged to the income statement	(36.3)	(5.1)	(0.7)	(25.0)	(2.5)	(69.6)
Released to the income statement	35.4	2.0	0.3	–	–	37.7
Utilised during the year	5.9	6.5	2.7	3.6	0.8	19.5
Discount unwind	(8.3)	–	–	–	–	(8.3)
At 1 March 2014	**(151.8)**	**(38.1)**	**(9.5)**	**(33.7)**	**(3.0)**	**(236.1)**

Analysed as:

	2014 £m	2013 £m
Current	**(46.1)**	(38.3)
Non-current	**(190.0)**	(179.5)
	(236.1)	(217.8)

Property provisions principally comprise obligations on onerous leases together with other costs or income associated with store closures. In respect of onerous leases, provision is made for onerous lease contracts on stores that have either closed, or where projected future trading income is insufficient to cover the lower of exit cost or 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.

The restructuring provision relates to a number of actions undertaken by the Group during the current and prior years. Actions currently being undertaken by the Group include the ongoing project to transform Argos into a digital retail leader. Actions announced during prior years, to improve the operational efficiency of the Group and drive further cost productivity included the closure of one of the Group's distribution warehouses. The majority of this provision is expected to be utilised within one year.

Financial Services offers Payment Protection Insurance (PPI) to its customers. In response to an industry wide review by the Financial Conduct Authority, a full investigation has been undertaken with the support of an independent expert, which will result in a customer redress exercise being carried out. As a result, there has been an increase to the existing provision of £25.0m. The customer redress provision comprises the estimated cost of making redress payments to customers in respect of past sales of PPI policies, including the related administrative expenses. The eventual cost is dependent upon response rates, uphold rates, redress costs, claim handling costs and those costs associated with claims that are subsequently referred to the Financial Ombudsman Service. The provision represents management's best estimate of future costs and will remain under review. Had management used different assumptions, a larger or smaller provision charge would have resulted. The most significant assumption is the expected response rate to the customer contact exercise which has been estimated at 35%. If the response rate is one percentage point higher/(lower) than estimated then the provision at 1 March 2014 would have increased/(decreased) by approximately £1m. This provision is expected to be utilised within three years.

Opening balances have been reclassified to reflect the new categorisation of the provisions.

25. 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 defined benefit scheme is closed to future accrual. The cost of providing the benefits under the defined contribution schemes, 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 in the previous financial year, 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. The deficit recovery plan agreed with the Trustee provides for payments of £22m per annum paid in quarterly instalments until 31 December 2019.

Unfunded defined benefit scheme

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 1 March 2014 was £9.8m (2013: £20.7m). The Group's unfunded defined benefit arrangement closed 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.

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. As required by IAS 19, the value of the defined benefit obligations at the year-end has been measured using the projected unit method. The movements during the year in the net deficit recognised in the balance sheet were as follows:

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25. POST-EMPLOYMENT BENEFITS CONTINUED

	2014 £m	2013 (restated) £m
At 3 March 2013	**(85.1)**	(115.3)
Total net (charge)/gain recognised in the consolidated income statement	**(5.2)**	16.8
Remeasurement of the net defined benefit liability recognised in the consolidated statement of comprehensive income	**(23.8)**	(8.0)
Contributions paid by the Group – deficit recovery	**22.0**	8.0
– other	**15.5**	13.4
At 1 March 2014	**(76.6)**	(85.1)

The Home Retail Group Pension Scheme closed to future accrual with effect from 31 January 2013 which resulted in a net curtailment gain of £37.4m being recognised in the income statement for the 52 weeks ended 2 March 2013. 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 £37.5m (2013: £21.4m) to the Home Retail Group Pension Scheme including £22.0m (2013: £8.0m) as part of the deficit recovery plan agreed with the scheme Trustee following the completion of the 31 March 2012 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.

The defined benefit obligations consist of a combination of both insured liabilities (whereby the Trustee has entered an insurance contract with a regulated insurer, to take over the financial responsibility for meeting the cost of the pension promise made by the Group to those members covered by the premium) and non-insured liabilities (where the Group has responsibility for meeting the costs of the pension promise). The risks associated with defined benefit funding for the insured liabilities have therefore been passed to the insurance company (although the Group retains ultimate responsibility for the insured liabilities if the insurance company should fail). Recognising this transfer of risk, the sensitivities described below relate to the non-insured defined benefit obligations only.

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

	2014 £m	2013 £m
Fair value of scheme assets	**891.8**	833.5
Present value of insured funded obligations	**(293.6)**	(262.2)
Present value of non-insured funded liabilities	**(664.2)**	(635.8)
Deficit in the funded scheme	**(66.0)**	(64.5)
Present value of unfunded pension arrangements	**(10.6)**	(20.6)
Post-employment benefits recognised in the balance sheet	**(76.6)**	(85.1)

The weighted average duration to payment of the schemes' expected non-insured cash flows is 27 years (2013: 27 years).

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

	2014 £m	2013 (restated) £m
Current service cost	**–**	(14.5)
Post-employment benefit scheme administration costs	**(1.9)**	(2.1)
Curtailment gain	**–**	37.4
Net finance expense on post-employment benefit obligations (note 10)	**(3.3)**	(4.0)
Total net (charge)/gain recognised in the consolidated income statement	**(5.2)**	16.8

Contributions to the Group's defined contribution pension arrangements are in addition to those set out in this note and are charged directly to the income statement. The net (charge)/gain is recognised in the following line items in the consolidated income statement:

	2014 £m	2013 (restated) £m
Administrative costs – before exceptional items	**(1.9)**	(16.6)
Administrative costs – exceptional items	**–**	37.4
Net finance expense on post-employment benefit obligations (note 10)	**(3.3)**	(4.0)
Total net (charge)/gain recognised in the consolidated income statement	**(5.2)**	16.8

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

	2014 %	2013 %
Rate of inflation	**3.3**	3.4
Rate of increase for pensions in payment	**3.2**	3.3
Rate of increase for deferred pensions	**3.2**	3.3
Discount rate	**4.4**	4.7
Life expectancy:		
at age 65 for a male currently aged 65	**22.3 years**	22.2 years
at age 65 for a female currently aged 65	**24.7 years**	24.6 years
at age 65 for a male currently aged 50	**23.9 years**	23.8 years
at age 65 for a female currently aged 50	**26.4 years**	26.3 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 sensitivity of the defined benefit obligations to changes in the material assumptions is detailed below. Changes in the 'insured' defined obligations are matched by changes in the fair value of the insurance contract and therefore the sensitivities below relate to the non-insured defined benefit obligations only. The impact of changing material assumptions is as follows:

	Increase/ decrease in assumptions	2014 Indicative effect on non-insured defined benefit obligations £m	2013 Indicative effect on non -insured defined benefit obligations £m
Rate of inflation	0.5%	**+/- 86**	+/- 85
Rate of increase for pensions in payment	0.5%	**+/- 39**	+/- 39
Rate of increase for deferred pensions	0.5%	**+/- 44**	+/- 43
Discount rate	0.5%	**-/+ 79**	-/+ 79
Life expectancy	1 year	**+/- 18**	+/- 18

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 calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

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25. POST-EMPLOYMENT BENEFITS CONTINUED

The assets of the Home Retail Group Pension Scheme are summarised as follows:

	2014			2013		
	Fair value of quoted assets £m	**Fair value of unquoted assets £m**	**Percentage of scheme assets %**	Fair value of quoted assets £m	Fair value of unquoted assets £m	Percentage of scheme assets %
Insurance policy	**–**	**293.6**	**33**	–	262.2	32
Equities	**233.3**	**–**	**26**	226.7	–	27
Fund of hedge funds[1]	**–**	**95.7**	**11**	–	85.2	10
Diversified growth fund[2]	**94.0**	**–**	**10**	93.1	–	11
Property	**41.7**	**38.7**	**9**	35.6	26.7	8
Corporate bonds	**46.1**	**–**	**5**	45.8	–	5
Index linked government bonds	**4.9**	**–**	**1**	44.5	–	5
Cash and cash equivalents	**19.3**	**–**	**2**	13.7	–	2
Other	**–**	**24.5**	**3**	–	–	–
Fair value of scheme assets	**439.3**	**452.5**	**100**	459.4	374.1	100

1 The fund of hedge funds holds a portfolio of other hedge funds and is designed to achieve greater diversification of assets whilst maximising return and minimising risk to the scheme. There are many different types of hedge fund, however they typically aim to produce absolute returns rather than relative returns, they use short as well as long-term investments and are typically traded more actively than traditional assets.

2 A diversified growth fund (DGF) invests in a broad range of asset classes and is designed to produce less volatile returns than equities, which, if achieved, should help pension schemes to better maintain their funding level in volatile markets. DGFs generally aim to achieve positive return or a real return ahead of inflation, have a wide exposure to a range of asset classes and are a low governance solution to the problem of diversifying a scheme's assets. The DGF, Standard Life Global Absolute Return Strategies, aims to provide positive investment returns in all market conditions over the medium and long term and invests mainly in derivatives, fixed income assets and equities.

Investment strategy

Investment risk is managed by diversifying the assets across asset classes whose return patterns are not highly correlated. The assets include an insurance contract which matches approximately one-third of the scheme's pension benefits and therefore helps to significantly reduce the Group's defined benefit pension risks. Changes in the present value of the defined benefit liabilities are as follows:

	2014 £m	2013 (restated) £m
Opening defined benefit liabilities	**(918.6)**	(879.7)
Current service cost	**–**	(14.5)
Curtailment gain	**–**	37.4
Finance expense	**(42.6)**	(41.0)
Contributions paid by employees	**–**	(4.4)
Remeasurements due to:		
Changes in financial assumptions	**(42.4)**	(74.0)
Changes in demographic assumptions	**–**	28.5
Experience on benefit liabilities	**3.0**	11.4
	(39.4)	(34.1)
Benefits paid	**32.2**	17.7
Closing defined benefit liabilities	**(968.4)**	(918.6)

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

	2014 £m	2013 (restated) £m
Opening fair value of scheme assets	**833.5**	764.4
Finance income	**39.3**	37.0
Remeasurement of the assets recognised in the statement of comprehensive income	**15.6**	26.1
Post-employment benefit scheme administration costs	**(1.9)**	(2.1)
Contributions paid by the Group – deficit recovery	**22.0**	8.0
– other	**15.5**	13.4
Contributions paid by employees	**–**	4.4
Benefits paid	**(32.2)**	(17.7)
Closing fair value of scheme assets	**891.8**	833.5

The actual return on scheme assets was a gain of £54.9m (2013: £63.1m).

Significant events during the period
Following its closure to future accrual and in accordance with the terms of the members' scheme offer letters, the Group offers members of the unfunded pension benefit arrangements a cash lump sum alternative to their unfunded benefit entitlement. A number of scheme members elected to receive a cash alternative, which resulted in cash payments totalling £14.5m, and reduced the Group's exposure to these unfunded defined benefits by approximately 50%. The net impact of this was recognised within the actuarial loss in other comprehensive income during the period.

In November 2013, consistent with the Group's on-going risk management for defined benefit obligations, the Trustee of the Home Retail Group Pension Scheme agreed an extension to their buy-in insurance policy to cover pensioners who have retired since the initial buy-in occurred in May 2011. Under the terms of the policy the scheme paid £40m to the insurance company and will in return receive annuity payments equal to the monthly pensions for this group of pensioners. This eliminates the scheme's exposure to the investment, inflation and mortality risks associated with these pensioner members. The buy-in had no impact on the reported profits of the Group for the year to 1 March 2014, or the liabilities of the scheme as calculated in accordance with IAS 19. As this asset was less than the cash cost of the buy-in, the transaction reduced the reported assets of the scheme by approximately £7m.

Risks
The Group is exposed to a number of risks in relation to its defined benefit scheme, the most significant of which are detailed below:

Investment strategy	Changes in asset values are not matched by changes in the non-insured scheme's defined benefit obligations. For example, if equity values fall with no changes in corporate bond yields, the net deficit on the scheme would increase.
Investment returns	Future investment returns are lower than anticipated and so additional contributions are required from the Group to pay all the non-insured benefits promised.
Improvements in life expectancy	Scheme members live longer and so benefits are payable for longer than anticipated.
Inflation	Actual inflation is higher and so benefit payments are higher than anticipated.
Regulatory	In future the Scheme may have backdated claims or liabilities arising from future legislation, emerging practice or court judgements.

Defined contribution schemes
The pension cost represents contributions payable by the Group to the defined contribution schemes and amounted to £15.4m (2013: £10.0m). Contributions totalling £1.5m (2013: £1.4m) were payable to the schemes at 1 March 2014 and are included within trade and other payables.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

26. DEFERRED TAX

	2014 £m	2013 (restated) £m
The movements on the net deferred tax account are as follows:		
At 3 March 2013	**14.1**	28.7
Income statement charge (note 11)	**(7.8)**	(8.6)
Rate change impact (note 11)	**0.2**	0.1
Tax credited/(charged) to other comprehensive income and equity	**21.9**	(6.1)
At 1 March 2014	**28.4**	14.1
The deferred tax amounts recognised are as follows:		
Deferred tax assets:		
– Deferred tax asset to be recovered after more than one year	**41.3**	40.7
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than one year	**(12.9)**	(26.6)
Net deferred tax assets	**28.4**	14.1

Closing deferred tax has been calculated at the substantively enacted UK corporation tax rate of 20% (2013: 23%), which differs from the UK corporation tax rate applied to the current year adjusted profits at 23%. The effect of the reduction in the UK corporation tax rate from 23% to 20% is a reduction in the net deferred tax asset at the end of 2014 of £6.2m. Of this £6.2m, £4.4m has been charged directly to the consolidated statement of comprehensive income, and a charge of £1.8m has been recognised in the income statement.

The substantively enacted reductions in the main rate of UK corporation tax are 2% to 21% from 1 April 2014 and a further 1% to 20% from 1 April 2015. The impact of these rate reductions on the net deferred tax asset at the balance sheet date is a reduction of the net deferred tax asset by £1.5m, this movement is recognised in the consolidated statement of comprehensive income. 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**	**Post-employment benefit £m**	**Other £m**	**Total £m**
At 3 March 2013	**19.1**	**–**	**19.6**	**2.0**	**40.7**
Income statement charge	**(3.2)**	**–**	**(7.4)**	**(2.2)**	**(12.8)**
Tax credited to other comprehensive income	**5.5**	**–**	**3.3**	**–**	**8.8**
Transfer to deferred tax liabilities	**–**	**–**	**–**	**6.4**	**6.4**
Rate change impact	**(1.8)**	**–**	**–**	**–**	**(1.8)**
At 1 March 2014	**19.6**	**–**	**15.5**	**6.2**	**41.3**

Deferred tax assets	Asset provisions £m	Accelerated tax depreciation £m	Post–employment benefit (restated) £m	Other £m	Total (restated) £m
At 4 March 2012	16.0	1.9	29.8	2.9	50.6
Income statement credit/(charge)	4.0	(1.7)	(10.3)	(0.9)	(8.9)
Tax credited/(charged) to other comprehensive income	0.4	–	0.1	(6.6)	(6.1)
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	–	19.6	2.0	40.7

Other deferred tax assets consist of £6.2m (2013: £2.0m) in respect of other temporary differences.

Deferred tax liabilities	**Property valuations £m**	**Accelerated tax depreciation £m**	**Other £m**	**Total £m**
At 3 March 2013	**(12.0)**	**(7.9)**	**(6.7)**	**(26.6)**
Income statement credit/(charge)	**0.7**	**4.3**	**–**	**5.0**
Tax credited to other comprehensive income	**–**	**–**	**13.1**	**13.1**
Transfer from deferred tax assets	**–**	**–**	**(6.4)**	**(6.4)**
Rate change impact	**1.5**	**0.5**	**–**	**2.0**
At 1 March 2014	**(9.8)**	**(3.1)**	**–**	**(12.9)**

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 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 £20m (2013: £25.1m) in respect of capital losses, which total £99.9m (2013: £109.3m), that can be carried forward against future taxable gains. These losses are available indefinitely.

27. SHARE CAPITAL

	2014 Number of shares	**2014 £m**	2013 Number of shares	2013 £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 3 March 2013	(23.1)	22.1	32.9	31.9
Other comprehensive income	–	(45.4)	(3.6)	(49.0)
Net movement in own shares	(35.2)	–	–	(35.2)
Balance at 1 March 2014	**(58.3)**	**(23.3)**	**29.3**	**(52.3)**

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

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 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

The net debit arising on the movement in own shares of £35.2m (2013: credit of £1.4m) represents the purchase, and subsequent utilisation, 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 1 March 2014, the EST held 34,025,109 (2013: 12,762,196) shares with a market value of £66.8m (2013: £16.1m). The shares in the EST are held within equity of the Group at a cost of £55.8m (2013: £20.4m). During the 52 weeks ended 1 March 2014, 22.5m additional shares were purchased for a cost of £37.4m (2013: 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 1 March 2014, the Trust held 602,332 (2013: 651,283) shares with a market value of £1.2m (2013: £0.8m). These shares are held within equity of the Group at a cost of £2.5m (2013: £2.7m). No additional shares were purchased during the year (2013: 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 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Share option awards	**(2.0)**	(3.2)
Share grant awards	**(12.5)**	(8.7)
Total expense recognised (all equity-settled)	**(14.5)**	(11.9)

Summary of share option and share award arrangements
During the year ended 1 March 2014, 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 SAYE contract.

The Home Retail Group approved option plan. Options are granted at an exercise price equal to the market price of the shares over the ten dealing days preceding grant. For those options with a performance condition, the percentage of the options exercisable by participants is determined by ranking total shareholder return (TSR) relative to a comparator group. The TSR target is considered a market-based performance condition under IFRS 2, and the values of options with this performance condition have been adjusted using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation.

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 (PSP). 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, profit or free cash flow. 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 other targets are non market-based performance conditions, and the awards with these performance conditions 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 value of the award delivered under the approved share option is deducted from the PSP award, such that 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. All awards have now vested, 1/6 on the first anniversary of the award, 2/6 on the second anniversary and 3/6 on the third anniversary.

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 Group's option plans, determined using the Black-Scholes option pricing model, was £0.27 (2013: £0.14) per option. The significant inputs into the option pricing model were as follows:

Weighted average:	**52 weeks ended 1 March 2014**	52 weeks ended 2 March 2013
Share price on grant date (£)	**1.55**	0.86
Exercise price (£)	**1.26**	0.59
Expected volatility	**47.1%**	46.2%
Expected dividend yield	**2.2%**	5.5%
Risk free interest rate	**1.1%**	1.0%
Expected option life to exercise	**3.4 years**	3.5 years

Expected volatility is a measure of expected fluctuations in the share price over the expected life of an option. The measure of volatility used by the Group in its pricing model during the year ended 1 March 2014 has been set after considering the historical volatility of the Group's share price returns and the average of the volatilities of share price returns for other similar companies.

Reconciliation of movement in the number of share options

	52 weeks ended 1 March 2014		52 weeks ended 2 March 2013	
	Number of options	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Outstanding at beginning of year	**43,139,007**	**0.90**	14,656,289	2.26
Granted	**5,323,904**	**1.26**	38,322,492	0.59
Forfeited	**(4,466,656)**	**0.89**	(8,257,324)	1.57
Exercised	**(396,213)**	**0.67**	(6,750)	0.59
Expired	**(1,975,087)**	**2.08**	(1,575,700)	2.46
Outstanding at year-end	**41,624,955**	**0.89**	43,139,007	0.90
Exercisable at year-end	**2,989,989**	**3.01**	2,795,856	3.53

The weighted average share price for share options exercised during the year was £1.83 (2013: £1.23).

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

29. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

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 1 March 2014			
		Weighted average exercise price	Weighted average remaining lives	
Range of exercise prices £	**Number of options**	**£**	**Expected years**	**Contractual years**
Up to 0.99	**32,349,334**	**0.59**	**2.0**	**2.6**
1.00 – 1.99	**6,398,647**	**1.35**	**2.4**	**3.1**
2.00 – 2.99	**512,233**	**2.00**	**1.1**	**1.6**
3.00 – 3.99	**2,364,741**	**3.59**	**–**	**1.2**

	As at 2 March 2013			
		Weighted average exercise price	Weighted average remaining lives	
Range of exercise prices £	Number of options	£	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

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 16,033,999 ordinary share awards (2013: 23,408,568) granted during the year with a weighted average fair value of £1.29 (2013: £0.51).

30. OPERATING LEASES

	2014 £m	2013 £m
Future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Less than one year	**(332.6)**	(342.6)
Between one and five years	**(1,104.3)**	(1,182.7)
More than five years	**(1,190.2)**	(1,436.5)
Total operating leases	**(2,627.1)**	(2,961.8)

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

	2014 £m	2013 £m
Capital expenditure for which contracts have been placed:		
Property, plant and equipment	**(1.3)**	(15.4)
Intangible assets	**(13.3)**	(1.0)
Total commitments	**(14.6)**	(16.4)

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 1 March 2014 £m**	52 weeks ended 2 March 2013 (restated) £m
Profit before tax	**71.2**	120.9
Adjustments for:		
Share of post-tax loss of associates	**–**	6.0
Net financing (income)/expense	**(1.2)**	8.4
Operating profit	**70.0**	135.3
(Profit)/loss on sale of property, plant and equipment and other intangible assets	**(0.2)**	0.2
Depreciation and amortisation	**129.5**	124.7
Reversal of impairment losses	**(3.0)**	–
Finance expense charged to Financial Services cost of sales	**3.3**	3.1
Decrease/(increase) in inventories	**39.4**	(8.6)
Increase in receivables	**(74.6)**	(40.9)
Increase in payables	**5.5**	163.4
Movement in working capital	**(29.7)**	113.9
Increase/(decrease) in provisions	**12.4**	(24.5)
Movement in post-employment benefit obligations	**(35.6)**	(42.2)
Share-based payment expense (net of dividend equivalent payments)	**14.3**	11.6
Cash generated from operations	**161.0**	322.1

34. RELATED PARTIES

The ultimate parent company of the Group is Home Retail Group plc. The principal subsidiary and associated undertakings at 1 March 2014 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 £nil (2013: £6.8m) to its associates, received £3.5m (2013: £nil) by way of loan repayment from its associates and invested £nil (2013: £2.4m) in the share capital of its associates. At 1 March 2014, the amounts owed by its associates to the Group totalled £0.1m (2013: £3.7m), net of accumulated impairment losses totalling £3.9m (2013: £3.9m) 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 11 April 2014, the Group entered into an agreement to partner with Fujitsu to provide Information Systems infrastructure and services that support the Group's operations. Costs of approximately £12m, associated with transitioning these services to Fujitsu, are expected to be incurred in the year ending 28 February 2015. This charge will be taken as an exceptional item, outside of benchmark operating profit.

Notes to the financial statements continued

For the 52 weeks ended 1 March 2014

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

A full list of subsidiaries and associates at 1 March 2014 will be annexed to the Company's Annual Return.

Details of interests in associated undertakings are given within note 17.

37. RESTATEMENT OF PRIOR PERIOD INFORMATION

The Group has adopted IAS 19 (revised) during the period. The impact on the Group's post-employment benefits is to replace the interest expense on post-employment 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 post-employment benefit surplus or deficit. In addition, the administration costs of the Home Retail Group Pension Scheme, previously charged against the expected return on plan assets, are now charged within operating costs. Prior year comparatives have been restated as follows:

Impact on income statement

	52 weeks to 2 March 2013		
	As previously reported £m	Prior period adjustment £m	As Restated £m
Operating profit	137.4	(2.1)	135.3
Finance income	47.2	(44.1)	3.1
Finance expense	(48.5)	37.0	(11.5)
Net financing expense	(1.3)	(7.1)	(8.4)
Share of post-tax loss of associates	(6.0)	–	(6.0)
Profit before tax	130.1	(9.2)	120.9
Taxation	(36.1)	2.1	(34.0)
Profit for the period	94.0	(7.1)	86.9

Impact on earnings per share	pence	pence	pence
Basic	11.7	(0.8)	10.9
Diluted	11.6	(0.9)	10.7

Impact on non-GAAP measures
Reconciliation of profit before tax (PBT) to benchmark PBT

	52 weeks to 2 March 2013		
	As previously reported £m	Prior period adjustment £m	As Restated £m
Profit before tax	130.1	(9.2)	120.9
Adjusted for:			
Amortisation of acquisition intangibles	1.8	–	1.8
Post-employment benefit scheme administration costs	–	2.1	2.1
Adjustments in respect of store impairment and property provisions	(14.6)	–	(14.6)
Exceptional items	(31.3)	–	(31.3)
Financing fair value remeasurements	1.1	–	1.1
Financing impact on post-employment benefit obligations	(3.1)	7.1	4.0
Discount unwind on non-benchmark items	7.1	–	7.1
Benchmark PBT	91.1	–	91.1

Impact on benchmark earnings per share	pence	pence	pence
Basic	7.7	–	7.7
Diluted	7.6	–	7.6

Impact on consolidated statement of comprehensive income

	52 weeks to 2 March 2013		
	As previously reported £m	Prior period adjustment £m	As Restated £m
Profit for the period attributable to equity holders of the Company	94.0	(7.1)	86.9
Other comprehensive income:			
Net change in fair value of cash flow hedges			
– Foreign currency forward exchange contracts	33.4	–	33.4
Net change in fair value of cash flow hedges transferred to inventory			
– Foreign currency forward exchange contracts	(5.3)	–	(5.3)
Remeasurement of the net defined benefit liability	(17.2)	9.2	(8.0)
Fair value movements on available-for-sale financial assets	2.0	–	2.0
Currency translation differences	0.6	–	0.6
Tax charge in respect of items taken directly to equity	(4.0)	(2.1)	(6.1)
Other comprehensive income for the period, net of tax	9.5	7.1	16.6
Total comprehensive income for the period attributable to equity holders of the Company	103.5	–	103.5

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

Report on the Parent Company financial statements

Our opinion

In our opinion the Parent Company financial statements, defined below:

- give a true and fair view of the state of the Parent Company's affairs as at 1 March 2014 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Parent Company financial statements (the "financial statements"), which are prepared by Home Retail Group plc, comprise:

- the Parent Company balance sheet as at 1 March 2014;
- the Parent Company statement of changes in equity for the year then ended;
- the Parent Company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Financial Statements (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
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. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.

Other matter

We have reported separately on the group financial statements of Home Retail Group plc for the year ended 1 March 2014.

Neil Grimes
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2014

Parent Company balance sheet

At 1 March 2014

	Notes	1 March 2014 £m	2 March 2013 £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	**23.9**	7.5
Total current assets		**23.9**	7.5
Total assets		**2,919.5**	2,903.1
LIABILITIES			
Current liabilities			
Trade and other payables	8	**(811.0)**	(764.1)
Total current liabilities		**(811.0)**	(764.1)
Total liabilities		**(811.0)**	(764.1)
Net assets		**2,108.5**	2,139.0
EQUITY			
Share capital	9	**81.3**	81.3
Capital redemption reserve		**6.4**	6.4
Retained earnings		**2,020.8**	2,051.3
Total equity		**2,108.5**	2,139.0

The financial statements on pages 116 to 120 were approved by the Board of Directors on 30 April 2014 and were signed on its behalf by:

John Walden,
Chief Executive

Richard Ashton,
Finance Director

Parent Company statement of changes in equity

For the 52 weeks ended 1 March 2014

		Attributable to equity holders of the Company			
	Notes	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 3 March 2013		81.3	6.4	2,051.3	2,139.0
Loss for the year	4	–	–	(20.9)	(20.9)
Other comprehensive income		–	–	–	–
Total comprehensive income for the year ended 1 March 2014		–	–	(20.9)	(20.9)
Transactions with owners:					
Movement in share-based compensation reserve	3	–	–	14.5	14.5
Equity dividends paid during the year	5	–	–	(23.9)	(23.9)
Other distributions		–	–	(0.2)	(0.2)
Total transactions with owners		–	–	(9.6)	(9.6)
Balance at 1 March 2014		**81.3**	**6.4**	**2,020.8**	**2,108.5**

		Attributable to equity holders of the Company			
	Notes	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

Parent Company statement of cash flows

For the 52 weeks ended 1 March 2014

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 1 March 2014

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 1 March 2014. 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 £20.9m (2013: £6.6m).

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 44 to 59.

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 1 March 2014 £m	52 weeks ended 2 March 2013 £m
Final dividend of 2.0p per share (2013: nil) for the prior year	**(16.0)**	–
Interim dividend of 1.0p per share (2013: 1.0p) for the current year	**(7.9)**	(8.0)
Ordinary dividends on equity shares	**(23.9)**	(8.0)

A final dividend in respect of the year ended 1 March 2014 of 2.3p per share (2013: 2.0p), amounting to a total final dividend of £17.9m, 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 3.3p per share, amounting to £25.8m. The final dividend of 2.3p per share will be paid on 23 July 2014 to shareholders who are on the register of members at close of business on 23 May 2014. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends to the amount of £0.5m (2013: £0.1m).

6. INVESTMENT IN SUBSIDIARY

	2014 £m	2013 £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.

7. TRADE AND OTHER RECEIVABLES

	Current 2014 £m	Current 2013 £m
Amount owed by related party (note 11)	**23.9**	7.5

The amount owed by a related party is 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 £23.9m (2013: £7.5m) is due from the Home Retail Group Employee Share Trust (EST). The Company advances funds to the EST by way of a loan, in order that the EST may acquire shares for the purpose of satisfying obligations arising from the Group's share-based compensation schemes. As the shares acquired by the EST are utilised to satisfy these obligations, at times for nil cash consideration, the EST will be unable to repay the loan in full. It is therefore disclosed net of a provision for impairment of £50.4m (2013: £29.5m).

Movements in the provision for impairment are as follows:

	£m
At 2 March 2013	(29.5)
Charge for the year	(20.9)
At 1 March 2014	**(50.4)**

Notes to the Parent Company financial statements continued

For the 52 weeks ended 1 March 2014

8. TRADE AND OTHER PAYABLES

	Current 2014 £m	Current 2013 £m
Amounts owed to Group companies (note 11)	**(810.4)**	(763.5)
Other payables	**(0.6)**	(0.6)
	(811.0)	(764.1)

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

	2014 Number of shares	2014 £m	2013 Number of shares	2013 £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 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 Group's previous £685m facility was cancelled. The Company is a borrower and a guarantor to this new facility.

No drawings were made under the above facility during the 52 weeks ended 1 March 2014.

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.

	2014 £m	2013 £m
Transactions with subsidiary undertakings		
Recharge of costs	**14.5**	11.9
Transfer of cash to the EST by subsidiary undertakings on behalf of the Company	**37.4**	–
Settlement of liabilities by subsidiary undertakings on behalf of the Company	**24.1**	8.3
Amounts owed to subsidiary undertakings	**(810.4)**	(763.5)
Transactions with other related parties		
Amount owed by other related party – EST (note 7)	**23.9**	7.5

Group five-year summary

Income statement	**52-week period to 1 March 2014 £m**	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
Argos	**4,051.1**	3,931.3	3,872.6	4,194.3	4,346.8
Homebase	**1,489.2**	1,430.7	1,509.8	1,550.7	1,571.9
Financial Services	**122.7**	113.4	109.1	106.9	104.0
Sales	**5,663.0**	5,475.4	5,491.5	5,851.9	6,022.7
Argos	**112.3**	100.3	94.2	219.0	266.2
Homebase	**18.9**	11.0	22.8	47.6	41.2
Financial Services	**6.0**	6.0	6.0	6.0	5.7
Central Activities	**(24.2)**	(24.0)	(25.3)	(21.8)	(23.4)
Benchmark operating profit	**113.0**	93.3	97.7	250.8	289.7
Net financing income	**2.4**	3.8	3.4	3.2	5.2
Share of post-tax (loss)/profit of joint ventures and associates	**–**	(6.0)	0.5	0.1	(2.0)
Benchmark PBT	**115.4**	91.1	101.6	254.1	292.9

Statistics

Argos	**52-week period to 1 March 2014**	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
Like-for-like change in sales	**3.3%**	2.1%	(8.9%)	(5.6%)	(2.1%)
Net space contribution to sales change	**(0.3%)**	(0.6%)	1.2%	2.1%	3.6%
Total sales change	**3.0%**	1.5%	(7.7%)	(3.5%)	1.5%
Number of stores at year-end	**734**	737	748	751	745
Homebase					
Like-for-like change in sales	**5.9%**	(4.9%)	(2.0%)	(0.3%)	2.7%
Net space contribution to sales change	**(1.8%)**	(0.3%)	(0.6%)	(1.1%)	1.2%
Total sales change	**4.1%**	(5.2%)	(2.6%)	(1.4%)	3.9%
Number of stores at year-end	**323**	336	341	341	349
Of which contain a mezzanine floor	**184**	186	187	186	190

Group five-year summary continued

Financial Services	1 March 2014 £m	2 March 2013 £m	3 March 2012 £m	26 February 2011 £m	27 February 2010 £m
Store card net receivables	**524**	475	457	456	429

Balance sheet	1 March 2014 £m	2 March 2013 £m	3 March 2012 £m	26 February 2011 £m	27 February 2010 £m
Invested capital	**2,421.6**	2,376.8	2,518.6	2,512.8	2,377.7
Post-emploment benefit obligations	**(76.6)**	(85.1)	(115.3)	(7.5)	(24.9)
Net tax assets	**33.0**	10.7	24.7	4.6	52.1
Forward foreign exchange contracts	**(35.5)**	34.1	3.1	(28.0)	47.7
Financing net cash	**331.0**	396.0	194.3	259.3	414.0
Reported net assets	**2,673.5**	2,732.5	2,625.4	2,741.2	2,866.6

Earnings and dividends	52-week period to 1 March 2014	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
Basic benchmark EPS	**10.4p**	7.7p	8.7p	21.3p	23.4p
Dividends per share (interim paid and final proposed)	**3.3p**	3.0p	4.7p	14.7p	14.7p
Dividend cover	**3.15x**	2.57x	1.85x	1.45x	1.59x

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.

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' (IAS 19 (revised)). The revised standard is effective for the first time during the 52 weeks to 1 March 2014 and is required to be applied retrospectively. There has been no change to the Group five-year summary as the adjustments to the income statement resulting from adoption of IAS 19 (revised) relate only to items previously excluded from the Group's reported benchmark profit before tax. There has been no change to the Group's net assets as a result of the adoption of IAS 19 (revised), so no restatement of the balance sheet is required.

Shareholder information

Who are the Group's shareholders?

The Group had 26,928 ordinary shareholders at 1 March 2014, 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	93	0.3%	701,037,291	86.2%
100,001 - 1,000,000	206	0.8%	71,655,654	8.8%
10,001 - 100,000	519	1.9%	14,909,579	1.8%
5,001 - 10,000	728	2.7%	5,017,200	0.6%
2,001 - 5,000	2,669	9.9%	8,110,092	1%
1 - 2,000	22,713	84.4%	12,715,185	1.6%
	26,928	**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	2,091	7.8%	779,803,020	95.9%
Individuals*	24,837	92.2%	33,641,981	4.1%
	26,928	**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 Asset Services:

- Email: homeretail@capita.co.uk
- 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 to 5.30pm Monday to Friday

Postal address: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

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 Asset Services.

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 Asset Services.

Where can I find the Group's share price?

www.homeretailgroup.com

Shareholder information continued

Does the Group provide a share dealing facility?
Investors can buy or sell Group shares through Capita Deal Services. Go to www.capitadeal.com or call 0871 664 0445 (from abroad +44 20 3367 2699) (calls cost 10p per minute plus network extras) lines are open between 8.00 am and 4.30 pm Monday to Friday).

When are the next major events for shareholders?

Interim Management Statement	12 June 2014
Annual General Meeting	2 July 2014
Final dividend paid	23 July 2014

Where is the next Annual General meeting?
The 2014 AGM will be held from 11.00 am on Wednesday, 2 July 2014 at the Jurys Inn Hotel, 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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