# Annual Report and Financial Statements 2015

“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*

“The Group delivered a good overall performance in FY15, achieving like-for-like sales growth in both businesses for a second consecutive year.”

**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.

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

**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/2015/

**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/

## STRATEGIC REPORT



## GOVERNANCE



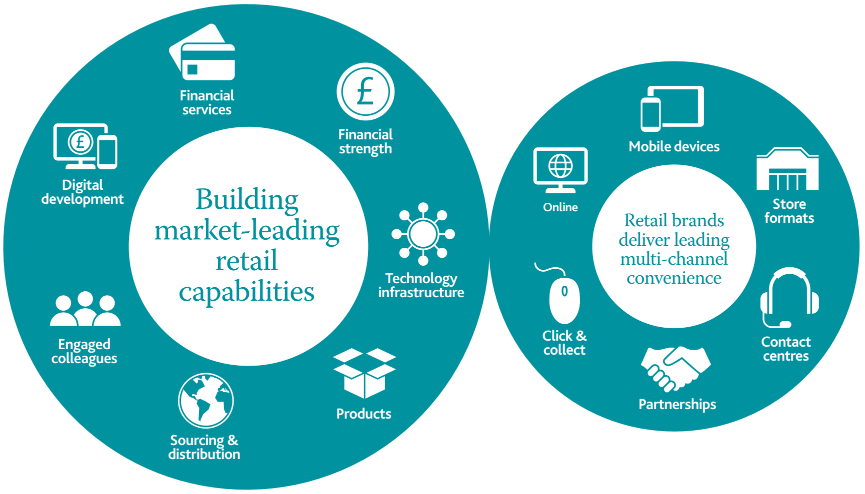
## FINANCIAL STATEMENTS



## ADDITIONAL INFORMATION

# Our business model

We aim to provide outstanding value and convenience for our customers by building an infrastructure of market-leading retail capabilities, which can be leveraged by our retail brands – Argos and Homebase – to provide leading offers across multiple channels. Customers are at the heart of our business, with around 180m transactions during the year. We use the insight that our many customers provide to add value to our business model.




## Building market-leading retail capabilities

### Sourcing and distribution

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 cost-effectively through a national distribution network.

### Products

We offer a comprehensive range of over 90,000 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, Heart of House, Bush, Alba, Chad Valley and Odina.

### Technology infrastructure

Many modern and innovative retail capabilities depend on new technologies. Technology is central to our multi-channel business model, where information of interest to customers must be maintained securely and be available whenever and wherever a customer needs it.

### Engaged 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 £309m of cash. This supports our strategy for growth.

### Digital development

The internet has inspired a revolution in the way customers shop, with digital channels such as online and mobile representing a growing share of business. Our business model prioritises the rapid development of customer features on these digital channels.

## Retail brands deliver leading multi-channel convenience

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. We are a multi-channel retailer in that we offer our customers a number of convenient ways in which they can both purchase and physically obtain their products.

We are taking advantage of developments in digital technology that have brought about a fundamental and permanent shift in the way our customers shop. Our successful **Online** 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 in various **Store Formats**, including 'big box' speciality retail stores and a range of Argos formats. Our store network can offer not only a selection of shopping options, but also a leading **Click & Collect** service for customers who order a product on a digital channel and collect it in-store. In addition to store collection, we offer **Home Delivery** options for products of all shapes and sizes, and **Contact Centres** to provide our customers with personalised service. Increasingly, we are entering into **Partnerships** to help us access new customers online or through store concessions.

# Our strategy

## Home Retail Group's strategy is to create long-term value by offering leadership in convenience and choice for customers in an emerging digital age.

The strategy uses Argos as a base with which to build contemporary, market-leading retail capabilities and a leading customer offer across the many ways customers shop, purchase and obtain goods – including digital (online and mobile), store formats and home delivery. These capabilities and multi-channel offer can be extended to Homebase, Habitat and potential partners to accelerate their competitiveness and achieve long-term growth for Home Retail Group.

The Group strategy is built around five elements of a competitively advantaged and differentiated customer proposition: product choice, digital, convenience, human and financial services.

**Product choice**
The scale and strength of our retail brands drives market leadership in general merchandise product categories. Home Retail Group offers over 90,000 products across Argos and Homebase, including a substantial element of exclusive and own-brand lines such as Habitat, and is continually expanding its offer to build credibility, choice and differentiation. We utilise our scale advantage to source products for our customers, enabling us to offer them a broad choice of products at competitive prices.

**Digital**
Retail has seen technology drive a fundamental and permanent shift in the way customers shop. Increasingly customers choose to shop online or on the move through mobile devices. The Group strives to develop digital customer experiences that are intuitive, inspiring and consistent across many devices, and provide information to customers that is helpful in their purchase decision such as an up-to-the-minute view of stocking levels for each product. Multi-channel experiences are core to what we do, and the reason we have an ongoing focus on developing our successful internet and mobile commerce channels.

**Convenience**
In a digital world convenience is being redefined to mean the ability for customers to obtain our products at the location and the time they desire. The presence of a local store remains critical for many customers, to meet traditional shopping needs and as locations from which to 'click & collect' items previously ordered online. Home delivery options are equally important to customers. Home Retail Group operates a nationwide distribution network across multiple distribution centres and over 1,000 stores. 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 delivered to our customers, through whichever channel they choose to shop with us.

**Human**
Our 47,000 colleagues working in stores, home delivery, distribution and contact centres are fundamental to how our customers experience our brands. They are a key factor in building trust with customers, particularly in an increasingly technology-driven environment.

**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.

### Our retail brands

Each of our retail brands is pursuing comprehensive strategies to help deliver Home Retail Group's ambition.

**Argos Transformation Plan**
In 2012 Argos announced its five-year Transformation Plan to reinvent itself as a 'digital retail leader'.

This Plan has four principal components:
- Universal customer appeal
  - Ensure competitive pricing and value
  - Extend product ranges to build both authority and choice
  - Strengthen both exclusive and own-brand offer through fewer, cross-category own brands
  - Enhance product quality and design to meet the needs of new customer segments
  - Reposition brand and customer experiences
  - Expand customer reach and build loyalty
  - Develop large-scale customer data collection, insight and personalisation capabilities
- Reposition channels for a digital future
  - Create market-leading digital customer experiences
  - Invest in systems to drive online sales growth
  - Innovation of the store experience, including fast-track collection and tablet browsers
  - Shift the paper catalogue in Argos to a supporting role for the digital offer, and develop a market-leading digital catalogue
- More choice available faster
  - Provide high levels of availability to our customers
  - Exploit the strategic advantage of having efficient distribution, and collection points in local markets across a variety of different formats
  - Introduce market-leading fulfilment options to complement the immediacy of in-store collection
- Maintain a lean and flexible cost base

# Our strategy continued

### Homebase Productivity Plan

In 2014 Homebase announced a three-year Productivity Plan with the aim of strengthening the foundation of Homebase store and digital capabilities, and improving its customer propositions. This Plan has three principal components:

- Improve in-store effectiveness
  - Down-size the store estate targeting a 25% reduction in stores
  - Improve customer in-store experiences across stock availability, merchandising and customer service
  - Argos and Habitat concessions within Homebase
- Strengthen customer propositions
  - Improve promotional effectiveness and selectively invest in pricing
  - Further iterate refit trial stores, including product displays to help our customers with ideas and inspiration
  - Strong offer of both exclusive and own brands
- Accelerate digital capabilities
  - Leverage Argos investments in multi-platform apps, features and functions
  - Agile development via the Argos digital hub
  - Improve product fulfilment including named or next-day delivery, and nationwide click & collect through Argos estate

### Financial 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
- Renegotiating improved store lease terms as existing leases expire
- Continuing to re-shape the store estate, including the development of different format options in Argos, together with a store reduction programme in Homebase

The Group has strong operational cash flow characteristics and it has £309m of net cash as at 28 February 2015. In addition, we have a £250m committed borrowing facility which is undrawn and which expires in March 2019. This financial strength will enable us to deliver on the investment plans incorporated in both the Argos Transformation Plan and the Homebase Productivity 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 risks and uncertainties section on pages 24 and 25.

# 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.

Last year I reported that the Group was determined to continue to improve profits and in the year just ended it has done so. Basic benchmark EPS has grown by 25% in spite of a sales performance in Argos which, for a number of reasons, did not meet our initial expectations. These reasons are discussed in the Chief Executive's statement on the following pages and in other parts of this report.

While there have been signs of underlying improvement and a return to growth in the UK economy over the past year, we have not yet seen any evidence of a broad-based economic recovery. In light of this, our focus on managing both costs and gross margin, together with our ongoing cash management, were all critical in delivering a good overall financial performance.

Cash management has been and remains critical to the current and future success of Home Retail Group. We are in the middle of an ambitious Transformation Plan in Argos which requires significant levels of investment. Much has been achieved, but much still remains to be done. Our plan to fund this investment from internally generated resources remains soundly based. At the same time we are pleased to announce that we have recently signed a new financing facility from our banks which further underpins the financial stability of the Group.

The Homebase Productivity Plan has been given added impetus by property transactions, both in the year just ended and planned for the year ahead, which should see the Homebase property portfolio materially reduced to a more efficient size by the end of FY16. We anticipate that the reductions to the end of FY16 will have no material profit impact on the Group and will be cash generative – a very good result by industry standards.

Digital technologies are transforming businesses and communities. Digital strategies also have the potential to revitalise our high streets, as highlighted in the recent Digital High Street Report 2020 published by the Digital High Street Advisory Board, an independent body which is chaired by our Group Chief Executive, John Walden. Our Group is focused on maximising the customer benefits of retailing through the internet while providing those customers with the choice and ease of collection from stores as well as home delivery. However, with around 1,000 stores in our Group, the cost in terms of business rates is significant and so I am pleased the Government has launched a review of the impact and fairness of business rates.

The importance of improving digital skills in our communities is one of the main recommendations of the 2020 report. In the past year we gave 8,000 customers the opportunity to learn digital skills with us. Skills are key to improving employment opportunities and we are looking to play our part in this important area through apprenticeship programmes and, following the success of the Homebase Garden Academy, the launch of the Homebase Design and Decorating Academy this year. We have also looked to create opportunities to support those who need help to move into employment by partnering with Remploy, Ready for Work, Gingerbread and The Prince's Trust to provide work placements.

Job opportunities depend on a thriving business and achieving this requires continuing commitment to investing in the business and maintaining the support of our shareholders. We have considered what an appropriate level of dividend should be in light of the year's profit and cash performance and we are recommending an increase of 15% to 3.8p.

Home Retail Group colleagues have long had a reputation for supporting charitable endeavours, both in the local community and nationally. I am delighted that colleagues' efforts have raised over £3m for Alzheimer's Society during the course of our two-year partnership. We are proud to have contributed towards the creation of one million Dementia Friends by 2015 as part of the Prime Minister's 'Dementia Challenge', with over 10,000 colleagues becoming Dementia Friends during the two years. Macmillan Cancer Support has been selected by colleagues to be our new charity partner and I look forward to another successful partnership.

My thanks go to all colleagues who have worked and continue to work so hard on behalf of shareholders. I would especially like to mention Paul Loft who leaves the Group this year having been Managing Director of Homebase for the last 12 years. Paul's diligence and commitment have been first class and he leaves with our best wishes. At the same time, I am delighted to take this opportunity to welcome Echo Lu, who has now assumed leadership of the Homebase business. Finally, thanks to my fellow directors for their contribution as we focus on transforming the operations of the Group and continue to strive for improved financial performance.

**John Coombe**
*Chairman*

# Chief Executive's statement

## The Group delivered a good overall performance in FY15, achieving like-for-like sales growth in both businesses for a second consecutive year, benchmark profit before tax growth of 14% to £132.1m, and benchmark EPS growth of 25% to 13.0p.

The digital revolution continues to dramatically alter the way consumers communicate, learn, shop and are entertained. Retailing in particular is experiencing disruption and change. Many retailers are increasing their investments in an attempt to keep up with consumers, and some are innovating and adopting new ways of working to reflect a faster paced and more technologically-driven competitive environment. Home Retail Group believes that it has an opportunity to build a leadership position as the market becomes more digital, by developing capabilities and multi-channel customer experiences that anticipate a digital future.

The Argos Transformation Plan will continue to be the Group's principal source of shareholder value over the medium term. This Plan was introduced in October 2012 after several years of eroding performance at Argos, declining advantage in its offer and operating model, and in a market context of growing digital trends – transparency of product ranges and prices, innovation across digital shopping channels, and emerging competition for faster and cheaper product fulfilment. We believed that Argos had several assets that could be leveraged to build potential competitive advantage in this context, and we introduced an ambitious Transformation Plan to 'reinvent Argos as a digital retail leader'.

We are now two years into the Argos Transformation Plan. As at the outset, the factors most critical to the successful achievement of the Plan continue to be:

- the ability for Argos to execute successfully the quantity and pace of change required across many critical areas of its operations;
- technology development, which over the Plan term is replacing an out-dated and complex infrastructure with a comprehensive digital architecture, and installing an agile capability for developing customer experiences across digital devices; and
- consumer take-up of new Argos propositions amid improving competitive offerings.

Argos has progressed well on its Plan. In fact, as I reflect on how far the business has come in only two years, I am pleased with how much has been achieved. Our team has accomplished a great deal, and is now operating in a faster paced and more innovative manner. As expected in a five-year strategy with high complexity and ambition, the Plan has not unfolded exactly as we originally envisaged – with minor delays and temporary customer disruption balanced with positive new opportunities such as digital stores in small formats enabled by 'hub & spoke' distribution, and partnerships with eBay and Sainsbury's. Overall the Transformation Plan is broadly on track, and we continue to believe we can reach our ambitious operating and financial goals. Most importantly, independent of when the goals are reached, the strategic opportunity for Argos to be a retail leader in a digital future, with access to even greater long-term growth opportunity, remains compelling and achievable. FY16 will be an important year as Argos will, for the first time, introduce to the market several new customer propositions, enabled by new digital capabilities.

In the course of the Argos Transformation Plan, Home Retail Group is building leading capabilities that can ultimately be leveraged for the benefit of Homebase. This was an important consideration as the Group undertook a strategic review of Homebase during FY15. The review concluded that Homebase, while having several strengths to build from, also faced several challenges including:

- inconsistent store operating standards such as merchandising, stock availability and customer service;
- an over-sized store estate in light of home improvement market trends and Homebase sales volumes;
- product pricing that was not competitive in certain categories when considering the effectiveness of promotional programmes;
- inconsistent performance of new propositions across reformatted stores; and
- a need to accelerate its digital and fulfilment capabilities.

On the basis of the review, in October 2014 we introduced the Homebase Productivity Plan. The key elements of the Productivity Plan include:

- raise store operating and customer service standards;
- a 25% reduction in the Homebase store estate;
- improvements to Homebase propositions, including more Argos and Habitat concessions, and more competitive product pricing; and
- an upgraded Homebase digital offer that leverages investments being made in Argos.

The Productivity Plan, covering the three years to FY18, will result in Homebase being a stronger business with better profit ratios, a solid foundation of store operations and customer service, improved offers and proven new customer propositions. As Argos approaches the end of its Transformation Plan in FY18, Homebase should also be well positioned for investment in its long-term growth as a digital and multi-channel leader in the home improvement sector.

### Building capabilities for a digital future

During FY15 Home Retail Group made good progress in building strategic capabilities that will form the foundation of its digital and multi-channel business, particularly in the areas of technology infrastructure, digital development and product fulfilment. As these capabilities are built first for Argos, they can later be leveraged into Homebase, Habitat and potentially other businesses or partnerships to achieve long-term growth for the Group.

Replacing the technology infrastructure supporting Argos remains the largest element of our future investments, and the most complex challenge of the Argos Transformation Plan. Our teams have made good progress introducing new systems such as real-time stock visibility across our 'hub & spoke' store network and new online payment and content management systems. Several critical components of the infrastructure remain to be developed and introduced over the Plan term. In addition to new applications, our team has faced unanticipated pressure on the resilience and scalability of existing systems due to extreme online volumes and volatility during the FY15 peak trading period. Overall, although the journey so far has been more challenging than originally envisaged, our team is adapting well and the end state of the Group's technology infrastructure will be a unique advantage.

Argos made good progress with its digital capabilities during FY15, expanding the number of teams working at our London digital hub in order to become increasingly agile in the way we develop customer shopping experiences. Through the hub, Argos introduced a number of innovative digital features during the year such as its Christmas gift finder, kids' Christmas app and further developments in augmented reality through Argos Scan. Argos' internet sales continued to grow during the year, such that they now represent 46% of total Argos sales, up from 44% in the prior year. Mobile commerce was up 38% to 25% of total Argos sales.

Digital capabilities are also of increasing importance to Homebase, as the role of the internet in DIY and home enhancement continues to grow. Homebase's multi-channel sales grew 10% during FY15 to account for 8% of total sales.

I am particularly pleased with our progress on product fulfilment. The speed and cost of providing customers with the products they purchase is increasingly important. With our complement of distribution centres, a national network of stores, frequent stock replenishment and economies of sale, we believe we have an opportunity to build a competitive advantage in product fulfilment. In FY15 Argos added to our capabilities by scaling its unique 'hub & spoke' distribution model nationally. This enables us to stock extended product ranges in c.150 larger 'hub' stores, and make them available for faster fulfilment in local markets. Argos also began to trial express overnight delivery on larger items, and 'hub-to-home' delivery which will extend our 'hub & spoke' capability with an Argos-operated local delivery network. We have more to learn about stock optimisation across this new network, as well as the operating challenges of local delivery, but we are excited by the potential of these capabilities.

## Convenient multi-channel offer

On the basis of strengthening digital capabilities, Home Retail Group's retail brands endeavour to offer leading multi-channel convenience to our customers. In a digital world, convenience is being redefined to mean the ability for customers to obtain the products they desire at the location and time appropriate for each particular occasion or shopping mission.

Home Retail Group offers over 90,000 unique products across Argos, Homebase and Habitat, 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.

Argos continued to expand its ranges during FY15 with the addition of a net c.11,000 new lines, and now offers over 53,000 general merchandise products. We made further progress in making our offer more universally appealing by extending lines of more fully featured products and aspirational brands. Argos also launched Heart of House in FY15, its new exclusive brand for better quality and value in the home categories. Homebase maintains a strong product offer as well, with over 49,000 products including a strong portfolio of exclusive brands such as Habitat, Odina, Schreiber, Hygena and Qualcast.

The presence of a local store remains important for many customers, either to meet their traditional shopping needs or as locations from which to 'click & collect' items previously ordered online. Argos remains a market leader in 'click & collect', with its c.750 convenient locations and efficient local stocking. Through its new 'hub & spoke' distribution network, which operates routes between larger 'hubs' and neighbouring 'spoke' stores, Argos enables stores of all sizes and stock-holding capacities to offer the same broad range of around 20,000 products to customers on a same-day basis.

The unique 'hub & spoke' model also enabled Argos to trial successfully several new store formats during FY15, including Argos digital concessions within Homebase stores, and a variety of small-format digital stores such as Westfield Stratford City and Cannon Street tube station, thereby accessing locations and catchments that were not previously feasible. During FY15 Argos also expanded the number of existing stores converted to our exciting new digital format. At the end of FY15 we were trading from 60 digital stores across three different formats, and during FY16 we expect to further increase new locations and convert additional stores in the existing estate.

Although store-based collection is a growing method for fulfilling digital orders, home delivery is also a critical channel for customers and one in which Home Retail Group has generally under-participated. We expect that our successful trial of 'hub-to-home' delivery will conclude in FY16, and enable Argos to offer a market-leading home delivery service – more convenient delivery times, at a lower cost.

Homebase has been enhancing its fulfilment options along with its digital offer. During FY15 it further expanded the range of products available for named or next-day express delivery.

As Homebase progresses its Productivity Plan, it will increasingly draw on the innovative fulfilment options developed by the Group, including express large item delivery, 'click & collect' of Homebase products via the Argos store estate, and eventually utilising the 'hub & spoke' model for fulfilling extended lines in store or through 'hub-to-home' delivery.

## Outlook

Economic conditions showed signs of improvement during FY15, with low levels of inflation, increases in employment and the first signs of real wage growth for a number of years. We are hopeful that as the uncertainty of the general election passes, businesses and consumers will become more confident in the economic environment for the balance of the year. Home Retail Group will, however, continue to plan conservatively and assume only low levels of market-driven growth.

FY16 will be another important year in the transformation of Home Retail Group. Our sales performance in the first half is likely to be more challenging, as Argos focuses on improving its technology and customer experiences, and we anniversary both strong Argos sales in certain slowing technology categories and strong seasonal performances in both businesses. The second half should improve as we look forward to introducing new Argos digital offers in time for peak trading.

The Argos Transformation Plan and the Homebase Productivity Plan are important strategic plans for the Group as we seek to innovate and lead in a rapidly changing and increasingly competitive market, and to secure long-term business growth for our colleagues, communities and shareholders. I am pleased with our progress, our strong financial position which provides us capacity to invest, and our strategic direction which assumes a digital future that consumers seem ready to embrace.

I would like to thank our team of 47,000 Home Retail Group colleagues, especially those working in our stores, home delivery fleet, distribution and contact centres and the digital hub, who are fundamental to how our customers experience our brands. As consumers increasingly use digital technology in their interactions with us, our colleagues become even more important in providing differentiated service and as the human, local face of our business. I am proud to work with each one of them.

**John Walden**
*Chief Executive*

# Group performance

The Group has completed another year of good financial performance, delivering both like-for-like sales and profit growth, together with a strong year-end cash balance of over £300m.

### Operating highlights

- A good overall performance, with a second year of like-for-like sales growth at both Argos and Homebase
- Argos Transformation Plan progress:
  - Completed the national roll-out of the hub & spoke distribution network, enabling same-day collection of c.20,000 products
  - 60 digital stores now trading across three different store formats
  - Internet penetration accounted for 46% of total sales, including mobile commerce which grew by 38% to represent 25% of total sales
  - Added a further c.11,000 products and 29 aspirational brands
- Homebase Productivity Plan progress:
  - Completed a comprehensive review of the Homebase business and announced the Productivity Plan in October 2014
  - Good progress achieved in reducing the size of the store estate by 27 stores to 296 stores in a cash-generative manner
  - Argos concessions now in 20 stores and Habitat concessions in 35 stores

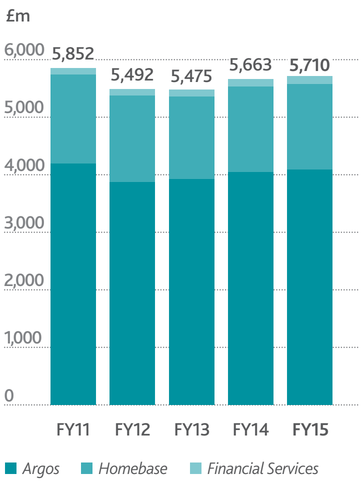
### Financial highlights

- Sales increased by 1% to £5,710m; like-for-like sales up 0.6% at Argos, and up 2.3% at Homebase
- Cash gross margin broadly flat at £2,037m
- Operating and distribution costs decreased by £14m to £1,908m
- Benchmark profit before tax* increased by 14% to £132.1m
- Basic benchmark earnings per share* increased by 25% to 13.0p
- Reported profit before tax increased by 32% to £93.8m; reported basic earnings per share of 9.4p
- Year-end cash balance of £309m
- Full-year dividend up 15% at 3.8p (FY14: 3.3p); final dividend of 2.8p recommended

*Refer to page 85 for definitions of benchmark measures

# Group key performance indicators

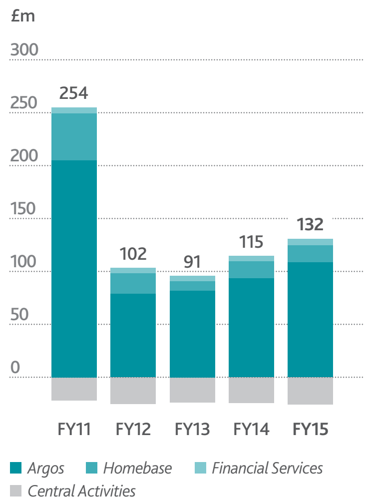
## Sales




Group sales increased by 1% to £5,710m. Argos accounts for 72% of Group sales and increased by 1% or £45m in the year. Homebase accounts for 26% of Group sales and decreased by 1% or £10m in the year. Financial Services accounts for the remaining 2% of Group sales and increased by 10% or £12m in the year.

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

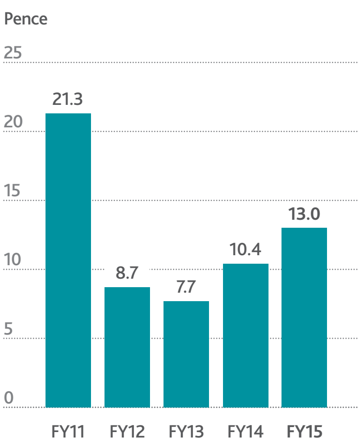
## Benchmark profit before tax (PBT)




Group benchmark PBT increased by 14% to £132m. Argos benchmark operating profit increased by 15% or £17m, Homebase benchmark operating profit increased by 5% or £1m, Financial Services benchmark operating profit increased by 17% or £1m and the cost of Central Activities increased by 10% or £2m.

**Definition:** *Refer to page 85 for definitions of benchmark measures.*
**Source:** *Audited financial statements.*

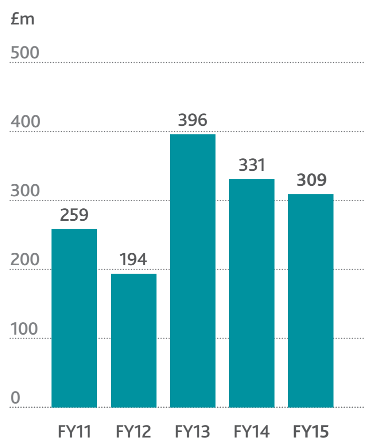
## Basic benchmark earnings per share (EPS)




Basic benchmark EPS increased by 25% to 13.0p per share principally as a result of the higher benchmark PBT reported for the year.

**Definition:** *Refer to page 85 for definitions of benchmark measures.*
**Source:** *Audited financial statements.*

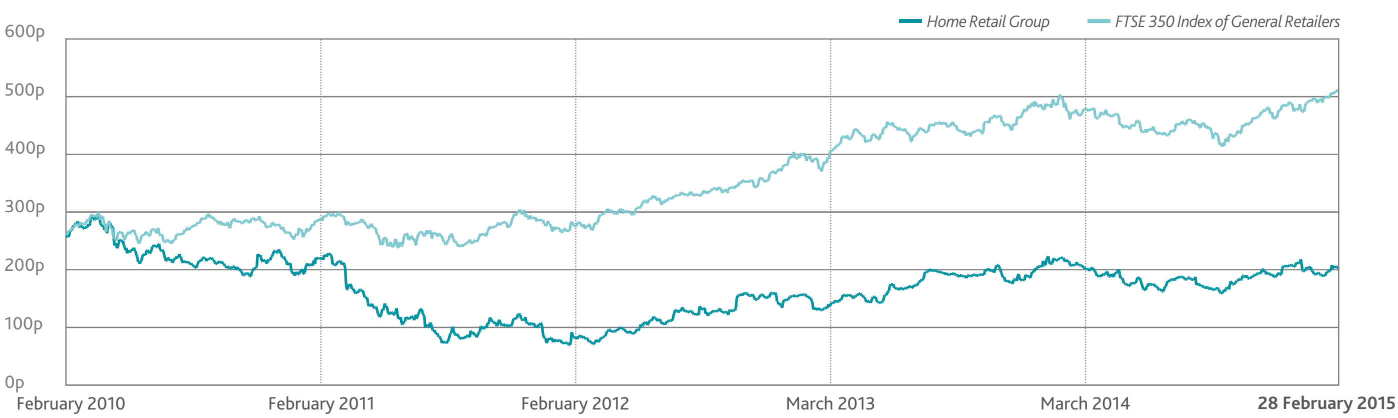
## Net cash




Despite investing capital expenditure of £168m in the Group's strategic initiatives, the strong cash-generative characteristics of the Group meant that the net cash balance only reduced by £22m.

**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 755 stores, website and mobile apps.

Argos

Argos has made significant progress in developing its digital offer in order to take advantage of a permanent shift in market trends.

| 52 WEEKS TO | 28 FEBRUARY 2015 | 1 MARCH 2014 |
|---|---|---|
| **Sales (£m)** | **4,096.0** | **4,051.1** |
| **Benchmark operating profit (£m)** | **129.2** | **112.3** |
| **Benchmark operating margin** | **3.2%** | **2.8%** |
| Like-for-like sales change | 0.6% | 3.3% |
| Net space sales change | 0.5% | (0.3%) |
| Total sales change | 1.1% | 3.0% |
| Gross margin rate movement | Up c.25bps | Down c.50bps |
| Benchmark operating profit change | 15% | 12% |
| Number of stores at year-end | 755 | 734 |
| Of which are digital format | 60 | 6 |

## Highlights

£4,096m

Sales up 1.1% year-on-year, with like-for-like sales up 0.6%

46%

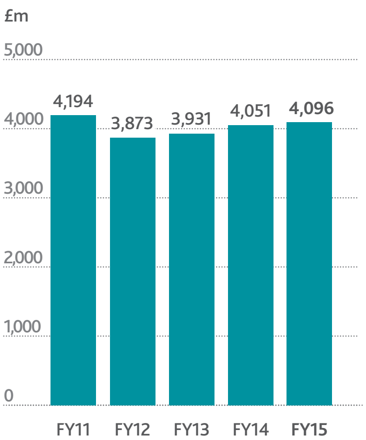
Of total sales are internet-led, including mobile commerce


755 stores

Giving access to c.20,000 products for same-day collection

# Argos key facts

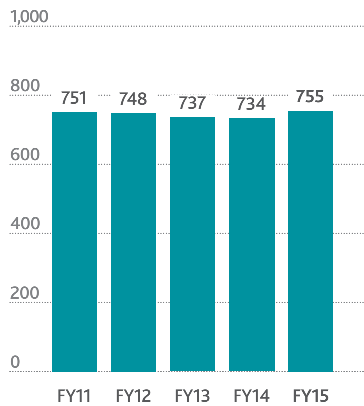
## Sales




Argos sales increased by 1% or £45m in total. Electrical products continued to deliver sales growth driven by strong growth in VGS, TVs and mobiles, partially offset by market-driven declines in sales of tablets. This growth in electrical products, together with strong sales of seasonal products in the first half of the year, more than offset small sales declines in furniture, homewares and jewellery.

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

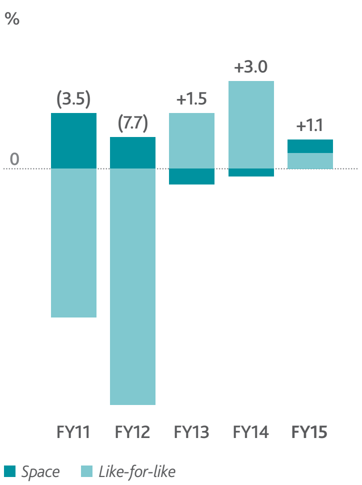
## Number of stores




During the year, a net 21 stores were opened increasing the store portfolio to 755. There are now 60 digital stores across three formats: conversions, concessions and small format. Our 'hub & spoke' network has now been rolled out nationally across the estate, giving customers access to our extended range of around 20,000 products available for same-day collection.

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

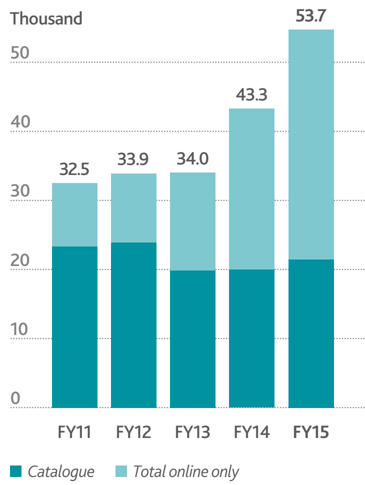
## Sales trends




Like-for-like sales increased by 0.6% in the year. Net new space increased sales by 0.5%.

**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.*

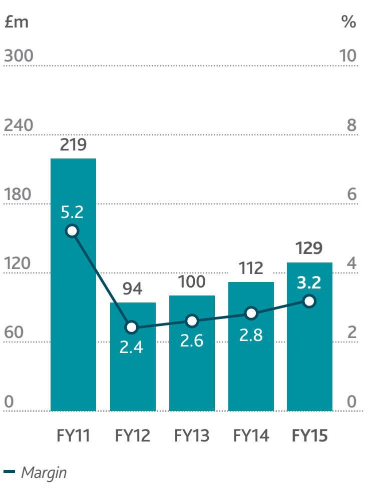
## Total number of lines offered in catalogue and online




Our spring/summer catalogue featured more than 21,000 lines and, combined with our online exclusive range, this was more than doubled to 53,700 lines.

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

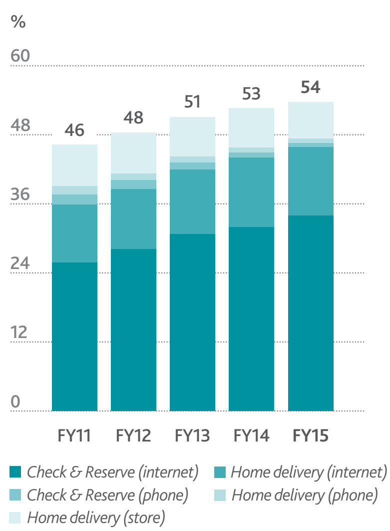
## Benchmark operating profit and benchmark operating profit margin




Benchmark operating profit increased by 15% or £17m, to £129m. This was a result of an improved level of sales, combined with an increased gross margin, partially offset by an increase in costs.

**Definition:** *Refer to page 85 for definitions of benchmark measures.*
**Source:** *Audited financial statements.*

## Multi-channel sales




Multi-channel sales grew to 54% or £2.2bn of Argos' sales. The internet represented 46% of Argos' sales; over two-thirds of this or 34% of Argos' total sales were customers using online Check & Reserve for store collection. Sales through mobile channels have grown over the last five years to represent 25% 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 channel are sales accessed via mobile devices through either our mobitised website or through our apps.*
**Source:** *Measured internally.*


*20 Argos digital concessions were opened within Homebase stores, offering a convenient fulfilment proposition to customers shopping in these stores, which operate from a footprint of c.1,000 square feet.*

In October 2012 Argos outlined a 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 emerging 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 leaner and more flexible cost base.

## Operational review

**Reposition Argos' channels for a digital future**

Market growth in digital channels is expected to continue to outpace the retail market generally. By focusing on and leading in these channels, Argos believes it can secure future growth.

Argos has made significant progress in developing its digital offer in order to take advantage of a permanent shift in market trends. During FY15 it introduced features such as a new website search engine, additional checkout functionality including stored payment cards, and an improved visibility of delivery slot options. Visits to Argos' digital channels have increased by 23% to over 900 million in FY15 and sales via the internet continued to grow such that they now represent 46% of total Argos sales. Within this, sales from mobile and tablet devices grew by 38% to account for 25% of total Argos sales. It is anticipated that these channels will continue to grow and the improvements made will position Argos to enhance further its competitive advantage in this market.

Argos introduced several innovations to its digital catalogue offer over the FY15 peak Christmas trading period, including the kids' app, which proved to be a big success with over 70,000 'wish lists' created. An innovative Christmas gift finder was used over one million times in the run-up to Christmas, presenting customers with a wide range of products and helping them with their Christmas gift ideas.

Convenient local product collection supported by good customer service are of increasing value to customers, and Argos' store estate therefore remains a key point of competitive advantage.

Argos made progress during FY15 with its three digital store formats:

- It converted a further 27 existing stores to a digital format, taking the total number of digital conversions to 33. These stores average c.15,000 square feet.
- 20 digital concessions within Homebase stores were opened, offering a convenient fulfilment proposition to customers of these stores. These concessions operate from a footprint of c.1,000 square feet.
- Seven new small-format stores were opened, including a store within the Cannon Street tube station which is designed to allow commuters to reserve their products during the day for same-day collection on their way home. These small-format stores operate on a footprint of c.1,000 to 3,000 square feet.

The digital stores have produced encouraging results. Sales at the later iterations of digital conversion stores outperformed the rest of the store estate, having incorporated early insights from the first trial stores such as the effectiveness of the new in-store tablet-based browsers, and the impact of product displays, catalogues and paper-based promotions. The Argos digital concessions in Homebase stores have also performed well and, based on their trading performance so far, are expected to deliver good returns on their relatively low investment cost. The small-format digital stores have also shown good early performance.

During FY16 a further c.80 Argos digital concessions within Homebase are planned, together with the recently announced addition of 10 digital concessions within Sainsbury's stores, which will allow Argos to access an even wider customer base. In addition, Argos expects to convert at least 50 existing stores to digital formats.

**Provide more product choice, available to customers faster**

Fulfilment remains highly competitive among leading retailers. Argos is uniquely positioned, through its store estate and supply chain, to provide market-leading fulfilment options to customers on a national scale.

The 'hub & spoke' distribution model was rolled out across the estate during FY15. This model allows c.20,000 products to be available in all Argos stores for same-day collection, enabling stores of any size and stock-holding capacity to offer customers the same compelling product range. Access to a wider range of products has resulted in sales in 'spoke' stores outperforming the estate overall. However, as spoke store demand increased, there was an adverse impact on 'hub' store product availability and thereby sales. During FY16 Argos will refine its stockholding policy and analytics in order to optimise working capital and maximise the sales potential of this new model.


*Seven new small-format stores were opened, including a store within the Cannon Street tube station which is designed to allow commuters to reserve their products during the day for same-day collection on their way home.*


*Convenient local product collection supported by good customer service are of increasing value to customers and the store estate therefore remains a point of key competitive advantage for Argos.*

Argos also trialled an express next-day home delivery proposition for larger, two-man items during FY15 with encouraging results. Further development of the system capability to extend this offer beyond the trial will be completed in FY16. In addition, a trial of a 'hub-to-home' distribution model commenced during FY15, utilising the 'hub & spoke' fulfilment infrastructure to offer home delivery on a same-day or next-day basis. Argos expects to complete systems and operational development in FY16 enabling it to begin a national roll-out.

Argos believes that other retailers could benefit from its unique, cost-advantaged, national distribution and store network for 'click & collect' fulfilment. During FY15 Argos announced the extension of its agreement with eBay, which allows their merchants the option to offer product collection via an Argos store. During the year the service was extended to over 160,000 eBay sellers, and provided collection of over one million parcels, generating substantial additional footfall into Argos stores. Argos believes that it will be able to generate additional sales over the long term through the additional footfall that this partnership creates.

**Develop a customer offer that has universal appeal**

Historically Argos' customer offer, meaning its products, pricing, marketing communications and customer experiences, has been biased towards less-affluent customers. Argos believes that by providing an offer that is more appealing across the range of its customers, it has significant opportunity to grow its business.

A key component of creating a universally appealing offer is brand positioning and communications. During FY15 Argos launched its new brand campaign 'Get Set, Go Argos' across its customer media including traditional advertising, digital channels, catalogue and in-store marketing. This new campaign has thus far received a positive response with the measure of a consumer's likelihood to shop at Argos increasing to its highest level in three years. Customers' attitudes towards products, breadth of range and quality have all improved as a result.

Product strategies remain an important element of the Argos Transformation Plan and during FY15 a further net c.11,000 products were added to the range. In addition, Argos has continued to make good progress in its plans to fill gaps in its product ranges, and a further 29 aspirational brands such as KitchenAid kitchen appliances, Bose sound systems and Royal Worcester kitchenware were added during FY15. During FY15 Argos also launched the Heart of House brand and re-launched Chad Valley as part of its ambition to create a number of more impactful own brands. Heart of House now offers over 1,600 traditional and contemporary furniture and homewares products.

Customers are increasingly utilising price comparison via the internet and demanding pricing, as recently evidenced by Black Friday. During FY15, Argos completed its new price-optimisation tool that has enabled faster and more data-driven pricing decisions to be made across its product range, helping Argos to maintain its competitive pricing position.

## Financial review

Total sales in the 52 weeks to 28 February 2015 increased by 1.1% to £4,096m. Net space increased sales by 0.5% with the store estate increasing by 21 stores to 755. Like-for-like sales increased by 0.6%. Electrical products continued to deliver sales growth driven by strong growth in VGS, TVs and mobiles, partially offset by market-driven declines in sales of tablets. This growth in electrical products, together with strong sales of seasonal products during the first half of the year, more than offset small sales declines in furniture, homewares and jewellery.

The gross margin rate increased by approximately 25 basis points. This was principally driven by a reduced level of promotional activity together with the anticipated impact of favourable currency and shipping costs, partially offset by an adverse sales mix impact from the growth in margin-dilutive electrical products.

Total operating and distribution costs increased by £7m as a result of increased sales and underlying cost inflation, together with an increased level of depreciation and revenue investment as a result of the Transformation Plan strategic initiatives. These increases were partially offset by further cost-saving initiatives.

Benchmark operating profit increased by £17m, or 15% to £129.2m (FY14: £112.3m).

# Homebase business review

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

The Productivity Plan will result in Homebase being a stronger business with better profit ratios, a solid foundation of store operations and customer service, improved offers and proven new customer propositions.

| 52 WEEKS TO | 28 FEBRUARY 2015 | 1 MARCH 2014 |
|---|---|---|
| **Sales (£m)** | **1,479.3** | **1,489.2** |
| **Benchmark operating profit (£m)** | **19.8** | **18.9** |
| **Benchmark operating margin** | **1.3%** | **1.3%** |
| Like-for-like sales change | 2.3% | 5.9% |
| Net space sales change | (3.0%) | (1.8%) |
| Total sales change | (0.7%) | 4.1% |
| Gross margin rate movement | Down c.100bps | Down c.100bps |
| Benchmark operating profit change | 5% | 71% |
| Number of stores at year-end | 296 | 323 |
| Store selling space at year-end (million sq ft) | 13.5 | 14.9 |
| Of which – garden centre area | 3.2 | 3.4 |
| – mezzanine floor area | 1.8 | 1.8 |
| Sales per square foot | 109 | 100 |

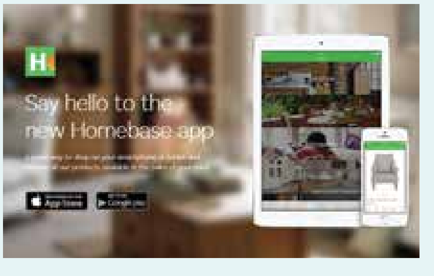
## Highlights

£1,479m

Sales down 0.7% year-on-year, with like-for-like sales up 2.3%


£20m

Benchmark operating profit increased by 5% or £1m

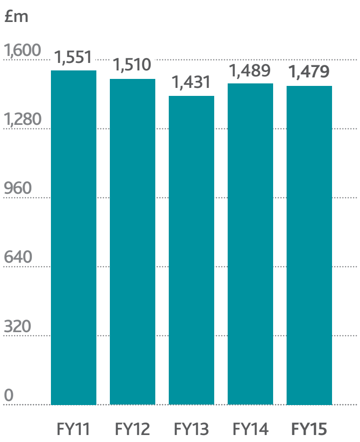



10%

Increase in multi-channel sales year-on-year, representing 8% of total Homebase sales

# Homebase key facts

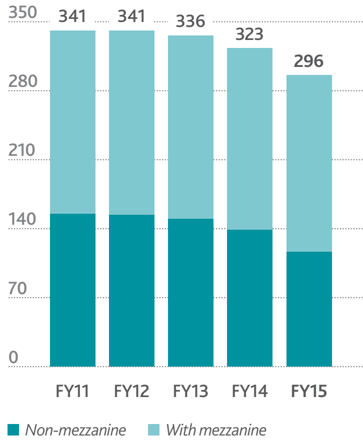
## Sales




Homebase sales decreased by 1% or £10m to £1,479m. There was good growth in seasonal products, particularly during the first half of FY15, together with further growth in sales of big-ticket products. Sales in remaining product categories were broadly flat. This good like-for-like sales growth was, however, offset by a sales reduction due to closed stores.

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

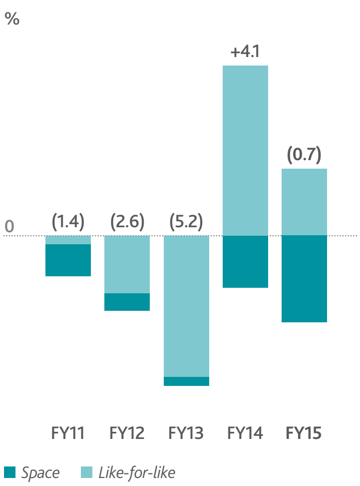
## Number of stores




During the financial year a net 27 stores were closed as part of the Productivity Plan, reducing the Homebase store estate to 296.

**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.*

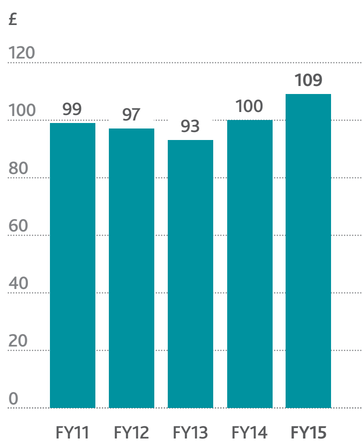
## Sales trends




Like-for-like sales increased by 2.3% in the year. Net closed space reduced sales by 3.0%.

**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.*

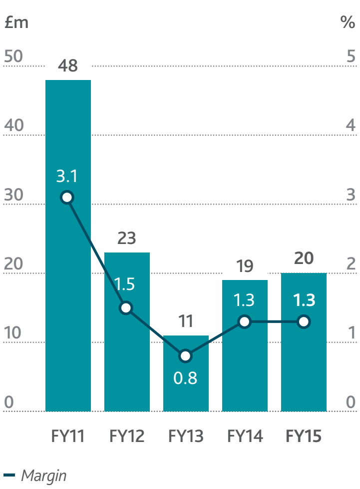
## Sales per square foot




Sales per square foot based on total year-end selling space increased to £109. The increase in the year was driven principally by the closure of a number of less sales productive stores.

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

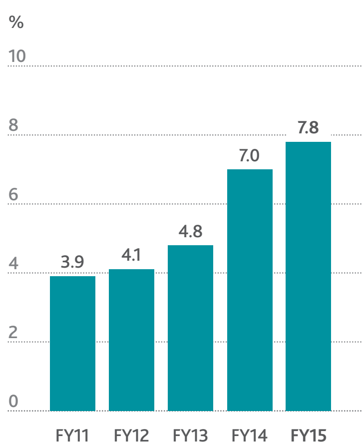
## Benchmark operating profit and benchmark operating profit margin




Benchmark operating profit increased by 5% or £1m, to £20m.

**Definition:** *Refer to page 85 for definitions of benchmark measures.*
**Source:** *Audited financial statements.*

## Multi-channel sales




Multi-channel sales grew by 10% to represent 7.8% of Homebase total 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.*
**Source:** *Measured internally.*

*Homebase's premium Odina kitchen range has now been rolled out to 73 stores, up from 49 stores at the end of FY14.*

*The Schreiber bedroom range is available in 233 stores, with the Schreiber kitchen range now available in all stores.*

In October 2014 Homebase outlined an ambitious three-year Productivity Plan to position itself for long-term growth. There are three key elements to the Productivity Plan:

1. Improve store operating standards and down-size the store estate;
2. Strengthen the customer propositions; and
3. Accelerate digital capabilities, leveraging Argos' investments.

These elements give focus to Homebase's store and digital foundations and will enhance operational efficiency in order to position the business for successful future investment programmes.

## Operational review

### Improve store operating standards and down-size the store estate

A central aim of the Homebase Productivity Plan is to improve in-store customer experiences by raising and ensuring consistency of store operating standards. This includes standards for product availability, presentation, signage and, importantly, a culture of both efficiency and great customer service among store colleagues. In support of this, during FY15 Homebase started to test in select stores different ways of improving both store operations and the customer experience. Early indications are positive and the current plan is to expand these trials over the course of FY16 and introduce improvements into the broader store estate over time.

There were 30 store closures and three store openings in the year, reducing the store estate by 27 stores to 296. Homebase expects to close around 35 additional stores in FY16, with the intention to reduce the number of Homebase stores by c.25% by the end of FY18, from the 323 as at the end of FY14.

In addition to Homebase's plans to reduce its store estate, an agreement has been reached for the sale of the Battersea freehold site to a residential property developer for £57m, of which a £30m deposit was received in FY15, with the remaining £27m being due on completion during FY16. As a result of this sale, we now anticipate that the cumulative store closure programme will be cash positive at the end of FY16.

With the store closure programme running ahead of the original plans, Homebase is now accelerating the associated cost-reduction programme, which will reduce both head office support costs and infrastructure. This reaffirms the commitment to create a stronger business with a more efficient and productive operating structure.

### Strengthen the customer propositions

Another key element of the Productivity Plan is to strengthen the customer proposition across the store and digital network. This includes developing more efficient promotional programmes and more competitive product pricing. Progress in FY15 was largely exploratory, with the intention to assess further pricing reductions across a wider range of products during FY16.

Homebase continues to build a strong portfolio of exclusive brands such as Habitat, Odina, Schreiber, Hygena and Qualcast and expand their presence across the store estate. Homebase's premium Odina kitchen range has now been rolled out to 73 stores, up from 49 stores at the end of FY14. The Schreiber kitchen range is now available in all stores, with the Schreiber bedroom range available in 233 stores. In addition, the popular Kitchen Essentials range offers customers more choice on kitchens and continues to be successful, delivering strong sales growth versus FY14. Homebase also continued to enhance its product ranges to support sales growth, completing significant changes such as product extensions, replacements and re-merchandising in a number of key categories such as bathrooms, paint, flooring and kitchens.

Furthermore, the Habitat brand gives the Homebase customer greater choice around premium quality and contemporary styling, as well as some bestselling iconic designs. Sales of Habitat products in Homebase, including concessions, grew by over 30% compared to FY14. There are now 35 Habitat concessions, an increase from 15 concessions at the end of FY14. A further c.50 Habitat concessions are due to open in FY16. In addition, 20 Argos digital concessions opened during FY15, with a plan for a further c.80 digital concessions in FY16.

### Accelerate digital capabilities, leveraging Argos' investments

FY15 has been a foundation year for the progression of Homebase's digital business. It introduced several basic elements including a more modern look and feel to the website, simplified navigation for product categories, a new mCommerce site, along with new mobile and tablet apps for both iOS and Android operating systems. Digital sales have grown by 10% year-on-year, and now represent approximately 8% of total sales.


*There are now 35 Habitat concessions, an increase from 15 at the end of FY14. A further c.50 Habitat concessions are due to open in FY16. In addition, 20 Argos digital concessions opened during FY15, with a plan for a further 80 in FY16.*

## Financial review

Total sales in the 52 weeks to 28 February 2015 declined by 0.7% to £1,479m. Homebase closed a net 27 stores during FY15, reducing its store estate to 296 stores, with net space reducing sales by 3.0%. Like-for-like sales increased by 2.3%, principally driven by growth in seasonal products during the first half of FY15 together with further growth in sales of big-ticket products. Sales across the remaining product categories were broadly flat.

The gross margin rate was down by approximately 100 basis points, principally driven by an increased level of stock clearance in respect of store closures, together with an adverse sales mix impact from the growth in margin dilutive seasonal products, partially offset by the anticipated impact of favourable currency and shipping costs.

Total operating and distribution costs decreased by £21m, with increases from the impact of underlying cost inflation and cost investment in strategic initiatives being more than offset by further cost savings, principally driven by the reduction in the store estate.

Benchmark operating profit increased by £0.9m, or 5%, to £19.8m (FY14: £18.9m).

*Homebase continues to build a strong portfolio of exclusive brands, such as Habitat, Odina, Schreiber, Hygena and Qualcast and expand their presence across the store estate.*

# 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 ensure fair customer outcomes.

### Operational and financial review

In-house store card credit sales increased by 4% to £711m and represented 10.7% (FY14: 10.4%) of Group retail sales. This increased level of both credit sales and credit penetration is principally as a result of a retail sales mix into higher credit attachment products such as video gaming hardware and TVs. In addition to credit sales on the Group's own store cards, credit offers for purchases at Homebase, which are greater than £1,000, are principally provided through product loans from a third-party provider. Including these product loans, total credit sales increased by 6% to £800m resulting in total credit sales penetration increasing to 12.1% (FY14: 11.6%) of Group retail sales.

Store card net receivables grew by £55m versus FY14 to £580m, principally as a result of the increase in in-house credit sales. The Group finances these receivables internally with no third-party debt being required.

Total sales in the 52 weeks to 28 February 2015 increased by 10% to £135m. Delinquency rates continued their downward trend of the last few years resulting in a further reduction in the bad debt cost. Financing costs were slightly higher than last year, principally due to the growth in the loan book, with a corresponding credit for this internal financing cost recharge being recognised in Group net interest income.

Overall, the improved sales performance and the reduced bad debt cost were partially offset by an increase in operating costs. Benchmark operating profit increased by 17% to £7.0m (FY14: £6.0m).

### Highlights


**4%**

Increase of in-house store card credit sales, representing 10.7% of Group retail sales


**1.6m**

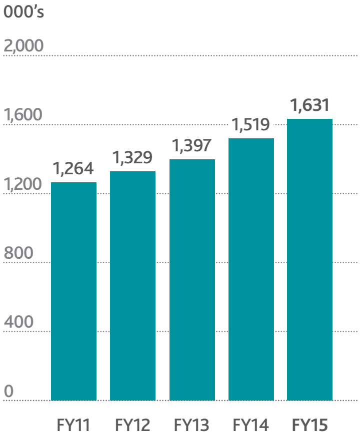
Active store card holders

| 52 WEEKS TO | 28 FEBRUARY 2015 | 1 MARCH 2014 |
|---|---|---|
| Sales (£m) | **135.1** | **122.7** |
| Benchmark operating profit before financing costs (£m) | **10.9** | 9.3 |
| Financing costs (£m) | **(3.9)** | (3.3) |
| Benchmark operating profit (£m) | **7.0** | **6.0** |

| AS AT | 28 FEBRUARY 2015 | 1 MARCH 2014 |
|---|---|---|
| Store card gross receivables (£m) | 644.1 | 594.2 |
| Provision (£m) | (64.6) | (70.1) |
| Store card net receivables (£m) | 579.5 | 524.1 |
| Provisions % of gross receivables | 10.0% | 11.8% |

# Financial Services key facts

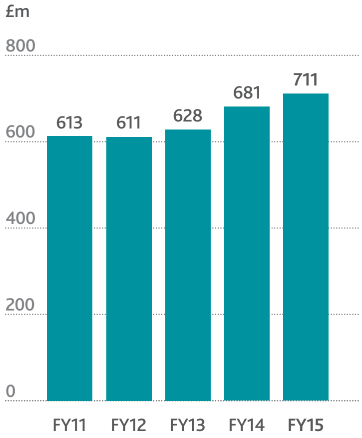
## Number of active store card holders




The total number of active accounts grew to over 1.6m. 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.*

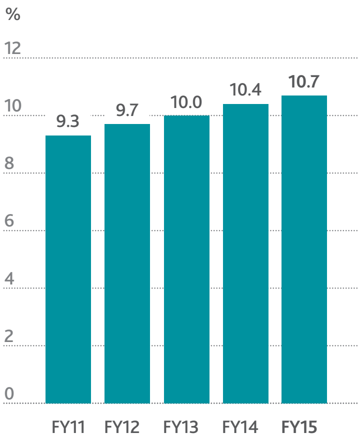
## In-house retail credit sales




The in-house store card operations drove £711m of Group retail sales, an increase of £30m or 4% 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 (including VAT).*
**Source:** *Measured internally.*

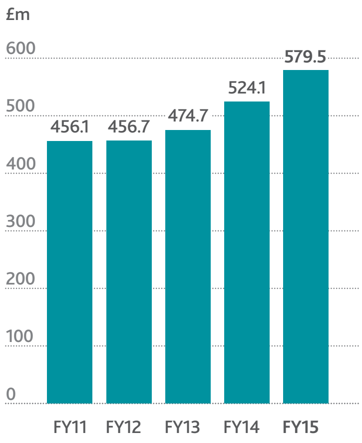
## In-house credit penetration




The in-house store card operation represented 10.7% of Group retail sales up from 10.4% 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.*

## Net store card receivables




There was a £55m increase in net store card receivables in the year, principally 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 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 leader and, as a board member of Go ON UK, is working in partnership with leading businesses and charities to empower everyone in the UK to reach their digital potential. This year 8,000 people have paid £20 to receive digital skills training from colleagues in an Argos store on a tablet computer that they keep after the training is complete
- Homebase partnered with the Group's charity partner – Alzheimer's Society – at the RHS Chelsea Flower Show in May 2014. The show garden 'Time to reflect' was a family garden that provided a safe and welcoming space and won a prestigious gold medal

## 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.

- Over 500 store colleagues from Argos and Homebase have completed internal apprenticeship programmes or City and Guilds accredited training programmes
- Homebase Garden Academy continues into its second year with 20 colleagues enrolled to develop their knowledge of horticulture. Following its success the Homebase Design and Decorating Academy launched in the autumn of 2014

## 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 over £3m in fundraising for Alzheimer's Society during our two-year partnership and created over 10,000 Dementia Friends
- Argos and Homebase are founder members of #givingtuesday, a movement which celebrates the giving of time, support and money on the first Tuesday of December
- Over £0.5m has been donated to enable our colleagues to volunteer in local community activities
- We have partnered with Remploy, Ready for Work, Gingerbread and The Prince's Trust to provide work placements in Argos and Homebase stores

## 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 29% reduction in $CO_2$ emissions per square foot compared to 2006 and have retained the Carbon Trust Standard, demonstrating a commitment to ongoing improvements in carbon management
- 93% of our Group operational waste is recycled

## Sourcing with care

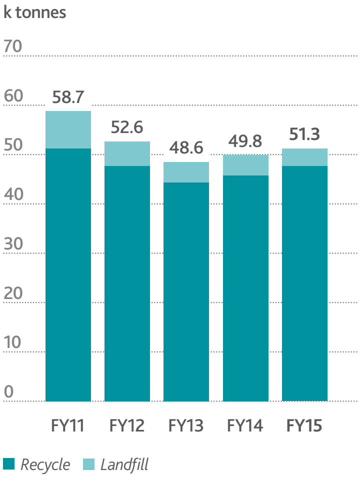
We work with our suppliers to embed the process and principles of responsible sourcing, allowing us to source our products with care for the environment and for human rights.

- We have carried out over 1,000 ethical audits and 100% of all own-brand direct-source suppliers have a current ethical audit
- Both Argos and Homebase are members of WWF–GFTN (World Wildlife Fund – Global Forest Trade Network)

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

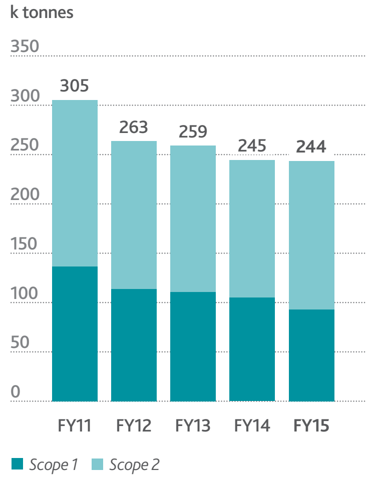
# Responsible retailing key facts

## Waste management




We have increased the proportion of operational waste that is diverted from landfill to 93%. We will continue to focus on our objectives of both minimising the total waste we produce and putting what waste we do produce to positive use wherever possible.

## Greenhouse gas footprint




Our Greenhouse gas footprint has remained broadly flat, despite the increase in the electricity emissions conversions factor to be used for company reporting set by DEFRA.

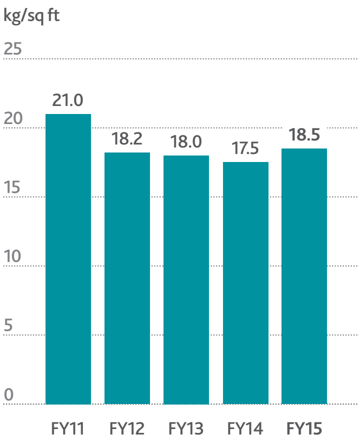
*We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within the activities for which we have operational control. The data has been prepared in accordance with the UK Government's Environmental Reporting Guidance (2013).*

**For FY15:**

*Scope 1 emissions = 93,136 tonnes (includes Buildings Gas $CO_2e$ and Transport $CO_2e$)*

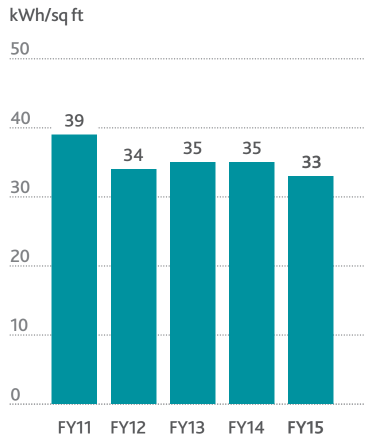
*Scope 2 emissions = 150,412 tonnes (includes Buildings Electricity $CO_2e$)*

## Carbon emissions




Our carbon footprint has remained broadly flat in absolute terms however the programme of store closures, which has resulted in a 6% reduction in our sales floor area, in conjunction with the revised DEFRA emissions factors has led to an increase in our carbon emissions per square foot.

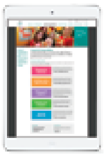
## Building energy use




The ongoing implementation of energy efficiency measures has resulted in a 12% reduction in total kWh energy consumption in buildings – and a 6% reduction per square foot after allowing for the reduction of total square footage as part of the programme of store closures.

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

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 the mitigating activities.

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

| RISKS AND UNCERTAINTIES | EXAMPLES OF MITIGATING ACTIVITIES |
|---|---|
| **Business strategy**<br>Impact on shareholder value<br>• Inappropriate strategies<br>• Poor investment decisions<br>• Inadequate execution | As outlined within our strategic report on page 5 both Argos and Homebase have clear strategic plans. As we continue to undertake a number of significant investments, particularly in the digital area within Argos, the delivery of forecasted benefits is critical to the realisation of both the Argos Transformation Plan and the Homebase Productivity Plan.<br><br>Strategic issues, including risks and opportunities, are discussed at every Board meeting. All material investments are evaluated and monitored at the Board and Group Executive Board.<br><br>Programme governance structures are in place, supported by an established project management environment, with selected projects reviewed by Internal Audit. Considerable time is dedicated to strategic review, with regular performance reviews of strategic KPIs at various executive meetings across the Group.<br><br>We strive to effectively communicate with key stakeholders such as investors, colleagues, suppliers and government. |
| **Trading environment**<br>Impact on sales, gross margins, costs, profit and cash of:<br>• Economic and market conditions<br>• Cost of raw material products/services/utilities<br>• Competitor activity<br>• Seasonality and/or weather<br>• UK-centric store network | The Group's business reviews (pages 12-21) demonstrate that both businesses are achieving growth in highly competitive trading environments. Both brands are progressing on the delivery of their strategic plans.<br><br>The universal appeal strategy (page 5) within Argos aims to broaden customer appeal. Furthermore, price tracking versus our competition and dynamic pricing ensures price competitiveness is maintained. This, coupled with a planning process which supports the business through new product launches, seasonal changes, extreme weather variations and a programme of promotional activity, seeks to reduce trading risk from increased competitive pressures.<br><br>Sales across the Group are supported by our in-house Financial Services business, providing the option to promote on price and/or credit.<br><br>Disciplines exist to maintain control of working capital. Cash generation is a key management objective (see remuneration scheme metrics on pages 44 to 61) and we maintain strong relationships with our banks and credit insurers.<br><br>We have a well-established continuous improvement programme which constantly reviews and challenges the Group's cost base to maintain our low-cost operating model. This includes ongoing evaluation to optimise the Group's store network, which has resulted in a strategy to reduce space within Homebase. |
| **Infrastructure/ development projects**<br>Impact on costs and future capabilities<br>• Delay or failure to manage and implement major business and infrastructure projects effectively<br>• Reliance on third-party service providers (eg IT) | The strategies of both businesses outlined on pages 5 and 6 require a demanding schedule of projects. Our governance framework is instrumental in ensuring the delivery of all aspects of the strategic plans.<br><br>Detailed planning, including review of any trial learnings occurs prior to any subsequent roll-out. The Board receives regular progress updates on all major change programmes. Post completion, major investments are subject to a post-investment review at various levels within the management structure.<br><br>The Group has entered into a number of strategic technology partnerships to enhance innovation and delivery, alongside investment in a team of digital specialists to support both the delivery of the Argos Transformation Plan and the day-to-day IT operations of the Group. We work very closely with our partners and have a dedicated commercial management team to manage such contracts. |
| **Our colleagues**<br>Impact on service quality, innovation and costs<br>• Reliance on key personnel<br>• Availability of specialist skills<br>• Pension obligations | The Group values its colleagues and their contribution to the success of the organisation. Competitive remuneration packages, with oversight from the Remuneration Committee, in parallel with active succession planning, a strong focus on learning and development and both A-Level and Graduate recruitment programmes enable the Group to both attract and retain an engaged workforce.<br><br>The Group has a suite of development programmes for colleagues across all levels of the organisation. Digital up-skilling of colleagues is supporting business change and enabling greater workplace flexibility.<br><br>We are committed to open communications with colleagues at all times and monitor employee satisfaction through listening groups and employee forums.<br><br>We deployed pensions auto-enrolment, making saving into a defined contribution scheme accessible to all colleagues. We have a good relationship with the Trustees of the Group's closed defined benefit pension scheme which helps to ensure that we manage the scheme's future obligations as efficiently as possible. |

| RISKS AND UNCERTAINTIES | EXAMPLES OF MITIGATING ACTIVITIES |
|---|---|
| **Our customers**<br>Impact on sales, profit and growth potential<br>• Failing to meet customers' existing and future expectations<br>• Consumer preferences<br>• Changing demographics and behaviours | Understanding our customers is essential to the success of our strategies. We are investing to better understand our different customers so as to provide insight to enable us to improve our customer offering. We continuously engage with our customers, increasingly via social media, to gather feedback.<br><br>The Group continues to use technological innovation to give customers choice in how they shop with us alongside expansion in both product choice and services across the Group. This, combined with improved store and product presentation and investment in customer service, will we hope, broaden customer appeal.<br><br>Argos is supporting the Government's 'Go ON UK' initiative by hosting digital inclusion workshops to help customers migrate to new technologies. |
| **Operations**<br>Impact on costs and proposition delivery<br>• Failure to ensure appropriate processes are in place to manage the complexity of operations, including supply chain, multi-channel and customer service | With significant change programmes in each business, retaining our core competencies for competitive advantage is being achieved via an effective project management office, executive oversight and cross-functional working parties.<br><br>Product availability remains a key priority as the Group mitigates complex supply chain risks through robust processes and new initiatives, such as 'hub & spoke', to enable product immediacy for customers on a wide range of products.<br><br>Homebase's Productivity Plan is centred on strengthening key operational processes and down-sizing the store estate to create a solid foundation for future growth. This is alongside Homebase maintaining its award-winning installation services for kitchens, bathrooms and bedroom furniture.<br><br>The Group is investing heavily in multi-channel capability, with improvements in digital capabilities in both businesses. We are exploiting existing infrastructure to develop market-leading fulfilment options and expanding into new opportunities such as the eBay partnership. |
| **Sourcing, product quality and safety**<br>Impact on customers, costs and reputation<br>• Product failures<br>• Purchase of products whose cost base of manufacture is in currencies other than sterling, principally the US dollar<br>• Appropriateness of financial services products | The Group continues to leverage its global sourcing capabilities and established buying operations in Asia whilst seeking further opportunities for sourcing efficiencies to control the cost of goods sold which thereby benefits customers.<br><br>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 conduct ethical audits of all own-brand direct-source suppliers, we have a robust risk-based approach to factory auditing and pre-shipment inspections of imports are carried out by a third party and also by our own quality teams in Asia. Furthermore, we are members of Sedex, a collaborative platform for ethical supply chain data.<br><br>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. We hedge currency exposures and forward-buy freight commitments where possible.<br><br>We work with the Financial Conduct Authority (FCA) to monitor and review our financial services products to ensure fair customer outcomes. |
| **Regulatory environment**<br>Impact on costs and reputation<br>• Changes to/breach of UK and overseas legislation and regulation, eg consumer protection, environmental regulation<br>• Changes to/breach of FCA requirements<br>• Changes in UK fiscal/employment policy, eg minimum wage | Good governance practices are important to the Group, illustrated by membership of industry representation groups, including the British Retail Consortium and ongoing engagement with regulatory bodies such as the FCA.<br><br>In addition to ensuring compliance with existing requirements such as data protection, health and safety and financial services regulation, we continually challenge our environmental impact by setting and achieving stretching targets for fuel efficiency, waste reduction and energy consumption. We are active in monitoring future developments and pro-actively engage with government and regulators such as the Department for Business, Innovation & Skills and Trading Standards Institute.<br><br>The FCA has assumed regulatory responsibility for consumer credit. The Group has a project team in place, supported by external experts, to review our governance and regulatory compliance arrangements and to progress our application for authorisation with the FCA as a consequence of this regulatory change. |
| **Business interruption**<br>Impact on sales, costs and reputation<br>• Cyber-attack/terrorism/acts of nature<br>• Failure or unavailability of operational and/or IT infrastructure, eg website/OMS<br>• 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 testing our business continuity plans regularly, investing in incident management training and we have remote IT disaster recovery capabilities.<br><br>The threat of cyber-attack and particularly data loss is taken seriously by the Group and as such is subject to continual review. Specialist IT security resources have been engaged alongside an increased level of investment.<br><br>The Group has robust contractual arrangements and comprehensive supplier management, particularly for key service partners. We actively monitor the supply base to identify vulnerabilities and identify suitable contingency solutions, working towards a sustainable outcome for all parties when issues arise. |

# Financial summary

| £m | 52 WEEKS TO 28 FEBRUARY 2015 | 52 WEEKS TO 1 MARCH 2014 |
|---|---|---|
| Argos | 4,096.0 | 4,051.1 |
| Homebase | 1,479.3 | 1,489.2 |
| Financial Services | 135.1 | 122.7 |
| **Sales** | **5,710.4** | **5,663.0** |
| Cost of goods | (3,673.3) | (3,628.7) |
| **Gross margin** | **2,037.1** | **2,034.3** |
| Operating and distribution costs | (1,907.6) | (1,921.3) |
| Argos | 129.2 | 112.3 |
| Homebase | 19.8 | 18.9 |
| Financial Services | 7.0 | 6.0 |
| Central Activities | (26.5) | (24.2) |
| **Benchmark operating profit** | **129.5** | **113.0** |
| Net interest income | 2.6 | 2.4 |
| **Benchmark PBT** | **132.1** | **115.4** |
| Amortisation of acquisition intangibles | (1.8) | (1.8) |
| Post-employment benefit scheme administration costs | (1.9) | (1.9) |
| Adjustments in respect of store impairment and property provisions | 0.1 | 2.1 |
| Exceptional items | (35.5) | (41.4) |
| Financing fair value remeasurements | (1.0) | 9.0 |
| Financing impact on post-employment benefit obligations | (3.0) | (3.3) |
| Discount unwind on non-benchmark items | (6.7) | (6.9) |
| Balance sheet review | 11.5 | – |
| **Profit before tax** | **93.8** | **71.2** |
| Taxation | (22.2) | (17.2) |
| *of which: taxation attributable to benchmark PBT* | *(33.0)* | *(32.5)* |
| *Benchmark effective tax rate* | *25.0%* | *28.2%* |
| **Profit for the year** | **71.6** | **54.0** |
| **Basic benchmark EPS** | **13.0p** | **10.4p** |
| **Basic EPS** | **9.4p** | **6.8p** |
| Weighted average number of shares for basic EPS | 764.3m | 795.0m |
| **Full-year dividend** | **3.8p** | **3.3p** |
| **Year-end cash balance** | **309.3** | **331.0** |

The above table has been prepared in accordance with note 2 to the consolidated financial statements on page 78.

# Group financial review

### Sales and benchmark operating profit
Group sales were up 1% at £5,710m (FY14: £5,663m) while Group benchmark operating profit increased 15% to £129.5m (FY14: £113.0m). 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 increased by 10% to £26.5m (FY14: £24.2m), with the increase driven principally by additional costs to support the Group's various strategic initiatives.

### Benchmark net interest income
Net interest income within benchmark PBT increased 8% to £2.6m (FY14: £2.4m).

### Benchmark PBT
Benchmark PBT for the year increased 14% to £132.1m (FY14: £115.4m) driven by the factors previously discussed.

### Amortisation of acquisition intangibles
A charge of £1.8m (FY14: £1.8m) was recorded in the year, 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 (FY14: £1.9m) was recorded, in respect of the administration costs incurred by the Home Retail Group Pension Scheme.

### Adjustments in respect of store impairment and property provisions
A net credit of £0.1m (FY14: £2.1m) was recorded in the year, relating to store impairment and property provisions. The net credit principally reflects a charge of £15.8m (FY14: credit of £3.0m) for impairment provisions arising on the Homebase store estate, partially offset by a £15.9m credit (FY14: charge of £0.9m) principally in respect of the release of surplus property provisions that are now no longer required following the achievement of better than anticipated deals to exit certain stores in the Homebase store estate.

### Exceptional items
The exceptional charge recorded in the year was £35.5m (FY14: £41.4m). This includes a charge of £12.2m relating to the ongoing programme to transform Argos into a digital retail leader and which forms part of the previously announced c.£50m of costs expected to be incurred over the first three years of the Plan to FY16. In addition, there was a charge of £6.2m relating to a head office restructure charge together with the planned closure of a distribution centre both of which are part of the cost-reduction programme associated with Homebase's store estate reduction. There was also a Group restructuring charge of £13.0m principally relating to the previously announced costs associated with the outsourcing of the management of the Group's information systems, infrastructure and associated services. Finally, there was a charge of £4.1m principally relating to an anticipated increase in operational costs expected to be incurred in respect of administering future payment protection insurance customer redress payments.

### Financing fair value remeasurements
Certain foreign exchange movements are recognised in the income statement within net financing income. These amounted to a net charge of £1.0m (FY14: credit of £9.0m), 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 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 £3.0m (FY14: £3.3m).

### Discount unwind on non-benchmark items
A charge of £6.7m (FY14: £6.9m) within net financing income relates to the discount unwind on property provisions. As these provisions were items previously excluded from benchmark PBT, the discount unwind has also been excluded from benchmark PBT.

# Group financial review continued

## Net interest reconciliation

The following table illustrates both the benchmark and non-benchmark impact of net financing items within the income statement.

| 52 weeks to | 28 February 2015 | 1 March 2014 |
|---|---|---|
| £m | | |
| **Net interest income within benchmark PBT** | **2.6** | **2.4** |
| Financing fair value remeasurements | (1.0) | 9.0 |
| Financing impact on post-employment benefit obligations | (3.0) | (3.3) |
| Discount unwind on non-benchmark items | (6.7) | (6.9) |
| **Income statement net financing (charge)/income** | **(8.1)** | **1.2** |

## Balance sheet review

During the first half of FY15 management commenced a review of certain higher risk areas within the Argos balance sheet. Subsequent to this and following the well-publicised accounting issues in the retail sector and the FRC's December 2014 press release in respect of complex supplier arrangements, the review was broadened to encompass a review of the Group's balance sheet. This review resulted in a net credit of £11.5m being recognised as a one-off non-benchmark item in the current year. This amount comprises a credit of £11.3m in respect of changes to a small number of accounting estimates together with a net credit of £0.2m in respect of a small number of historic accounting errors that relate principally to trade and other payables. These adjustments all relate to Argos.

## Profit before tax

The profit before tax for the year was £93.8m (FY14: £71.2m).

## Taxation

Taxation attributable to benchmark PBT was £33.0m (FY14: £32.5m), representing an effective tax rate of 25.0% (FY14: 28.2%). The lower effective tax rate principally reflects two elements: a 2% reduction in the UK corporation tax rate together with the favourable impact of a relatively fixed level of disallowable expenditure for tax purposes in comparison to the Group's higher level of profits in FY15. Taxation attributable to non-benchmark items amounted to a credit of £10.8m (FY14: £15.3m). The total tax expense for the year was therefore £22.2m (FY14: £17.2m).

## Number of shares and earnings per share

The number of shares for the purpose of calculating basic earnings per share (EPS) was 764.3m (FY14: 795.0m), representing the weighted average number of issued ordinary shares of 813.4m (FY14: 813.4m), less an adjustment of 49.1m (FY14: 18.4m) 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 36.0m (FY14: 26.4m) to 800.3m (FY14: 821.4m). Basic benchmark EPS is 13.0p (FY14: 10.4p), with diluted benchmark EPS of 12.4p (FY14: 10.1p). Reported basic EPS is 9.4p (FY14: 6.8p), with reported diluted EPS being 8.9p (FY14: 6.6p).

## 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 2.8p. This takes the full-year dividend to 3.8p (FY14: 3.3p), which is a 15% increase in the full-year dividend. The final dividend, subject to approval by shareholders at the Annual General Meeting, will be paid on 23 July 2015 to shareholders on the register at the close of business on 22 May 2015. 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 27 February 2016 at 1.0p.

## BALANCE SHEET

| As at | 28 February 2015 | 1 March 2014 |
|---|---|---|
| £m | | |
| Goodwill | 1,543.9 | 1,543.9 |
| Intangible assets | 235.5 | 193.6 |
| Property, plant and equipment | 412.9 | 456.7 |
| Inventories | 963.0 | 902.4 |
| Financial Services loan book | 579.5 | 524.1 |
| Other assets | 240.8 | 199.7 |
| | 3,975.6 | 3,820.4 |
| Trade and other payables | (1,329.5) | (1,162.7) |
| Provisions | (221.9) | (236.1) |
| | (1,551.4) | (1,398.8) |
| **Invested capital** | **2,424.2** | **2,421.6** |
| Post-employment benefit obligations | (114.4) | (76.6) |
| Net tax assets | 26.7 | 33.0 |
| Forward foreign exchange contracts | 27.1 | (35.5) |
| Net cash | 309.3 | 331.0 |
| **Net assets** | **2,672.9** | **2,673.5** |

### Balance sheet

Net assets as at 28 February 2015 were £2,672.9m, equivalent to 354p (FY14: 343p) per share excluding shares held in Group share trusts. Invested capital as at 28 February 2015 was £2,424.2m, an increase of £2.6m versus the balance sheet as at 1 March 2014. This increase in invested capital was mainly driven by a combination of an increased level of inventories principally due to the earlier timing of Easter in 2015 which required the Group to accelerate the in-take of seasonal stock, the previously discussed increase in the Financial Services loan book together with an increase in other assets principally driven by the reclassification of Homebase's Battersea freehold from property, plant and equipment into assets held for sale.

These increases were largely offset by an increase in trade and other payables, the key drivers of which were the previously discussed increased level of inventories together with the £30m deposit received in respect of the sale of Homebase's Battersea freehold store, which has been accounted for as deferred income as at 28 February 2015.

The increase in invested capital of £2.6m, together with an increase in forward foreign exchange contracts, was more than offset by the increase in post-employment benefit obligations, a reduction in net tax assets and a reduction in net cash. The overall impact of these movements was a decrease in net assets of £0.6m.

# Group financial review continued

## CASH FLOW AND NET CASH POSITION

| 52 weeks to | 28 February 2015 | 1 March 2014 |
|---|---|---|
| **£m** | | |
| Benchmark operating profit | 129.5 | 113.0 |
| Amortisation of acquisition intangibles | (1.8) | (1.8) |
| Post-employment benefit scheme administration costs | (1.9) | (1.9) |
| Adjustments in respect of store impairment and property provisions | 0.1 | 2.1 |
| Exceptional items | (35.5) | (41.4) |
| Balance sheet review | 11.5 | – |
| Statutory operating profit | 101.9 | 70.0 |
| Depreciation and amortisation | 136.0 | 129.5 |
| Movement in trade working capital | 36.6 | 18.4 |
| Movement in Financial Services loan book | (55.4) | (49.4) |
| Cash impact of restructuring charges | (22.8) | (28.2) |
| Pension scheme deficit recovery payments | (22.0) | (22.0) |
| Disposal of leasehold property | (9.0) | – |
| Cash impact of PPI customer redress payments | (8.8) | (3.6) |
| Financing costs charged to Financial Services | 3.9 | 3.3 |
| Movement in post-employment benefit obligations | 1.2 | (13.6) |
| Other operating items | 41.2 | 56.6 |
| **Cash flows from operating activities** | **202.8** | **161.0** |
| Net capital expenditure | (167.8) | (173.1) |
| Proceeds from freehold property disposal | 30.0 | – |
| Taxation | (12.1) | (17.6) |
| Net interest | 0.7 | 0.6 |
| Other investments | – | 25.2 |
| **Cash inflow/(outflow) before financing activities** | **53.6** | **(3.9)** |
| Dividends paid | (25.3) | (23.9) |
| Purchase of own shares for Employee Share Trust | (48.5) | (37.1) |
| **Decrease in cash and cash equivalents** | **(20.2)** | **(64.9)** |
| Effect of foreign exchange rate changes | (1.5) | (0.1) |
| **Decrease in financing net cash** | **(21.7)** | **(65.0)** |
| Opening financing net cash | 331.0 | 396.0 |
| **Closing financing net cash** | **309.3** | **331.0** |

Cash flows from operating activities were £202.8m (FY14: £161.0m). This £41.8m increase was principally attributable to an increased operating profit performance together with a cash inflow from trade working capital partially offset by the cost of exit associated with certain stores in the Homebase store estate.

Net capital expenditure was £167.8m (FY14: £173.1m), representing the continued higher level of investment across the Group in the strategic initiatives of both retail businesses. Proceeds from a freehold property disposal were £30.0m (FY14: £nil), representing the deposit received in respect of the anticipated sale of the freehold relating to Homebase's Battersea store. Tax paid was £12.1m (FY14: £17.6m). The reduction to £nil in other investments (FY14: £25.2m) is a reflection of the non-repeat of cash received in the prior year relating to both 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 £25.3m (FY14: £23.9m). A payment of £50.0m (FY14: £37.4m) was made to the Home Retail Group Employee Share Trust to fund the purchase of 26.8m shares. The shares are in addition to those already held by the Trust and are needed to satisfy obligations arising from various employee share schemes, a significant proportion of which relate to the Save-As-You-Earn plans offered to all the Group's colleagues. This payment was partially offset by the cash receipt in respect of the exercise of a small number of share options resulting in a net cash outflow of £48.5m (FY14: £37.1m).

The Group's financing net cash position at 28 February 2015 was £309.3m, a decrease of £21.7m 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 28 February 2015 for the defined benefit pension schemes was a net deficit of £114.4m (FY14: £76.6m). The increase in the deficit of £37.8m was driven by an increase of £135.3m in the present value of scheme liabilities to £1,103.7m (FY14: £968.4m), partially offset by an increase of £97.5m in the scheme assets to £989.3m (FY14: £891.8m). The increase in the scheme liabilities was driven principally by a decrease in the real discount rate to 0.5% (FY14: 1.1%).

A full actuarial valuation of the defined benefit pension scheme is carried out every three years with interim reviews in the intervening years. The last full actuarial valuation of the scheme was carried out as at 31 March 2012 and resulted in a deficit of £158m. The full actuarial valuation of the scheme as at 31 March 2015 has just commenced, with the results of this valuation expected around the time of the FY16 financial year-end.

## Group financing arrangements

The Group finances its operations through a combination of cash, property leases and access to committed bank facilities where necessary. The Group's net cash balances averaged approximately £451m (FY14: approximately £516m) over the year.

Post the year-end, on 26 March 2015, the Group agreed a new £250m committed unsecured borrowing facility, which is currently undrawn and which expires in March 2019. This facility replaces the previous £165m facility which had been in place since March 2013 and had never been drawn. In addition, as at 28 February 2015 the Group's Financial Services business held a net loan book balance of £580m (FY14: £524m).

The Group has additional liabilities through its obligations to pay rents under operating leases. The operating lease charge for the year amounted to £333.4m (FY14: £347.9m). Total lease commitments stood at £2,342m at 28 February 2015 (FY14: £2,627m), which is a £1,988m, or 46%, 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 £1,914m (FY14: £2,046m) utilising a discount rate of 4.1% (FY14: 5.0%).

## 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. The hedged rates achieved during FY15 compared to FY14 are noted in the table below.

| US dollar hedged rates | FY15 | FY14 | Change cents |
|---|---|---|---|
| First half | 1.55 | 1.57 | c.(2) |
| Second half | 1.61 | 1.57 | c.4 |
| **Full year** | **1.58** | **1.57** | **c.1** |

## Share price and total shareholder return

The Group's share price ranged from a low of 159.5p to a high of 223.3p during FY15. On 27 February 2015, the closing mid-market price was 202.4p, giving a market capitalisation of £1.6bn.

Total shareholder return (the change in the value of a share including reinvested dividends) increased by 5% over the year. This compares to an increase of 8% for the FTSE 350 Index of General Retailers.

## 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 28 February 2015. The basis of preparation is outlined in note 2 to the consolidated financial statements on page 78.

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 84.

# Board of Directors and Group Executive Board

## Board of Directors


**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*

## Group Executive Board


**Richard Ashton**
*Finance Director*


**Greg Ball**
*Managing Director, Financial Services*


**Gordon Bentley**
*Company Secretary*


**Bertrand Bodson**
*Chief Digital Director*


**Steve Carson**
*Retail and Customer Operations Director*


**Peter Connor**
*Information Systems Director*


**Julie Elder**
*Human Resources Director*


**Paul Loft**
*Managing Director, Homebase*


**David Robinson**
*Chief Operating Officer, Argos*


**Maria Thompson**
*Commercial and Supply Chain Director*


**John Walden**
*Chief Executive*

## BOARD OF DIRECTORS' PROFILES

**John Coombe** (70)
*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 Chairman of Hogg Robinson Group, a former Non-Executive Director of HSBC Holdings and a former member of the Code Committee of the Panel of Takeovers and Mergers and of the UK Accounting Standards Board.

**John Walden** (55)
*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 in March 2014.

**Richard Ashton** (48)
*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** (49)
*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** (56)
*Non-Executive Director*
Ian is Chairman of Capital & Counties Properties, Chairman of Greggs and the Senior Independent Non-Executive Director of Greene King. He is a former Finance Director of Liberty International (renamed Intu Properties). In his earlier career he worked for Hanson and Jardine Matheson and was Finance Director of Hongkong Land, Dairy Farm International and Thistle Hotels and Chief Finance Officer of SeaContainers. He joined the Home Retail Group Board in July 2011.

**Cath Keers** (50)
*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 the Royal Mail Group and LV=, and an advisory board member of The Foundation, a growth innovation consultancy. Cath was previously a Non-Executive Director of Telefonica Europe and of the Children's Mutual. Cath joined the Home Retail Group Board in September 2011.

**Jacqueline de Rojas** (52)
*Non-Executive Director*
Jacqueline is Vice President and General Manager of Citrix Northern Europe. Her career has focused on the digital sector and she has held leadership roles within major enterprise software businesses including CA, McAfee, Novell, Business Objects and Informix. She is Deputy President of techUK and is a judge on the everywoman Women in Technology and EY Entrepreneur of the Year awards. Jacqueline is also a member of the Prince's Trust Technology Leadership Group and joined the Home Retail Group Board in December 2012.

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

## BOARD COMMITTEES

**Audit Committee:**
Ian Durant (Chair), 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 (Chair), Mike Darcey, Ian Durant, Cath Keers, Jacqueline de Rojas, John Walden (appointed 14 March 2014)

# Corporate governance

## Chairman's introduction

The Board is collectively responsible for the governance and long-term success of the Group. Effective governance is essential to the creation of an environment in which innovation and performance can flourish and deliver success. In this corporate governance section, my aim is to provide insight into how the Board fulfils its stewardship responsibilities.

Against the background of a volatile and unpredictable economic environment which is beginning to improve, a considerable amount of change is taking place in our business. Having approved the Group's strategic aims, the Board has a key oversight role to play in monitoring performance and the management of risk. To perform this role well, the Board needs to reflect the right balance of skills, experience, independence and knowledge. In addition, individual board members must be prepared to devote the time that is required to keep pace with developments in the business, understand how the business is performing against its strategic objectives and how risks are being managed and opportunities are being addressed. Much of this activity takes place outside the boardroom, in meetings with members of senior management and informal dinners for Board members to discuss broader strategic issues. To be effective the Board must also foster a culture of openness, challenge and debate with senior management, supported by constructive relations between executive and non-executive directors. I am grateful to my Board colleagues and senior management for their commitment to this culture and engagement.

Last year we made a number of changes to our annual report taking into account new disclosure and reporting requirements. I support the Financial Reporting Council's (FRC) continuing encouragement for clear and concise reporting by companies. We receive feedback from our shareholders and investors on the information we provide and we will continue to listen to this feedback. Last year's Remuneration Report was well received by our shareholders and so we have adopted a similar approach to our report this year. While we continue to report against the 2012 UK Corporate Governance Code, the Board has considered the changes introduced in the 2014 revision. Our risk management process has been reviewed and we will be undertaking a tender process for our external auditors in time for the FY17 audit.

Encouraging diversity and inclusion within the organisation is an essential driver of long-term, sustainable success. Such an approach results in an improved ability to attract, recruit, retain and develop the best talent, enabling creativity and innovation and helping us to understand and serve our customers better. 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 move forward in this important area.

**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 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 approving the Group's strategic aims, monitoring 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 significant marketing and business development experience, with particular emphasis on mobile applications and e-commerce.
- Jacqueline de Rojas, appointed in 2012, has worked extensively in the digital sector and 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 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 both 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 Group Executive 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 Group Executive 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 the evening before most scheduled Board meetings and members of the Group Executive Board were invited to join these discussions on a regular basis and to provide updates on their areas of responsibility.

A number of informal meetings took place during the year to provide non-executive directors with the opportunity to provide input on the development of strategy and to monitor progress on strategic initiatives. In addition, the Board held a full-day meeting offsite to discuss strategy with members of the senior management teams of Argos, Homebase and Financial Services.

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 the Group's competitors.

Each of the non-executive directors serves on 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 Group Executive 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 trading 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 and a report on the progress of the Argos Transformation Plan. At each scheduled meeting the Board received an update on trading and financial performance and, in addition at six of these meetings, 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 ongoing 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 the progress being made is set out in the Argos business review section on pages 12 to 15.
- A review of the Homebase business and the development and implementation of the Homebase Productivity Plan resulting from such review, including improvements in store productivity, strengthening of customer propositions, acceleration of digital capabilities, and a full review of risks and opportunities. More information on the progress being made is set out in the Homebase business review section on pages 16 to 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. More information on the progress being made is set out in the Financial Services business review section on pages 20 and 21. The Board has also undertaken a review of governance, taking into account regulatory changes and the transition of consumer credit regulatory responsibility to the FCA.
- 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 extension of the UK collection service with eBay; the Homebase store closure programme; cybersecurity; health and safety; business continuity arrangements; and the development of the Group's corporate responsibility strategy.

In relation to human rights, the Group maintains and applies appropriate policies in relevant areas of its businesses including its supply chain and in relation to its employees. In FY14, the Board approved an updated diversity and inclusion policy and continues to monitor progress in this important area. As at 28 February 2015, 23,515 (53%) of a total colleague number of 44,072 were women (FY14: 24,208; 53%) and 29 (29%) of 100 senior executives were women (FY14: 24; 26%). If statutory directors of corporate entities whose financial information is included in the Group financial statements are aggregated with senior executives, 33 (30%) of the total number of 110 were women (FY14: 25; 26%). Two of seven members of the Board (29%) 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 corporate responsibility section of the Group's website homeretailgroup.com/cr/.

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

In FY13, an independent review of the performance of the Board was undertaken by ICSA Board Evaluation. During the period under review, the formal evaluation of the performance of the Board and its committees was conducted internally. A questionnaire in relation to Board and committee performance was provided to each Board member. The responses to the questionnaire were collated by the Company Secretary and reviewed with the Chairman. A report on the findings was prepared by the Company Secretary and discussed at a Board meeting. The overall conclusion was that the Board and its committees were continuing to operate effectively. The Board discussed items where there may be scope for the Board to enhance its effectiveness and actions were agreed and are being addressed including workshops with digital development teams and continued focus on FCA regulatory requirements in relation to financial services.

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: Audit Committee, Remuneration Committee and Nomination 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 pages 40 to 43, the Remuneration Committee see pages 44 to 61 and the Nomination Committee see page 39. The attendance of directors at meetings of the Board and the committees during the period under review was as follows:

## COMMITTEE ATTENDANCE

| Board member | Board meetings | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| John Walden | 13/13 | – | – | 2/3 |
| Richard Ashton | 14/14 | – | – | – |
| John Coombe | 14/14 | – | 7/7 | 3/3 |
| Mike Darcey | 13/14 | 5/5 | 7/7 | 3/3 |
| Ian Durant | 13/14 | 5/5 | 7/7 | 3/3 |
| Cath Keers | 13/14 | 4/5 | 7/7 | 3/3 |
| Jacqueline de Rojas | 14/14 | 5/5 | 7/7 | 3/3 |
| Terry Duddy | 1/1 | – | – | 0/1 |

Note:
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 which supports the Group Executive Board in managing and controlling risk. The risk committee is chaired by the Finance Director and comprises all the 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 Board considered the changes to the Code which come into effect for the Company in FY16 and the FRC guidance entitled 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and the Audit Committee reviewed revised procedures to be introduced in response to these changes.

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 Productivity Plan, taking into account the risks it was willing for the Group to take in achieving its strategic objectives.
- The Group's risk management process was reviewed taking into account the changes to the Code that will apply to the Group in FY16. This included changes to the Group's risk assessment matrix to improve clarity and focus on principal risks, alongside investment in new risk management software.
- 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 discussed 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 Group Executive 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 principal risks by management. The schedule of principal risks was used as the basis for the programme of internal audit and assurance and is outlined in the principal risks and uncertainties on pages 24 and 25.
- 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.

# Corporate governance continued

### 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 Group Executive Board. The Group Executive Board also reviews a range of financial and non-financial performance indicators. These indicators were regularly reviewed to ensure that they remain relevant and reliable.
- The Group has whistleblowing procedures in place for employees to report any suspected improprieties.

### Monitoring

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

## Relations with shareholders

The Board recognises the importance of communicating with its shareholders and does so in a number of ways, including the provision of information in the annual report and on the 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.

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

All directors, including the chairs of the Audit, Remuneration and Nomination Committees, intend to be present at the Annual General Meeting and be available to answer shareholders' questions. Voting by members present at the Annual General Meeting will be by way of a poll. Proxies lodged prior to the meeting showing the balance for and against each 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 three times during the year and attendance at those meetings is shown on page 37 within the corporate governance section. Terry Duddy did not attend one meeting that related 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. The committee oversaw the selection process for the successor to Paul Loft, Managing Director of Homebase.

### Chief Executive transition

The committee led the process that resulted in the appointment of John Walden as Chief Executive on 14 March 2014. The committee reviewed with John Walden, organisational changes and key roles below Board level to facilitate the transition into his new accountabilities, while securing continued focus on the Argos Transformation Plan.

### Board committees

The committee considered and reaffirmed the membership of Board committees.

### Board succession planning

During the year the committee reviewed Board succession, taking into account the balance of skills, experience, independence and knowledge on the Board. The committee considered the skills and experience that were most appropriate for the Group, taking into account its strategy and risk profile; developments and trends in the market; regulatory developments, including the regulation of consumer credit by the FCA; and the importance of the role of the Board in supporting creativity and innovation. The committee considered the length of service of the Chairman and non-executive directors and the size of the Board and the optimal approach to be adopted towards refreshing the skills and experience represented on the Board, while maintaining an appropriate degree of continuity through a period of significant change in the Group, including the implementation of the Argos Transformation Plan and the Homebase Productivity Plan.

### Development of talent and diversity

The committee considered the management and development of talent, and activities to support and develop diversity. Following senior internal promotions and moves, the committee focused on the challenge of ensuring succession plans for key roles, recognising the market demand for 'digital' skills and experience, and the importance of developing the talent pipeline within the organisation. The committee considered the emphasis being placed on diversity and inclusion and supported the progress in developing the Group's diversity and inclusion strategy.

From a gender perspective, as at 28 February 2015, the Company had two female directors representing 29% of the Board (FY14: 29%) and 18% of the Group Executive Board members were women (FY14: 22%). The committee discussed ethnic and gender diversity in senior management and the work taking place to develop and maintain a diverse colleague base, including training in unconscious bias and balanced and diverse short-lists for roles.

More information on the Group's policy and approach to diversity can be found in the corporate responsibility section of the Group's website, homeretailgroup.com.

# Audit Committee report

## Chair's introduction

The Audit Committee has a key role to play in supporting the Board in carrying out its responsibilities in relation to financial reporting, risk management and assessing internal controls and ensuring high standards of quality and effectiveness in the external audit process. This report summarises the committee's activities in these areas. Whilst maintaining a focus on 'cutting clutter' wherever possible, I have sought to ensure that this report provides clear explanations on the approach we have taken in reaching conclusions on key judgements and estimates and to increased disclosures in the financial statements in areas such as commercial income.

As indicated in the FRC's Guidance on Audit Committees, the work of the Audit Committee relies on frank, open working relationships with the Board, management and internal and external auditors and particularly between the Audit Committee Chair and the Board Chairman, the Chief Executive and the Finance Director. I am grateful to all my colleagues for their contribution to these relationships.

**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 five times during the year and attendance at those meetings is shown on page 37 within the corporate governance section. At the invitation of the committee chairman, the Group Chairman, Chief Executive and Finance Director attended all committee meetings. The Group head of internal audit and the external auditors also attended all regularly scheduled meetings of the committee at the invitation of the committee chairman. The external auditors did not attend an additional meeting in January 2015 that considered external auditor rotation and mandatory tendering. After each of the four regular 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 2015. They can be found on the Group's website homeretailgroup.com. Specific issues considered by the committee included the results of the Group's balance sheet review exercise which was completed during the year, the Group's response to risks arising in relation to information and cyber security, the transition of consumer credit regulatory responsibility to the FCA and a review of risk management processes taking into account the changes to the UK Corporate Governance Code that will apply to the Group in FY16.

At each of the four regular meetings, the committee considered reports from the head of internal audit and reports on any material 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 (see page 37 within the corporate governance section).

## Fair, balanced and understandable

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 Financial 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 management responsible for the annual report process.
- Interim progress review of both process and report content with the 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 to the Board that in the opinion of the committee it is fair, balanced and understandable.

## Financial reporting

The committee reviewed the full-year and half-year results announcement, the 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 together with a range of sensitivities.

The primary areas of accounting judgements and issues considered by the committee in relation to the FY15 financial statements and how these were addressed are set out below.

### Commercial income

Following the FRC's December 2014 press release on the disclosure of complex supplier arrangements in financial statements, the committee reviewed the different types of commercial income within the Group, and the accounting policies and estimates applied in recognising this income. The committee also considered and concurred with the increased disclosure which management has included in the consolidated financial statements. This disclosure can be found in the Group's accounting policies on page 80 and in note 20 on page 101.

### Goodwill impairment assessment

The committee reviewed management's assessment of the carrying value of the Group's goodwill of £1,544m. 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 the 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 96.

### Impairment of store card receivables

Store card receivables of £580m 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 101.

### Property provisions

The committee considered the property provisions which include provisions made for store exit costs and provisions made for onerous lease contracts for stores that have closed, or where a decision to close has been announced, and for those stores where the projected future trading income is insufficient to cover the lower of exit cost or cost of continuing to trade the store. The onerous lease model is judgemental and dependent on future events such as trading conditions at a particular store. The onerous lease provisions represent management's best estimate of the liability at the balance sheet date based on the financial plans approved by the Board. The committee agreed with the judgements made and conclusions drawn by management, and concluded that it was appropriate to recognise a net release of £15.9m in the FY15 property provisions. Further details can be found in note 24 on page 103.

### Balance sheet review

During the first half of the financial year management commenced a review of certain higher risk areas within the Argos balance sheet. Subsequent to this and following the well publicised accounting issues in the retail sector and the FRC's December 2014 press release in respect of complex supplier arrangements, management agreed with the Audit Committee to broaden this review to encompass a detailed review of the Group's balance sheet. This exercise involved significant internal and external resource.

During the course of the year the committee received regular updates on the review at the end of which it considered the results, which amounted to a net credit of £11.5m being recognised as a one-off non-benchmark item in the current year together with certain control and process improvements, principally in Argos. Further details of these adjustments are disclosed in the Group finance review to the consolidated financial statements on page 28.

# Audit Committee report continued

### 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 have been calculated and reported in accordance with the policy set out in note 3. These items have been reported in note 9 to the consolidated financial statements and amounted to £12.2m.

*Homebase Productivity Plan*
The committee has reviewed the nature of Homebase exceptional costs which have been incurred in FY15 as a result of the cost-reduction exercise associated with the store exit programme included within the previously announced Homebase Productivity Plan. The exceptional costs incurred in FY15 amounted to £6.2m and related to costs associated with a Homebase head office restructuring programme together with the closure of a distribution centre in FY16. The committee agreed with management's assessment that these items, 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.

*Provisions for customer redress in respect of Financial Services products*
The Group's Financial Services division offers Payment Protection Insurance to its customers. In response to an industry-wide review by the FCA, a full investigation was undertaken in FY14 with the support of an independent expert, which resulted in a customer redress exercise commencing. An increase to the provision of £4.1m was charged to exceptional items in FY15 and redress payments have begun to be made resulting in the partial utilisation of this provision during FY15. The provision continues to represent management's best estimate of the liability for future customer redress payments at the balance sheet date. The committee agreed with the judgements made and conclusions drawn by management, and therefore concluded that the accounting for these provisions was appropriate.

*Other Group restructuring costs*
The committee agreed with management's assessment that these exceptional items, which totalled £13.0m and which principally related to costs associated with transitioning the Group's information systems infrastructure and services to Fujitsu, have been calculated and reported in note 9 to the consolidated financial statements, in accordance with the policy set out in note 3.

Other areas which were discussed and considered by the Audit Committee in relation to the FY15 financial statements and how these were addressed are set out below.

### Impairment of assets

Management concluded that it was prudent to test the Argos and Homebase store assets for impairment at year-end. The store portfolios were therefore tested for impairment, using value-in-use calculations, based on projected future cash flows from the financial plans approved by the Board. The committee concurred with the conclusion that an impairment charge of £15.8m was required in Homebase and that no charge was required in Argos. Further details of the impairment charge can be found in note 16.

### Inventory provisions

Inventory of £963m 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.

## 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 2014, the external auditors presented their strategy for FY15 to the committee. The committee reviewed and agreed with the external auditors' 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 2013/14 inspection of PricewaterhouseCoopers by the FRC's Audit Quality Review Team (AQRT) and the principal findings highlighted for audit committees in the AQRT's annual report for 2013/14.

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. Further details of the audit fee can be found in note 7 on page 91.

## 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 chair; 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.

## External auditor rotation

The current external auditors, PricewaterhouseCoopers LLP, were appointed in 2006 and since that time the external audit has not been tendered formally. Following a review of the changes to external audit tendering regulations and guidance issued during the year, the committee concluded that it was appropriate to recommend the reappointment of PricewaterhouseCoopers LLP as the Group's auditors for FY16 and then undertake a tender process for the FY17 audit.

## 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. 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 chair's approval is required before the Group uses any non-audit services that exceed £50,000.

For the period under review' non-audit fees paid to the Group's auditors, PricewaterhouseCoopers LLP' were less than 10% of the audit fee. Non-audit services provided by the external auditors were taxation services relating primarily to support work on routine HMRC enquiries. The external auditors were engaged to undertake these assignments after discussion with the committee chair 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 chair 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 2014 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, except the additional January 2015 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 2015, the committee considered and approved internal audit's audit plan for FY16 which includes an increased focus on both the Group's Financial Services business and on the controls over key financial systems across the Group.

## 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 34 to 38. In September 2014 and February 2015, the committee reviewed reports on the Group's risk management process and risk profile with particular focus on those risks classified as principal 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. The committee reviewed revised procedures in response to the changes to the Code, which apply to the Group in FY16, and the FRC guidance entitled 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

# Directors' remuneration report

## Chair's introduction

Dear fellow shareholders, I am pleased to present the remuneration report for the year ended 28 February 2015.

The purpose of the Remuneration Committee is to ensure that the remuneration offered to our executive directors supports the strategic aims of the business by delivering strong business performance aligned with shareholder interests.

As detailed in last year's report, the committee carried out a full review of executive remuneration during FY14 and formulated a revised policy which became effective from the Annual General Meeting (AGM) in July 2014, having received a 94.9% vote in favour.

The committee is satisfied that this framework continues to be appropriate for the coming year and as such no changes in respect of the policy report are being proposed this year. Therefore, this year's report focuses on how the policy was implemented during FY15, and our approach for FY16, as set out on pages 45 to 53. For completeness, the full policy report, which will not be subject to a vote at the 2015 AGM, is also set out on pages 54 to 61.

## Link to strategy

The strategy for the Group is set out in the strategic report on pages 5 and 6 and is focused on creating long-term value for our shareholders by offering leadership in convenience and choice for customers in an emerging digital age. The Argos Transformation Plan, announced in October 2012, and the Homebase Productivity Plan, which was announced in October 2014, are key to the delivery of this strategy.

The committee is satisfied that the framework set out in the policy report continues to support this strategy and the interests of our shareholders, by aligning incentives and the associated stretching targets with the strategic plan. The links to strategy that support specific elements of remuneration are set out in the policy report on pages 54 to 61.

## Remuneration outcomes in FY15

At the end of FY15, the committee reviewed performance against the targets for both benchmark profit before tax (PBT) and adjusted cash flow to determine annual bonus outcomes. Performance achieved was 40.3% for benchmark PBT and 70.5% for adjusted cash flow. This resulted in a total bonus pay-out for executive directors of 72.0% of base salary against the maximum opportunity of 130% of base salary. In line with policy, 75% of this total amount will be paid in cash and 25% deferred into shares for three years. Further details are provided on page 45, including details of the threshold and maximum targets. The committee is satisfied that this level of bonus pay-out is reflective of the business performance for FY15, which saw growth in benchmark PBT and another strongly cash-generative performance in respect of adjusted cash flow.

The FY13 Performance Share Plan (PSP) awards granted in 2012 with three-year performance targets, exceeded threshold performance for both relative Total Shareholder Return (TSR) and basic benchmark Earnings Per Share (EPS) resulting in a total pay-out of 65.6% for executive directors. There has been strong business performance during the three-year performance period to 28 February 2015. Despite the Group's basic benchmark EPS reducing by 11% from the FY12 actual of 8.7p in the first year of the three-year performance period, it subsequently increased by 69% over the remaining two years to end the three-year performance period at 13.0p. This resulted in an absolute three-year increase of 49% and a three-year Compound Annual Growth Rate (CAGR) of 14%. Over the same three-year period the share price increased by 94%. Further details are provided on page 53.

## Matters considered during the year

After considering the revisions to the UK Corporate Governance Code, the committee undertook a review of the malus and claw-back provisions applying to annual bonus and PSP awards. Following this review, the committee has developed an approach that will be applied from FY16 to both annual bonus and PSP awards. Information on this is provided on page 49. Details will be provided should events occur that lead to this policy being applied.

During the year, the committee also considered other executive pay arrangements including, but not exclusively, the structure of FY16 arrangements and the base pay for the executive directors. Based on their contribution to business performance during the year, both executive directors have been awarded a 2% increase, which is in line with the pay award for the broadbanded population (which covers a range of circa 3,500 roles, both management and non-management) across the Group. Further information is provided on page 48.

## Engagement

During the year I contacted a number of major shareholders and I am grateful for the input I received. I hope that shareholders will be supportive of the advisory resolution on the FY15 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 28 February 2015

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 reporting regulations, this report is split into two sections:

- The annual report on remuneration (pages 45 to 53), which provides details on how directors were paid in FY15 and how we intend to implement the remuneration policy in FY16. This section of the report will be subject to an advisory shareholder vote at the 2015 AGM.
- The policy report (pages 54 to 61), which received a positive shareholder vote at the AGM on 2 July 2014. It is intended that this will last three years until the AGM in 2017 when a new policy will be presented for the shareholder approval.

## Annual report on remuneration

This section provides information about the Remuneration Committee, how directors were paid in FY15 and how the committee intends to implement the remuneration policy, as set out on pages 48 to 49, in FY16.

The following directors were members of the committee during FY15:

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

At the invitation of the committee, John Walden, the Chief Executive (from 14 March 2014), attended the meetings to give background information on remuneration matters. The committee was also advised by Richard Ashton, Finance Director; Julie Elder, Human Resources Director; and Louise Baker, Head of Reward. The secretary to the committee was Gordon Bentley, Company Secretary.

Deloitte LLP continued to act as advisors to the committee, having been appointed during FY14 following a competitive selection process. During the year they have advised the committee on a number of executive remuneration matters including, but not exclusively, developments in market practice and governance and reward benchmarking data. Total fees for advice provided to the committee during the year under review, on a time-spent basis, amounted to £83,300. Deloitte LLP are members of the Remuneration Consultants Group and the committee is satisfied that their advice is independent. Deloitte LLP also provided other services to Home Retail Group in relation to broader remuneration matters.

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

The details over the following pages show the implementation of policy, first looking back to FY15 and second looking forward to FY16.

### Executive directors – single total figure of remuneration (audited)

The following table sets out the single-figure for total remuneration for executive directors for FY15 and FY14.

| £000 | | Salary | Benefits | Bonus | LTIP | Pension | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| John Walden[1] | FY15 | 623 | 46 | 449 | 1,443[2] | 187 | – | 2,748 |
| | FY14 | – | – | – | – | – | – | – |
| Richard Ashton | FY15 | 480 | 13 | 346 | 2,099 | 120 | – | 3,058 |
| | FY14 | 480 | 14 | 461 | – | 217 | – | 1,172 |
| **Former executive director** | | | | | | | | |
| Terry Duddy[3] | FY15 | 35 | 2 | – | 2,952 | 10 | 365 | 3,364 |
| | FY14 | 838 | 55 | 804 | – | 286 | – | 1,983 |

Notes:

1. John Walden was appointed as Chief Executive with effect from 14 March 2014 and was not an executive director during FY14.
2. In addition to the LTIP shown above, in March and May 2012, upon the appointment of John Walden as Managing Director of Argos, the Company made an award under the terms of the company's PSP. The awards were subject, in part, to performance conditions which were fully satisfied. The first of these awards was released on the vesting date of 1 March 2015 and sufficient shares were sold to satisfy the tax and social security liabilities falling due on the release of these shares and to cover the incidental costs of disposal. The value of this award, based on the share price at the vesting date and before the sale of shares mentioned, was £1,062,000. Further details are provided on page 50.
3. Terry Duddy stepped down from the Board on 14 March 2014 and the FY15 figures for salary, benefits and pension reflect payments for this period. In line with his contractual obligations, Terry Duddy continued to receive his base salary and benefits (including pension supplement) up to 2 July 2014 (the date of the FY14 AGM) and the value of these payments is shown under 'Other'.

### Notes to the single-figure table and remuneration outcomes

#### Benefits

Benefits include values relating to all-employee share schemes including Save-As-You-Earn (SAYE), private medical insurance, life assurance and company car cash allowance. 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.

John Walden was also provided with certain travel benefits, including a cash allowance to cover certain flights to and from the US, and US private health cover.

The benefits shown for Terry Duddy reflect the period until 14 March 2014 when he stepped down from the Board.

#### FY15 annual bonus

Following the committee's review of remuneration, the maximum annual bonus opportunity for executive directors in FY15 was reduced to 130% from 150% in previous years. The payment of FY15 bonus was subject to the achievement of targets based on two equally-weighted measures: benchmark PBT and adjusted cash flow. The table sets out the performance achieved against each metric and corresponding bonus pay-out. 75% of the bonus is paid in cash and 25% deferred into shares for three years in line with agreed policy.

The committee is satisfied that the financial performance of the Group for FY15 and level of year-on-year growth in benchmark PBT and strongly cash-generative performance in respect of adjusted cash flow supports the payment of the bonuses described in the following table.

| | Benchmark PBT | Adjusted cash flow | Total |
|---|---|---|---|
| % weighting | 50% | 50% | 100% |
| Maximum opportunity % salary | 65% | 65% | 130% |
| FY15 threshold level | £121m | £240m | n/a |
| FY15 maximum level | £150m | £305m | n/a |
| FY15 performance achieved | 40.3% | 70.5% | 55.4% |
| % of salary | 26.2% | 45.8% | 72.0% |
| £000 value – John Walden, Chief Executive | £163 | £286 | £449 |
| £000 value – Richard Ashton, Finance Director | £126 | £220 | £346 |

Terry Duddy did not receive any bonus in respect of time served during FY15.

# Directors' remuneration report continued

### FY13 PSP awards performance tested in FY15

Performance conditions for executive directors for the FY13 PSP award were based 60% on TSR and 40% on basic benchmark EPS targets. The performance conditions were tested at the end of the three-year performance period, 27 February 2015, and threshold performance for both conditions was exceeded. The level of performance for each condition and corresponding award is set out in the table below.

As well as TSR and basic benchmark EPS performance, the value of awards in the single-figure table and in the table below are calculated using a share price of £1.99 and include dividend-equivalent amounts. The share price used is the average of the price for the three months preceding 28 February 2015. Awards are released to participants on 23 May 2015. The value at the date of release may be higher or lower than the amount stated depending on share price movements. The annual report for FY16 will reflect the value of the FY13 award at date of vesting.

The committee is satisfied that the business performance over the three-year performance period supports the vesting of awards.

| | TSR | Basic benchmark EPS | Total |
|---|---|---|---|
| % weighting | 60% | 40% | 100% |
| Maximum opportunity % of salary | 150% | 100% | 250% |
| Threshold (25% of element) | 50th percentile | 5% CAGR | n/a |
| Maximum (100% of element) | 90th percentile | 10% CAGR | n/a |
| Performance achieved | 59th percentile | 14% CAGR | n/a |
| Vesting (% of maximum) | 42.7% | 100.0% | 65.6% |
| £000 value – John Walden, Chief Executive from 14 March 2014 | £563 | £880 | £1,443 |
| £000 value – Richard Ashton, Finance Director | £820 | £1,279 | £2,099 |
| £000 value – Terry Duddy[1], Chief Executive until 14 March 2014 | £1,153 | £1,799 | £2,952 |

Note:
1. As set out in the FY14 report, Terry Duddy was afforded good leaver status by the committee. The shares that will be released to him have been pro-rated to reflect his service during the performance period.

### Total pension entitlements (audited)

Pension provision for both executive directors was provided in the form of an annual cash allowance. 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 Chief Executive and Finance Director are 30% of base salary and 25% of base salary respectively.

Until 30 April 2013, Richard Ashton accrued benefits under a non-contributory unapproved unfunded retirement benefit scheme for earnings above £137,400.

Terry Duddy received a cash allowance for pension provision until 14 March 2014. See 'Other' below for benefits post 14 March 2014.

### Other (audited)

As set out above, in line with his contractual obligations and as disclosed in the FY14 report, Terry Duddy continued to receive his base salary and benefits (including pension supplement) from 14 March 2014, when he stepped down from the Board, up to 2 July 2014 (the date of the FY14 AGM). The value of these payments is reflected under this heading in the single-figure table.

## Executive directors – remuneration for FY15

The following section provides information about remuneration arrangements for executive directors during the year under review, FY15. All arrangements are in line with the policy report set out on pages 54 to 61.

### FY15 base salary

As set out in the single-figure table, the base salary for John Walden, Chief Executive, was £650,000 from the date of appointment, and for Richard Ashton, Finance Director, was £480,000.

The base salary for the Chief Executive was set on appointment in line with our stated policy and at a level which reflected market practice in companies of similar size and complexity. The base salary of the Finance Director was not increased during the year.

### FY15 pension entitlements

As set out in the notes to the single-figure table, the executive directors continued to receive allowances in line with policy during FY15.

### FY15 annual bonus

The notes to the single-figure table describe the targets and outcome of the FY15 annual bonus.

**FY15 PSP award**

During FY15 the executive directors were granted PSP awards equivalent to 200% of base salary, reduced from 250% in previous years.

FY15 awards were subject to performance targets that continued to support the delivery of the Group's strategic and growth ambitions, as well as reflecting the continued focus on cash as part of the Group's strategy. To support the latter, in addition to targets for TSR and basic benchmark EPS, a new target based on cumulative adjusted cash flow was introduced in FY15.

The following table sets out more detail on the performance measures, which will be assessed over the three financial years FY15, FY16 and FY17. Each will vest on a straight-line basis between the relevant points:

| | TSR[1] | Basic benchmark EPS[2] | Cumulative adjusted cash flow[3] |
|---|---|---|---|
| % of award | 40% | 30% | 30% |
| Threshold (25% of element) | 50th percentile | 7% CAGR | £835m |
| Maximum (100% of element) | 75th percentile | 20% CAGR | £1,030m |

Notes:

1. 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 FY15, 25% of the award vests for TSR performance at the 50th percentile of the comparator group, with full vesting for TSR performance at the 75th percentile. Vesting occurs on a straight-line performance basis between these two points. Below 50th percentile performance no award will vest. For these awards, TSR will be measured over the period of three consecutive financial years of the Group commencing 2 March 2014.

   The TSR comparator group was unchanged for FY15 at the point of making awards. However, following the merger of Carphone Warehouse and Dixons Retail, the committee used its discretion to determine the appropriate method of assessment.

   The comparator group for the TSR element of the FY15 award comprised: Debenhams; Dixons Carphone; Dunelm; Halfords; J Sainsbury; Kingfisher; Marks & Spencer; Morrisons; Mothercare; Next; Tesco; Topps Tiles; Travis Perkins; and WH Smith.

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

2. Basic 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 basic benchmark EPS growth targets which are aligned to our growth ambitions. 25% of this element of the award vests for basic benchmark 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.

3. Cumulative adjusted cash flow was 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.

   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. 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.

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.

# Directors' remuneration report continued

## Executive directors – implementation of our remuneration policy for FY16 (non-audited)

The committee has applied the approved policy for FY16 as set out below:

### FY16 base salary

In line with policy, salary increases for the wider employee group, as well as relevant market data and individual performance, are taken into consideration when determining increases for the executive directors. Based on these considerations, the salaries for the Chief Executive and Finance Director have been increased for FY16 in line with the increase for the broadbanded population across the Group (which covers a range of roles, both management and non-management) of c.2%.

| | FY16 base salary[1] | FY15 base salary | Increase |
|---|---|---|---|
| John Walden, Chief Executive | £663,000 | £650,000[2] | 2% |
| Richard Ashton, Finance Director | £489,600 | £480,000 | 2% |

Notes:
1. Effective from 1 March 2015.
2. FY15 salary from date of appointment.

### Pension entitlements

Pension arrangements for the executive directors are unchanged from FY15.

### FY16 annual bonus

As reflected in the agreed policy and consistent with the approach taken in FY15, the maximum annual bonus opportunity for executive directors will continue to be 130% of salary with 75% of any bonus payment paid in cash and 25% deferred into shares for three years.

Given the strategy of the Group for FY16 and its key performance indicators (KPIs) as set out on page 11, the committee feels it appropriate to continue to structure bonuses with equally-weighted benchmark PBT and adjusted cash flow targets as set out in the following table:

| Metrics and weighting | Benchmark PBT | Adjusted cash flow |
|---|---|---|
| Threshold to maximum as a range around target | £5m below to £22.5m above | £15m below to £35m above |
| **Weightings** | | |
| John Walden, Chief Executive | 50% | 50% |
| Richard Ashton, Finance Director | 50% | 50% |

The committee continues to set stretching targets for the annual bonus which support year-on-year improvement of Group financial performance. The threshold to maximum ranges around target recognise the year-on-year growth ambitions of the Group and have been set to continue to incentivise executive directors to deliver the business performance expected by shareholders.

Due to the competitive nature of the retail sector, the targets for FY16 have not been disclosed in this report 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 disclose targets retrospectively in the FY16 annual report. Details of targets in respect of the FY15 annual bonus are provided on page 45.

### FY16 awards under the PSP

As reflected in the policy and consistent with the approach taken in FY15, awards under the PSP for the executive directors will continue to be 200% of base salary.

Given the strategy of the Group for FY16 and its KPIs as set out on page 11, the committee feels it appropriate to continue to structure PSP awards as set out in the table below. The FY16 awards will continue to vest on a straight-line basis between the relevant points.

| | TSR | Basic benchmark EPS | Cumulative adjusted cash flow |
|---|---|---|---|
| % of award | 40% | 30% | 30% |
| Threshold (25% of element) | 50th percentile | 7% CAGR | £860m |
| Maximum (100% of element) | 75th percentile | 20% CAGR | £1,020m |

Further details of these measures are provided on the next page.

### TSR

The TSR comparator group for FY16 has been reviewed in light of the merger of Dixon Retail and Carphone Warehouse. The committee considered a number of options against an agreed set of criteria and based on this assessment both AO World and B&M Retail have been included in the comparator group for FY16 awards. The full comparator group is set out in the table below. The targets are set out in the previous table and all other aspects of the measurement and definition of TSR are unchanged from FY15.

| | | | |
|---|---|---|---|
| AO World | Dunelm | Marks & Spencer | Tesco |
| B&M Retail | Halfords | Morrisons | Topps Tiles |
| Debenhams | J Sainsbury | Mothercare | Travis Perkins |
| Dixons Carphone | Kingfisher | Next | WH Smith |

### Basic benchmark EPS

The committee has reviewed the FY15 basic benchmark EPS growth targets and is satisfied that they continue to be aligned to the growth ambitions of the Group and are stretching for the FY16 awards.

For the FY16 awards, growth rates will be measured over the three financial years FY16, FY17 and FY18 on a point-to-point basis. The targets are set out in the table above and all other aspects of the measurement and the definition of basic benchmark EPS are unchanged from FY15.

### Cumulative adjusted cash flow

The committee also reviewed the approach to the cumulative adjusted cash flow target. The committee is satisfied that the target continues to support the delivery of the cash generation needed to deliver the Group's strategic plan.

For FY16 awards, cumulative adjusted cash flow is measured over the three financial years FY16, FY17 and FY18. The targets are set out in the table on page 48 and all other aspects of the measurement and definition of cumulative adjusted cash flow, together with committee's discretion to adjust targets where appropriate, are unchanged from FY15.

### Malus and claw-back

Following a review of current provisions in light of the revised UK Corporate Governance Code, the committee determined that both malus and claw-back provisions will apply to annual bonus and PSP awards with effect from FY16 (ie from FY16 awards onwards). The committee has developed an approach that sets out the considerations and process for the recovery of amounts that were paid in error following identification of a misstatement of results, an error in the calculation of an award and/or gross misconduct resulting in misstatement of results or a revised calculation of the award. Details will be provided should such events occur which lead to this policy being applied.

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

As outlined in the policy table on page 58, non-executive director fees should be broadly in line with market levels, set to reflect the responsibilities undertaken and sufficient to attract and retain high-calibre non-executives.

The following table sets out the single figure for total remuneration for non-executive directors for FY15 and FY14. Non-executive directors did not receive any performance-related payments or benefits during either year.

| £000 | FY15 | FY14 |
|---|---|---|
| John Coombe | 250 | 250 |
| Mike Darcey | 87 | 87 |
| Ian Durant | 100 | 100 |
| Cath Keers | 92 | 92 |
| Jacqueline de Rojas | 77 | 77 |

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

## Non-executive directors – arrangements for FY16 (non-audited)

The table below provides information on the Group's forward-looking arrangements for non-executive directors in relation to FY16.

Following a review in February 2015, fees will be held at their current level for FY16.

| £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 chair 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.

# Directors' remuneration report continued

## Audited information relating to share awards

### Awards made to executive directors during FY15 (audited)

The table below sets out details of the awards made under the PSP to the executive directors during FY15. These awards are subject to the performance conditions set out on page 55.

| | 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 |
|---|---|---|---|---|---|---|---|
| John Walden | PSP | 21/05/14 | 663,670 | 1,300 | 200% | 25% | 25/02/17 |
| Richard Ashton | PSP | 21/05/14 | 490,094 | 960 | 200% | 25% | 25/02/17 |
| | Options[2] | 21/05/14 | 15,871 | 30 | 6% | 25% | 25/02/17 |

Notes:
1. Face value for PSP is calculated using the average of the closing middle market quotations recorded in the Daily Official List of the London Stock Exchange for the ten dealing days preceding the award date and for Options is calculated using the closing middle market share price on the dealing day preceding the award.
2. These are HMRC approved options linked to the PSP award. If these options are exercised the PSP award is scaled back by the same gross amount.

### Outstanding scheme interests of executive directors (audited)

The table below provides details of the position as at the end of FY15 (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**

| | | Date of grant | Plan shares at 1 March 2014 | Plan shares awarded during the period | Plan shares exercised during the period[1] | Plan shares lapsed during the period[2] | Total Plan shares held at 28 February 2015 | Market price at date of grant[3] | Vesting date |
|---|---|---|---|---|---|---|---|---|---|
| John Walden | PSP | 23/05/12 | 1,050,285 | – | – | – | 1,050,285 | 78.6p | 23/05/15 |
| | | 22/05/13 | 917,400 | – | – | – | 917,400 | 149.9p | 23/05/16 |
| | | 21/05/14 | – | 663,670 | – | – | 663,670 | 195.9p | 21/05/17 |
| | Awards pre-appointment to executive director | 01/03/12[1] | 528,252 | – | – | – | 528,252 | 104.0p | 01/03/15 |
| | | 23/05/12[1] | 700,190 | – | – | – | 700,190 | 78.6p | 23/05/15 |
| Richard Ashton | PSP | 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 |
| | | 21/05/14 | – | 490,094 | – | – | 490,094 | 195.9p | 21/05/17 |
| Terry Duddy | PSP | 10/05/11 | 935,267 | – | – | 935,267 | – | 224.0p | 10/05/14 |
| | | 23/05/12 | 2,667,090 | – | – | 518,602 | 2,148,488 | 78.6p | 23/05/15 |
| | | 22/05/13 | 1,397,783 | – | – | 737,720 | 660,063 | 149.9p | 23/05/16 |

Notes:
1. As described in the notes to the single -figure table, the awards received by John Walden in March and May 2012 were performance-tested in 2013. The performance targets were fully met and the awards released to John Walden in March and May 2015.
2. Performance conditions were not achieved for FY12 awards made on 10 May 2011 and all shares lapsed. Additionally, awards for Terry Duddy were lapsed to reflect his date of cessation.
3. Share price has been rounded to one decimal place.

### 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 1 March 2014 | Options awarded during the period | Options exercised during the period[1] | Options lapsed during the period | Total options held at 28 February 2015 | Exercise price[1] | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| John Walden | Options | 23/05/12 | 37,950 | – | – | – | 37,950 | 79.1p | 23/05/15 | 24/05/15 |
| | SAYE | 03/07/13 | 7,258 | – | – | – | 7,258 | 124.0p | 01/09/16 | 01/03/17 |
| Richard Ashton | Options | 21/05/14 | – | 15,871 | – | – | 15,871 | 189.0p | 21/05/17 | 23/05/17 |
| | SAYE | 04/07/12 | 15,384 | – | – | – | 15,384 | 58.5p | 01/09/15 | 01/03/16 |
| | Legacy[2] | 31/05/05 | 80,576 | – | – | – | 80,576 | 359.9p | 31/05/08 | 30/05/15 |
| Terry Duddy | Legacy[2] | 31/05/05 | 197,277 | – | – | 197,277[3] | – | 359.9p | 31/05/08 | 30/05/15 |

Notes:
1. Share price has been rounded to one decimal place.
2. See policy table on page 57 for details on legacy awards.
3. Legacy awards lapsed six months after cessation of employment for Terry Duddy.

## 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 FY15 the Finance Director met the shareholding requirement in full. The Chief Executive retained 100% of the after-tax value of shares vesting on 1 March 2015 and will continue to retain shares vesting from long-term incentive arrangements in line with the shareholding guidelines outlined above.

The table below sets out the directors' current interests in Home Retail Group shares as at the year-end, with the exception of Terry Duddy where the shareholding is at 14 March 2014, the date he stepped down from the Board.

### Executive directors

| | Shares owned outright at 28 February 2015 | Interest in shares and share options without performance conditions as at 28 February 2015 | Total shares and options not subject to performance conditions as at 28 February 2015 |
|---|---|---|---|
| John Walden | – | 621,479 | 621,479 |
| Richard Ashton | 615,200 | 95,960 | 711,160 |
| Terry Duddy[1] | 3,231,547 | 197,277 | 3,428,824 |

Note:
1. 2,619,355 shares were held by the director and 612,192 by a connected person.

# Directors' remuneration report continued

### Non-executive directors

| | Shares owned outright at 28 February 2015 | Shares owned outright by connected persons at 28 February 2015 |
|---|---|---|
| John Coombe | 10,000 | 123,179 |
| Mike Darcey | 50,028 | – |
| Ian Durant | 35,730 | – |
| Cath Keers | 38,040 | – |
| Jacqueline de Rojas | 16,402 | – |

### External appointments

Neither John Walden nor Richard Ashton held any external appointments during FY15. Terry Duddy was a non-executive director of Hammerson for which he received and retained an annual fee of £60,000.

### Payments made to past directors (audited)

No payments were made during FY15 other than those made to Terry Duddy (who served as a director during the year) described on pages 45 to 61.

### Payments for loss of office (audited)

No payments were made during FY15.

### Percentage change in remuneration (non-audited)

The table below illustrates the percentage change in salary, benefits and annual bonus for the Chief Executive (based on the single-figure table) compared with that of colleagues in the broadbanded population (which covers a range of roles, both management and non-management) across the Group.

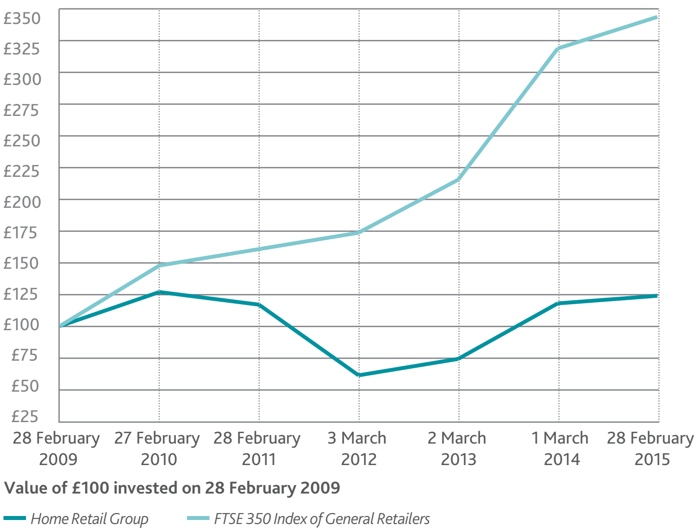
Remuneration for broadbanded colleagues is not subject to union negotiations and, as for FY14, the committee believes this provides the most reasonable comparator group.

| | % change in base salary (FY14–FY15) | % change in benefits (FY14–FY15) | % change in annual bonus (FY14–FY15) |
|---|---|---|---|
| Chief Executive[1] | 21.5% decrease | 12.7% decrease | 44.2% decrease |
| Broadbanded colleagues[2] | 2.1% increase | 3.7% increase | 13.1% decrease |

Notes:
1. Figures for the Chief Executive relate to Terry Duddy for FY14 and both Terry Duddy and John Walden for FY15. The base salary for John Walden for FY15 was set at a level which reflects market practice in companies of a similar size and complexity. The lower salary also impacts the decrease in annual bonus, alongside performance against targets. The decrease in benefits is due to differences in travel benefits.
2. The following is relevant for the broadbanded population:
   a. Salary increases are based on an overall budget of circa 2%. The increase provided above also reflects personal performance.
   b. Benefit cost increases relate to increased costs of private medical cover and car benefit provision.
   c. The decrease in average bonus is due to the impact of a lower adjusted cash flow performance against target during FY15 compared to FY14.

## Historic TSR performance (non-audited)

The graph below compares the TSR of Home Retail Group against the FTSE 350 Index of General Retailers for a six-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.




## Chief Executive remuneration outcomes (non-audited)

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 six-year period.

| | | Chief Executive single figure of remuneration (£000) | Annual bonus pay-out (% of maximum) | LTIP vesting (% of maximum) |
|---|---|---|---|---|
| FY15 | John Walden | 2,748 | 55% | 66% |
| FY14 | Terry Duddy | 1,983 | 64% | 0% |
| FY13 | Terry Duddy | 2,134 | 53% | 0% |
| FY12 | Terry Duddy | 1,732 | 17% | 0% |
| FY11 | Terry Duddy | 1,709 | 25% | 0% |
| FY10 | Terry Duddy | 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 FY15 and FY14.

| | FY15 £m | FY14 £m | Percentage change year-on-year |
|---|---|---|---|
| Total remuneration | 643.2 | 659.8 | 2.5% decrease |
| Benchmark profit after tax | 99.1 | 82.9 | 19.5% increase |
| Shareholder distributions[1] | 28.7 | 25.8 | 11.2% increase |

Note:
1. Shareholder distributions refer to 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 FY14 remuneration report and the FY14 directors' remuneration policy report at the 2014 AGM:

| | FY14 remuneration report | | FY14 policy report | |
|---|---|---|---|---|
| | Votes | % | Votes | % |
| **Votes in favour** | 551,856,290 | 98.83% | 533,499,996 | 94.90% |
| **Votes against** | 6,511,986 | 1.17% | 28,669,901 | 5.10% |
| **Total votes** | 558,368,276 | 100.00% | 562,169,897 | 100.00% |
| Votes withheld | 5,269,224 | n/a | 1,467,603 | n/a |

The committee is pleased with the level of shareholder support for the FY14 remuneration report and is committed to ongoing dialogue with shareholders.

# Directors' remuneration report continued

The policy report is unchanged from the report approved by the shareholders at the FY14 AGM, with the exception of the charts on page 58 which reflect FY16 arrangements.

## Policy report (non-audited)

The committee reviewed the operation of the remuneration of executive directors during FY14. The policy table on pages 54 to 57 reflects the policy approved at the 2014 AGM and it is intended to apply for three years until 2017 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 54 to 57, 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 Group Executive 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.

### 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<br>▪ Generally reviewed on an annual basis with any salary changes typically effective in March<br>▪ When reviewing salaries, account is taken of the following:<br>– Benchmark data for other comparable UK listed retailers and companies of a similar size and complexity to Home Retail Group<br>– Movements in the employment market<br>– The general economic environment<br>– Individual performance<br>– Increases awarded to other colleagues in the Group |
| MAXIMUM | ▪ While 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<br>▪ The committee retains the discretion to make increases above this level in certain circumstances, for example, but not limited to:<br>– an increase in the individual's scope of responsibilities<br>– in the case of a new executive director who may be initially positioned on a lower initial salary while they gain experience in the role<br>▪ Details of the base salaries for the executive directors for FY16 are provided in the annual report on remuneration on page 48 |
| 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
- While 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 FY16 is provided in the annual report on remuneration on page 48

## 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 among 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 buy-out 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 FY16 awards are provided in the annual report on remuneration on page 48
- 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

# Directors' remuneration report continued

| 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<br>▪ 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<br>▪ 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<br>▪ The Group currently operates a 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<br>▪ Participation limits for the SAYE scheme are up to those set by HMRC<br>▪ 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 |
| MAXIMUM | ▪ Participation limits for the SAYE scheme are up to those set by HMRC<br>▪ 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. |

| 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:<br>– Car benefits, including a driver<br>– Private medical insurance and US healthcare for the executive director's family<br>– Relocation<br>– Life insurance<br>– Limited personal travel and home office expenses<br>– Subscription to professional bodies<br>▪ 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<br>▪ 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<br>▪ 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<br>▪ 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 50 |
| 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<br>▪ 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<br>▪ 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 58.

## 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.

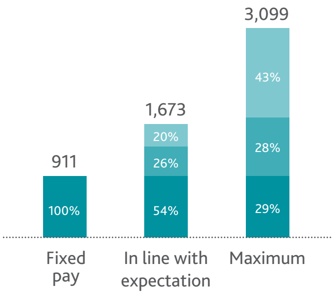
For these purposes 'payments' includes, but is not limited to, the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. The committee may also make minor amendments to the policy set out 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.

# Directors' remuneration report continued

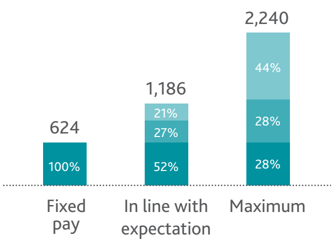
## Illustration of our executive remuneration policy for FY16

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.

**John Walden Chief Executive (£000)**




**Richard Ashton Finance Director (£000)**




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

Note:
The values exclude share price appreciation and dividends. The charts have been updated to reflect FY16 figures.

The assumptions used in the charts above are as below.

### Fixed pay – minimum performance

- Base salary, benefits and pension (total fixed pay)
  - Base salary: As effective for FY16
  - Benefits: Based on the value received for FY15
  - 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

### 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.<br>▪ 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.<br>▪ While 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.<br>▪ The fee structure is as follows:<br>– The Chairman fee comprises a single, consolidated fee.<br>– The non-executive directors are paid a basic fee, plus additional fees for chairing the Audit and Remuneration Committees and to the senior independent director.<br>▪ 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.<br>▪ 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 buy-out, 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 12 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 had a duty to mitigate should he find alternative employment before 2 July 2014. While 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 overleaf. 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.

# Directors' remuneration report continued

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 on page 59. |
| **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.<br><br>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':<br>▪ Ill-health, injury or permanent disability<br>▪ Retirement with the agreement of the Group<br>▪ Sale of the Company or business the director works for out of the Group<br>▪ Redundancy<br>▪ Death<br><br>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.<br><br>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.<br><br>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. |
| **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.<br><br>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 pro-rated.

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 broadbanded 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 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.

Signed on behalf of the Board

**Cath Keers**
*Chair – Remuneration Committee*
29 April 2015

# Directors' report

The directors present their report and the audited consolidated financial statements for the 52 weeks ended 28 February 2015 (the 'year').

Home Retail Group plc (the 'Company') is the ultimate parent company of Home Retail Group (the 'Group'), which operates in the UK and the Republic of Ireland.

Sections required to be included in this Annual Report and Financial Statements in accordance with the Companies Act 2006 are set out below. Pages 62 to 64 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:

| Information | 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 65 |
| Diversity | Pages 36 and 39 |
| Financial results and dividends | Pages 26 and 95 |
| Nomination Committee report | Page 39 |
| Post balance sheet events (Financial statements) | Note 35 on page 113 |
| Risk management (Principal risks and uncertainties) | Page 24 |
| Strategic report | Pages 4 to 31 |
| Publication of unaudited financial information (Group financial review) | Pages 27 to 31 |
| Details of long-term incentive schemes (Directors' remuneration report) | Pages 44 to 61 |
| Shareholder waiver of dividends (Financial statements) | Note 12 on page 95 |
| Shareholder waiver of future dividends (Financial statements) | Note 28 on page 109 |

## Profit and dividends

The Group's consolidated income statement on page 72 shows a profit for the year of £71.6m. The directors recommend the payment of a final dividend of 2.8p per ordinary share, to be paid on 23 July 2015 to shareholders on the register at the close of business on 22 May 2015. An interim dividend of 1.0p per ordinary share was paid on 22 January 2015, giving a total dividend for the year of 3.8p per ordinary share.

## Directors

The names and biographical details of the directors are shown in the Board of Directors and Group Executive 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 61. 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 59 to 61. Neither contract of 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 principal Board committees can be found in the corporate governance section on page 35. The Company's Articles of Association can be amended by a special resolution of the Company's shareholders.

## Share capital and control

As at 29 April 2015, 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 109. 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 FCA, 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 2 July 2014, 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 1 July 2015, 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 page 109.

### Substantial shareholdings

As at 29 April 2015, the Company had been notified under Rule 5 of the FCA'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 | 114,607,223 | 14.09 |
| RBC cees Trustee Limited | 59,439,113 | 7.31 |
| Sanderson Asset Management LLP | 59,246,016 | 7.28 |
| Old Mutual plc | 48,821,669 | 6.00 |
| The Capital Group Companies Inc | 32,253,481 | 3.97 |
| Royal London Asset Management Limited | 24,504,400 | 3.01 |

### Employees

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

The Group has a policy in place for giving full and fair consideration to applications for employment 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 85 to 88.

### Political donations

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

### Relevant audit information

As at 29 April 2015, 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.

# Directors' report continued

## Going concern

The strategic report and financial highlights 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 of 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 Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ, commencing at 11.00 am on Wednesday 1 July 2015. 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 29 April 2015.

By order of the Board

**Gordon Bentley**
*Company Secretary*
29 April 2015

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 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 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, is 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 34 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*
29 April 2015

**Richard Ashton**
*Finance Director*
29 April 2015

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

## Report on the Group financial statements

### Our opinion

In our opinion, Home Retail Group plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 28 February 2015 and of its 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.

### What we have audited

Home Retail Group plc's financial statements comprise:

- the Consolidated balance sheet as at 28 February 2015;
- 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 financial statements, which include a summary of the significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements 2015 (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.

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

### Our audit approach

*Overview*

Materiality:

- Overall Group materiality is £8.6 million, which is retained at the level applied in 2014, having given consideration to 5% of benchmark profit before tax in the current year as well as an average of 5% of benchmark profit before tax over the previous five years.

Audit scope:

- We conducted an audit of the complete financial information of the two largest operating segments (Argos and Homebase), due to their individual financial significance to the Group, and of the Financial Services segment, due to the increased inherent risk associated with certain activities within that segment.
- Additional audit procedures were performed at a Group level, including testing of certain central expenses in the fourth operating segment, Central Activities, and over the group consolidation.

Areas of focus:

- Commercial income arrangements.
- Goodwill impairment assessment.
- Impairment of store card receivables.
- Store-based provisions for onerous leases in Homebase.
- Balance sheet review, including review of key accounting judgements and estimates.
- Provisions for customer redress in respect of Financial Services products.
- Classification and disclosure of exceptional items.

*The scope of our audit and our areas of focus*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Commercial income**<br>As described in the Audit Committee Report on page 41 and in the note to the accounts on page 80, the Group has two main streams of commercial income: volume-based rebates and marketing and advertising income.<br>Commercial income is an area of focus due to the quantum of the income recorded under these arrangements and its significance in relation to the result for the year, and the application of management judgement in recording either amounts receivable or amounts deferred at the balance sheet date.<br>*Volume-based rebates*<br>Volume-based rebates are earned both on purchases of product from suppliers and also on sales to customers and are driven by the Group achieving certain purchase or sales volume targets set by individual suppliers for specific products over a pre-determined period.<br>There is, therefore, judgement involved in estimating the volume of purchases or sales, particularly where rebate agreements span a financial year-end. In instances where the rebate agreement does not fully coincide with the year-end, the key judgement that we focused on was the estimate of rebate income to be accrued at the year-end, in particular the judgement over whether required contractual volumes were expected to be achieved.<br>*Marketing and advertising funding*<br>Marketing and advertising funding is recognised in the income statement over the period of time to which the funding relates depending on the nature of the specific arrangement. This is a complex area given the varied types of funding in place (such as funding relating to specific marketing campaigns, funding related to specific Argos catalogues or general marketing support), and management's manual methodology of tracking and recording this income on spreadsheets.<br>Our focus was therefore on assessing whether there was evidence that a funding agreement was in place, whether the relevant marketing activity had taken place and whether the income recognised was recorded in the correct year, with particular focus on testing the manual processes in place. | *Volume-based rebates*<br>Our approach to auditing volume-based rebates on purchases was underpinned by testing key system controls, including those used to determine the amount of items sold under the terms of volume-based rebate agreements. We determined that the testing of these controls provided us with audit evidence that volume-based rebate income had been recorded appropriately and in the correct year.<br>Our approach to auditing volume-based rebates on sales was substantive in nature due to the manual process for tracking such amounts.<br>We tested the rebate purchase arrangements entered into the rebate system or onto the sales rebate spreadsheet by testing a sample of data to contracts and agreeing the contractual terms had been recorded correctly. In the absence of a contract, we agreed the terms of the arrangement to other evidence from the supplier. We also tested any post year-end reversal of debit notes recorded at the balance sheet date for evidence that amounts were overstated and found no such amounts.<br>We additionally re-performed the system calculation of rebate income to confirm the accuracy of the income recorded, and reconciled the total value of volume-based rebate income recorded in the rebate system or on the rebate spreadsheet to the total value recorded in the general ledger and found no material reconciling items.<br>*Marketing and advertising income*<br>Marketing and advertising income is tracked on spreadsheets and, therefore, our audit procedures focused on obtaining evidence over the amount of the marketing funding entered onto these spreadsheets and whether the income was recognised in the correct period.<br>We traced a sample of funding arrangements included on the spreadsheet tracker to evidence from the supplier that they had agreed to the arrangement. We additionally tested the remittance of cash through the supplier's account.<br>We tested whether marketing income had been allocated to the correct year by testing a sample of debit notes raised after the year-end across all types of funding to ensure that, where debit notes related to pre-year-end income, that income had been recorded.<br>We reconciled the total value of funding income recorded in the spreadsheet trackers to the total value recorded in the general ledger and found no material reconciling items.<br>For both types of commercial income, we tested whether income was recognised in the correct year by testing a sample of debit notes raised after the year-end to check that where debit notes related to pre year-end income, that income had been recorded.<br>We also independently confirmed the terms of a sample of individual commercial income agreements, covering both the duration of the arrangement and rebate value ranges based upon the volume of purchases or sales directly with a range of suppliers. In addition, we independently obtained confirmation of a sample of debit notes raised in the year within the associated agreement period. |
| **Goodwill impairment assessment**<br>Refer to the Audit Committee Report on page 41, the critical accounting estimates and judgements in note 2 to the accounts on page 79, and note 14 for goodwill.<br>The goodwill balance is supported by an annual impairment review. No impairment charge has been recorded by management in the year.<br>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 obtained and understood management's impairment model and tested it for mathematical accuracy, and found that it followed an acceptable methodology and was consistent with prior years.<br>We interrogated the integrity of supporting calculations. Using our valuations knowledge, we challenged the reasonableness of key assumptions including the discount rate used by comparing this to the cost of capital for the Group and a selection of comparable organisations. We also challenged the long-term growth rates in the forecasts by comparing them to market information and economic forecasts. We found both these assumptions to be within a reasonable range and that they had been consistently applied in comparison to previous years.<br>We evaluated management's future cash flow projections, including comparing them to the latest Board approved Budget and Five Year Plan, and found them to be consistent. We also evaluated the sales, gross margin and cost-based assumptions with reference to current-year actual results.<br>We obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes in assumption and we performed our own independent sensitivity calculations to quantify the downside changes to management's models required to result in impairment.<br>We also assessed the adequacy of the sensitivity disclosures given in the financial statements which we considered to be appropriate. |

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

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Impairment of store card receivables**<br>Refer to the Audit Committee Report on page 41, the critical accounting estimates and judgements in note 2 to the accounts on page 79, and note 20 for receivables on page 101.<br>Impairment is a highly-subjective area due to the level of judgement applied by management in determining provisions for the impairment of store card loans, which includes assumptions over how long it takes for a customer with an unidentified loss to default (emergence period), and the estimation of future cash flows to be received from customers currently in arrears. Due to the significant judgement involved and the magnitude of the provision, this was an area of focus in our audit.<br>In particular, we focused on managements' judgements as to whether a loss has been incurred and an assessment of whether historic experience is appropriate in estimating the likelihood of incurred losses in the current portfolio. | We evaluated and tested the controls in place around the store card impairment process and determined that the control over the review and approval of the impairment model was effective.<br>We understood management's basis for determining whether a loan is impaired and considered it to be an appropriate method for this purpose. We tested the data that is used in management's impairment models with reference to the underlying loan book and re-performed the model calculations to confirm their accuracy.<br>As the modelling assumptions and parameters are based on historic data, we assessed whether historic experience was representative of current circumstances and of the losses incurred in the portfolio. This included consideration of improving economic conditions. We also considered if there was evidence of incurred losses which were not being identified from historic data and found none.<br>We performed sensitivity analysis on the key assumptions such as the emergence period for unidentified losses, and the time period over which future cash receipts are expected for customers currently in arrears to quantify the range of possible outcomes for the provision.<br>In evaluating the model and assumptions we also considered the rationale underpinning additional adjustments made by management to the modelled provision and considered the explanations obtained to be appropriate. |
| **Property provisions for onerous leases in Homebase**<br>Refer to the Audit Committee Report on page 41, the critical accounting estimates and judgements in note 2 to the accounts on page 79, and note 24 for provisions on page 103.<br>Included within property provisions are onerous lease provisions which are established for stores that have either 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 the cost of the store continuing to trade.<br>We focused on this area because of the complexity of judgements management need to form about the future results of the business and the increased level of store closure activity during the year.<br>The models are based on management's future cash flow projections using discounted sales, gross margin and cost based assumptions. Additional accounting judgements are made in relation to the expected cost of closing stores and the timing of recognition of these costs. | We obtained managements' onerous lease model, which calculates the onerous lease provision. We interrogated the integrity of the model and supporting calculations. We agreed certain inputs into the model to source documentation, including the cash flow projections and the individual lease term dates.<br>We evaluated the basis adopted by management for determining whether an onerous lease exists. This involved obtaining an analysis of stores and assessing the key assumptions used, including the trading income and the nature of costs included in managements' provision model by comparing sales totals and cost assumptions in each year to historical averages for the Homebase stores and understanding the basis of management assumptions for like-for-like sales increases.<br>We compared the cash flow forecasts used in the provision model to those used in the goodwill impairment model described above and found them to be consistent.<br>We tested the accuracy of the underlying calculations in the provision model by re-performing the calculations. We found them to be accurate and the methodology consistent with previous years.<br>We compared the actual costs of store closures incurred (having agreed to relevant audit evidence) against the historic estimates made by management in calculating the prior-year provision and found them to be materially accurate. Where stores were expected to be exited before the lease term expiry, due to the leases being assigned to third parties, we obtained the signed agreements. |
| **Balance sheet review**<br>As described in the Audit Committee Report on page 41 and note 23 on page 102, during the year management undertook a review of the Group's balance sheet, including the key accounting estimates and areas of judgement.<br>As a result of this review, certain accounting estimates have been changed. The review also highlighted a small number of historic accounting errors relating principally to the determination of trade and other payables in the Argos business, which management concluded were not material in aggregate.<br>We focused on this area as the balance sheet review addressed areas of accounting which are inherently judgemental and because the review highlighted a small number of accounting errors. | We evaluated management's approach in conducting the balance sheet review and obtained their output.<br>We critically evaluated management's categorisation of whether items identified were changes in accounting estimates or previous errors. We also assessed the presentation of such items.<br>We obtained evidence for changes to estimates through reference to both internal data and industry practice.<br>With respect to the errors that management identified, we corroborated management's records to third-party evidence, where appropriate.<br>We assessed the completeness of the review in the context of our knowledge of the Group, its historical estimates and the results of our audit work.<br>We considered that management had only, appropriately, aggregated items that are similar in nature and read the related disclosures.<br>We considered the systems and control implications of the errors identified and performed additional substantive procedures as a consequence. |

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Provisions for customer redress in respect of Financial Services products**<br>Refer to the Audit Committee Report on page 42, the critical accounting estimates and judgements in note 2 to the accounts on page 79, and note 24 for provisions on page 103.<br>The Group's Financial Services division offers Payment Protection Insurance ('PPI') to customers for which a provision is recognised in respect of estimated future customer redress.<br>Management uses a model to calculate estimated provisions.<br>This is a key area of focus due to the extent of judgement incorporated into the assessment and inherent uncertainty in assessing factors such as customer response rates to mailing campaigns, uphold rates on future complaints and the operational cost of processing claims. | We evaluated controls around the PPI redress programme and tested the internal quality review process over the calculation of PPI redress payments and determined it to be effective.<br>We tested the completeness of the customer account population and the premiums paid to date by obtaining and re-performing the data scripts used to extract data from management systems.<br>Utilising our expertise in the financial services sector, we understood and challenged the provisioning calculation and underlying assumptions used by management. For those assumptions based on historic information, we challenged whether this was appropriate for future experience. We also independently performed sensitivity analysis on the key assumptions to quantify the range of possible outcomes for the provision.<br>We evaluated disclosures made in the financial statements. In particular, we focused on challenging management that the disclosures were sufficiently clear in highlighting the sensitivity of the provision to changes in the underlying assumptions. We found the disclosures made to be appropriate. |
| **Exceptional items**<br>Refer to note 9 on page 92 for exceptional items.<br>The financial statements include certain items which are disclosed as exceptional, comprising Argos transformation and other restructuring costs of £31.4m, and customer redress provisions of £4.1m.<br>We focused on this area because items classified as exceptional require judgement by the directors as to whether the items meet the definition in the Group's accounting policy.<br>Consistency in identifying and disclosing items as exceptional is important to maintain comparability of the results with previous years. | We assessed the appropriateness of the Group's accounting policy for exceptional items with reference to the applicable accounting standards.<br>We evaluated whether each of the items disclosed as exceptional met the criteria set out in the accounting policy and with the treatment adopted in previous accounting years, and confirmed that they were.<br>We agreed a sample of Argos transformation costs incurred to supplier invoices or other form of evidence such as payroll records to confirm the accuracy of the amounts.<br>We agreed a sample of Group restructuring costs to invoices received from providers.<br>We tested Homebase restructuring costs to the calculation of estimated payments and obtained evidence that determined that the costs should be recognised at the balance sheet date. |

*How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

We conducted an audit of the complete financial information of the two largest operating segments (Argos and Homebase) due to their individual financial significance to the Group, and of the Financial Services segment due to the increased inherent risk associated with certain activities within that segment. The group engagement team undertook the audit of the Argos segment and we engaged component auditors within PwC UK to perform the Homebase and Financial Services segment audits. All audits are conducted at a single location, which enabled the group engagement team to be actively involved in understanding and evaluating the work of the component auditors.

This, together with additional procedures performed at the Group level including testing certain central expenses within the Central Activities segment and with respect to goodwill impairment testing and the Group consolidation gave us the evidence we needed for our opinion on the Group financial statements as a whole.

*Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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.

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

Based on our professional judgement, and consistent with last year, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall Group materiality** | £8.6 million (2014: £8.6 million). |
| **How we determined it** | We retained materiality at the level applied in 2014 having given consideration to 5% of benchmark profit before tax in the current year as well as an average of 5% of benchmark profit before tax over the previous five years. |
| **Rationale for benchmark applied** | We believe that benchmark profit before tax (which excludes exceptional and other non-core items) is the primary profit measure used by shareholders to assess the Group's performance. This provides us with a consistent year-on-year basis for determining materiality.<br>We had regard to an average of benchmark profit before tax over the previous five years, as well as the current-year benchmark profit before tax, because in our view, this is appropriate for a business that has had relatively stable volumes but volatile profits. As there has been no significant change in the business in the year, we determined it was appropriate to retain materiality at the level applied in the prior year. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5 million (2014: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 65, 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 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.

## Other required reporting

### Consistency of other information

*Companies Act 2006 opinion*
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.

*ISAs (UK & Ireland) reporting*
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| ▪ information in the Annual Report is:<br>– materially inconsistent with the information in the audited financial statements; or<br>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or<br>– otherwise misleading. | We have no exceptions to report arising from this responsibility. |
| ▪ the statement given by the directors on page 65, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), 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 is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit. | We have no exceptions to report arising from this responsibility. |
| ▪ the section of the Annual Report on page 40, as required by provision C.3.8 of the Code, 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. |

**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 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 these responsibilities.

**Corporate governance statement**
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with 10 provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## 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.

**What an audit of financial statements involves**
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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. 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.

## Other matter

We have reported separately on the Parent Company financial statements of Home Retail Group plc for the year ended 28 February 2015 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*
29 April 2015

# Consolidated income statement

For the 52 weeks ended 28 February 2015

| | Notes | 52 weeks ended 28 February 2015 Before exceptional items £m | 52 weeks ended 28 February 2015 Exceptional items (note 9) £m | 52 weeks ended 28 February 2015 After exceptional items £m | 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 |
|---|---|---|---|---|---|---|---|
| **Revenue** | 6 | **5,710.4** | **–** | **5,710.4** | 5,663.0 | – | 5,663.0 |
| Cost of sales | | **(3,937.4)** | **–** | **(3,937.4)** | (3,899.2) | – | (3,899.2) |
| **Gross profit** | | **1,773.0** | **–** | **1,773.0** | 1,763.8 | – | 1,763.8 |
| Net operating expenses | 7 | **(1,635.6)** | **(35.5)** | **(1,671.1)** | (1,652.4) | (41.4) | (1,693.8) |
| **Operating profit/(loss)** | | **137.4** | **(35.5)** | **101.9** | 111.4 | (41.4) | 70.0 |
| – Finance income | | **3.4** | **–** | **3.4** | 10.5 | – | 10.5 |
| – Finance expense | | **(11.5)** | **–** | **(11.5)** | (9.3) | – | (9.3) |
| Net financing income/(expense) | 10 | **(8.1)** | **–** | **(8.1)** | 1.2 | – | 1.2 |
| **Profit/(loss) before tax** | | **129.3** | **(35.5)** | **93.8** | 112.6 | (41.4) | 71.2 |
| Taxation | 11 | **(29.3)** | **7.1** | **(22.2)** | (26.6) | 9.4 | (17.2) |
| **Profit/(loss) for the year attributable to equity holders of the Company** | | **100.0** | **(28.4)** | **71.6** | 86.0 | (32.0) | 54.0 |
| | | | | **pence** | | | pence |
| **Earnings per share** | | | | | | | |
| – Basic | 13 | | | **9.4** | | | 6.8 |
| – Diluted | 13 | | | **8.9** | | | 6.6 |

| *Non-GAAP measures* | *Notes* | ***52 weeks ended 28 February 2015 £m*** | *52 weeks ended 1 March 2014 £m* |
|---|---|---|---|
| ***Reconciliation of profit before tax (PBT) to benchmark PBT*** | | | |
| ***Profit before tax*** | | ***93.8*** | *71.2* |
| *Adjusted for:* | | | |
| *Amortisation of acquisition intangibles* | | ***1.8*** | *1.8* |
| *Post-employment benefit scheme administration costs* | | ***1.9*** | *1.9* |
| *Adjustments in respect of store impairment and property provisions* | *16, 24* | ***(0.1)*** | *(2.1)* |
| *Exceptional items* | *9* | ***35.5*** | *41.4* |
| *Financing fair value remeasurements* | *10* | ***1.0*** | *(9.0)* |
| *Financing impact on post-employment benefit obligations* | *10* | ***3.0*** | *3.3* |
| *Discount unwind on non-benchmark items* | *10* | ***6.7*** | *6.9* |
| *Balance sheet review* | *23* | ***(11.5)*** | *–* |
| ***Benchmark PBT*** | | ***132.1*** | *115.4* |
| | | ***pence*** | *pence* |
| ***Benchmark earnings per share*** | | | |
| *– Basic* | *13* | ***13.0*** | *10.4* |
| *– Diluted* | *13* | ***12.4*** | *10.1* |

# Consolidated statement of comprehensive income

For the 52 weeks ended 28 February 2015

| | Notes | 52 weeks ended 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|---|
| **Profit for the year attributable to equity holders of the Company** | | **71.6** | 54.0 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Net change in fair value of cash flow hedges | | | |
| – Foreign currency forward exchange contracts | | **49.1** | (72.2) |
| Net change in fair value of cash flow hedges transferred to inventory | | | |
| – Foreign currency forward exchange contracts | | **(3.3)** | 13.7 |
| Fair value movements on available-for-sale financial assets | | **0.7** | 1.1 |
| Fair value movements on available-for-sale financial assets transferred to the income statement | | **–** | (3.4) |
| Currency translation differences | | **(1.5)** | (3.6) |
| Tax (charge)/credit in respect of items that will be or have been recycled | 11 | **(9.1)** | 13.1 |
| | | **35.9** | (51.3) |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Remeasurement of the net defined benefit liability | 25 | **(55.6)** | (23.8) |
| Tax credit in respect of items not recycled | 11 | **11.1** | 3.3 |
| | | **(44.5)** | (20.5) |
| **Other comprehensive income for the year, net of tax** | | **(8.6)** | (71.8) |
| **Total comprehensive income for the year attributable to equity holders of the Company** | | **63.0** | (17.8) |

# Consolidated balance sheet

At 28 February 2015

| | Notes | 28 February 2015 £m | 1 March 2014 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 14 | **1,543.9** | 1,543.9 |
| Other intangible assets | 15 | **235.5** | 193.6 |
| Property, plant and equipment | 16 | **412.9** | 456.7 |
| Deferred tax assets | 26 | **44.6** | 41.3 |
| Trade and other receivables | 20 | **1.4** | 1.8 |
| Other financial assets | 18 | **10.6** | 9.9 |
| **Total non-current assets** | | **2,248.9** | 2,247.2 |
| **Current assets** | | | |
| Inventories | 19 | **963.0** | 902.4 |
| Trade and other receivables | 20 | **790.0** | 712.1 |
| Current tax assets | | **13.2** | 10.4 |
| Other financial assets | 18 | **30.0** | 1.0 |
| Cash and cash equivalents | 21 | **309.3** | 331.0 |
| **Total current assets** | | **2,105.5** | 1,956.9 |
| **Non-current assets classified as held for sale** | 22 | **18.3** | – |
| **Total assets** | | **4,372.7** | 4,204.1 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 23 | **(46.4)** | (47.4) |
| Provisions | 24 | **(126.2)** | (190.0) |
| Deferred tax liabilities | 26 | **(24.3)** | (12.9) |
| Post-employment benefits | 25 | **(114.4)** | (76.6) |
| **Total non-current liabilities** | | **(311.3)** | (326.9) |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **(1,283.1)** | (1,115.3) |
| Provisions | 24 | **(95.7)** | (46.1) |
| Other financial liabilities | 18 | **(2.9)** | (36.5) |
| Current tax liabilities | | **(6.8)** | (5.8) |
| **Total current liabilities** | | **(1,388.5)** | (1,203.7) |
| **Total liabilities** | | **(1,699.8)** | (1,530.6) |
| **Net assets** | | **2,672.9** | 2,673.5 |
| **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 | **(61.5)** | (52.3) |
| Retained earnings | | **2,995.1** | 2,986.5 |
| **Total equity** | | **2,672.9** | 2,673.5 |

The financial statements on pages 72 to 113 were approved by the Board of Directors on 29 April 2015 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 28 February 2015

| | Notes | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Share capital £m** | **Capital redemption reserve £m** | **Merger reserve £m** | **Other reserves £m** | **Retained earnings £m** | **Total £m** |
| Balance at 2 March 2014 | | 81.3 | 6.4 | (348.4) | (52.3) | 2,986.5 | 2,673.5 |
| Profit for the year | | – | – | – | – | 71.6 | 71.6 |
| Other comprehensive income | | – | – | – | 35.6 | (44.2) | (8.6) |
| Total comprehensive income for the year ended 28 February 2015 | | – | – | – | 35.6 | 27.4 | 63.0 |
| Transactions with owners: | | | | | | | |
| Movement in share-based compensation reserve | 29 | – | – | – | – | 8.6 | 8.6 |
| Net movement in own shares | 28 | – | – | – | (44.8) | (3.7) | (48.5) |
| Tax credit related to share-based compensation reserve | | – | – | – | – | 1.9 | 1.9 |
| Equity dividends paid during the year | 12 | – | – | – | – | (25.3) | (25.3) |
| Other distributions | | – | – | – | – | (0.3) | (0.3) |
| Total transactions with owners | | – | – | – | (44.8) | (18.8) | (63.6) |
| **Balance at 28 February 2015** | | **81.3** | **6.4** | **(348.4)** | **(61.5)** | **2,995.1** | **2,672.9** |

| | Notes | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital £m | Capital redemption reserve £m | Merger reserve £m | Other reserves £m | Retained earnings £m | Total £m |
| Balance at 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 |

# Consolidated statement of cash flows

For the 52 weeks ended 28 February 2015

| | Notes | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | **211.8** | 161.0 |
| Tax paid | | **(12.1)** | (17.6) |
| Disposal of leasehold property | | **(9.0)** | – |
| **Cash flows from investing activities** | | **190.7** | 143.4 |
| Purchase of property, plant and equipment | | **(81.2)** | (72.5) |
| Purchase of other intangible assets | | **(93.3)** | (102.8) |
| Proceeds from the disposal of property, plant and equipment – freehold property | | **30.0** | – |
| Proceeds from the disposal of property, plant and equipment – other | | **6.7** | 2.2 |
| Loans repaid by associates | | **–** | 3.5 |
| Disposal of investments | | **–** | 21.7 |
| Interest received | | **0.7** | 0.6 |
| **Net cash used in investing activities** | | **(137.1)** | (147.3) |
| **Cash flows from financing activities** | | | |
| Purchase of shares for Employee Share Trust | | **(50.0)** | (37.4) |
| Proceeds from disposal of shares held by Employee Share Trust | | **1.5** | 0.3 |
| Dividends paid | 12 | **(25.3)** | (23.9) |
| **Net cash used in financing activities** | | **(73.8)** | (61.0) |
| **Net decrease in cash and cash equivalents** | | **(20.2)** | (64.9) |
| **Movement in cash and cash equivalents** | | | |
| Cash and cash equivalents at the beginning of the year | 21 | **331.0** | 396.0 |
| Effect of foreign exchange rate changes | | **(1.5)** | (0.1) |
| Net decrease in cash and cash equivalents | | **(20.2)** | (64.9) |
| **Cash and cash equivalents at the end of the year** | 21 | **309.3** | 331.0 |

# Analysis of net cash/(debt)

At 28 February 2015

| *Non-GAAP measures* | *Notes* | *28 February 2015 £m* | *1 March 2014 £m* |
|---|---|---|---|
| ***Financing net cash*** | | | |
| *Cash and cash equivalents* | *21* | ***309.3*** | *331.0* |
| ***Total financing net cash*** | | ***309.3*** | *331.0* |
| ***Operating net debt*** | | | |
| *Off balance sheet operating leases* | | ***(1,914.4)*** | *(2,046.2)* |
| ***Total operating net debt*** | | ***(1,914.4)*** | *(2,046.2)* |
| ***Total net debt*** | | ***(1,605.1)*** | *(1,715.2)* |

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 gross lease commitments are £2,342.2m (2014: £2,627.1m), the discounted value of these leases is £1,914.4m (2014: £2,046.2m) based upon discounting the existing lease commitments at the Group's estimated long-term cost of borrowing of 4.1% (2014: 5.0%).

# Notes to the financial statements

For the 52 weeks ended 28 February 2015

## 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 29 April 2015. The financial year represents the 52 weeks to 28 February 2015 (prior financial year 52 weeks to 1 March 2014).

### 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.

### Business combinations

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

### Changes in accounting standards

There are no new standards, amendments to existing standards or interpretations which are effective for the first time during the year ended 28 February 2015 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 15 'Revenue from contracts with customers', which is effective for periods beginning on or after 1 January 2017 and IFRS 9 'Financial Instruments', which is effective for periods beginning on or after 1 January 2018. The Group has not early-adopted any of these new standards or amendments to existing standards. The Group is currently assessing the impact of IFRS 9 and IFRS 15. 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.

*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.

*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, insurance, restructuring, customer redress in respect of Payment Protection Insurance (PPI) 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. Cost includes the impact of discounts received from suppliers which is directly linked to the purchase of stock. 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.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 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 is recognised as revenue using the effective interest method.

**Commercial income**

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date. The Group only recognises commercial income where there is documented evidence of an agreement with a supplier. The types of commercial income recognised by the Group are:

| Type of commercial income | Description | Accounting policy |
|---|---|---|
| Marketing and advertising income | Examples include contributions to the cost of the catalogue, funding for other advertising and short-term product promotions. | Income which is directly linked to the cost of producing the catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group, which is the same point at which the catalogue costs are recognised.<br><br>Other marketing and advertising income is recognised once agreed with a supplier and over the period as set out in the specific supplier agreement. |
| Volume-based rebates | Income earned by achieving specific volume targets agreed with the supplier for specific products. | Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. The majority of those arrangements run for one calendar year. |

Commercial income related to inventory held on the balance sheet is deferred within inventory as a cost price reduction. Commercial income earned but not collected at the balance sheet date is recognised within trade and other receivables. There are no material amounts of collected and deferred commercial income within trade and other payables at the 28 February 2015 balance sheet date.

There are certain other types of funding which is collected from suppliers, for example discounts received on settlement of creditor balances and cost recoveries from suppliers for product quality issues which have been excluded from commercial income disclosure principally because they are not judgemental.

**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 Group Executive 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 is stated at cost less any provision for impairment. Goodwill is not amortised and is tested at least annually for impairment. An impairment charge is recognised where the carrying value of goodwill exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Group's retail businesses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, allocated where necessary on the basis of relative fair value.

**Other intangible assets**
Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. Intangible assets acquired separately from the acquisition of a business are capitalised at cost. Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied.

These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

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

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

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

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

**Property, plant and equipment**
Property, plant and equipment are held at cost, being the purchase price and other costs directly attributable to bringing the asset into use less accumulated depreciation and any impairment in value. The carrying values of property, plant and equipment are reviewed for impairment when events or 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.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 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.

### Non-current assets classified as held for sale

Where the carrying value of a non-current asset is expected to be principally recovered through its sale the asset is classified as held for sale if it also meets the following:

- The asset is available for sale in its current condition
- The sale is highly probable
- The sale is expected to occur within one year

Once classified as held for sale, the asset is held at the lower of its carrying value and the fair value less cost to sell and is no longer depreciated.

### 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. Commercial income received in respect of specific inventory is treated as a reduction in the cost of this inventory. 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, 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 virtually 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 cost of continuing to trade the store. Provisions for other costs and income on store closures are recognised where such an outflow or inflow is probable.

Provisions are made for potential customer redress in respect of PPI 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.

### 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.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES CONTINUED

*Other financial assets*

Other financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Other 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 its derivatives as cash flow 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 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 that 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 non-recurring and material in either size or nature 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.

## 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 28 February 2015, the last day of the financial year, sterling had been 5 cents, or approximately 3% (2014: approximately 3%), weaker/stronger against the US dollar, with all other variables held constant, post-tax profit would have been £0.3m lower/higher (2014: £1.2m 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 £10.3m higher/lower (2014: £11.1m higher/lower), arising mainly from the revaluation of US dollar forward currency contracts.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 4. FINANCIAL RISK MANAGEMENT CONTINUED

If on 28 February 2015, the last day of the financial year, sterling had been 5 cents, or approximately 4% (2014: approximately 4%), weaker/stronger against the euro, with all other variables held constant, post-tax profit would have been £0.4m lower/higher (2014: £0.1m 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 £1.0m lower/higher (2014: £2.6m lower/higher), arising mainly from the revaluation of euro forward currency contracts net of foreign exchange gains or losses on retranslation of euro-denominated net assets held by subsidiary companies with a euro functional currency.

*Market risk – cash flow and fair value interest rate risk*

Whilst the Group's Financial Services business has gross instalment receivable balances ('Financial Services loan book') 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 within its Financial Services loan book. 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 data from an external credit agency and a credit risk provision is held which is based on historic default experience (note 20). Sales to retail customers are made in cash, via major debit and credit cards or via in-house or third-party operated financial products.

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

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

- for a term deposit of up to £50m for up to three months a bank must have a minimum long-term rating of A- or better;
- for an additional three month term deposit of up to £50m 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 28 February 2015 | Cash and short-term cash deposits £m |
|---|---|---|
| A | A | **207.8** |
| A- | A- | **50.0** |
| BB+ | BB+ | **25.4** |
| BB | BB | **26.1** |
| | | **309.3** |

| Bank and institution long-term rating at transaction date | Bank and institution long-term rating at 1 March 2014 | Cash and short-term cash deposits £m |
|---|---|---|
| AAA | AAA | 6.8 |
| A | A | 250.0 |
| A- | A- | 50.0 |
| BB+ | BB+ | 24.2 |
| | | 331.0 |

**Marked to market forward foreign exchange contracts**

| **Bank and institution rating at year-end** | **2015 £m** | 2014 £m |
|---|---|---|
| A | **19.0** | (27.2) |
| A- | **6.2** | (8.4) |
| BB+ | **1.9** | 0.1 |
| | **27.1** | (35.5) |

*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 28 February 2015, the Group had an undrawn committed borrowing facility available of £165m. This facility, which was unsecured, included a covenant related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent and also included a covenant related to net balance sheet debt. This facility was cancelled on 26 March 2015 prior to its contractual maturity date of 27 March 2016 as a result of agreeing a new unsecured, committed borrowing facility of £250m. This new facility also includes the covenants noted above. The Group has not drawn down on its borrowing facilities and has been in compliance with the requirements of the covenants throughout the year.

Trade and other payables of £828.6m (2014: £639.9m) all have contractual maturity dates of less than three months at the balance sheet date.

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 28 February 2015** | | | | |
|---|---|---|---|---|---|
| | **Less than 3 months £m** | **3–6 months £m** | **6–9 months £m** | **9–12 months £m** | **Total £m** |
| Forward foreign exchange contracts | | | | | |
| – outflow | **(237.1)** | **(191.9)** | **(203.6)** | **(87.9)** | **(720.5)** |
| – inflow | **252.0** | **202.4** | **205.9** | **87.3** | **747.6** |

| | 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 |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 4. FINANCIAL RISK MANAGEMENT CONTINUED

### 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 £580m (2014: £524m) as at 28 February 2015. The Group's net debt varies throughout the year due to trading seasonality, and the position as at 28 February 2015 is set out in the analysis of net cash/(debt) on page 77.

### Foreign currency

The principal exchange rates used were as follows:

| | Average | | Closing | |
|---|---|---|---|---|
| | **52 weeks ended 28 February 2015** | 52 weeks ended 1 March 2014 | **28 February 2015** | 1 March 2014 |
| 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** | | | | |
| Other Financial Assets – Forward foreign exchange contracts | – | 30.0 | – | 30.0 |
| Other Financial Assets | 10.5 | – | 0.1 | 10.6 |
| **Total assets** | **10.5** | **30.0** | **0.1** | **40.6** |
| **Liabilities** | | | | |
| Other Financial Liabilities – Forward foreign exchange contracts | – | (2.9) | – | (2.9) |
| **Total liabilities** | **–** | **(2.9)** | **–** | **(2.9)** |

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 28 February 2015, these instruments, which are classified as other financial assets, had a carrying value of £10.5m (2014: £9.8m).

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 28 February 2015, the fair value of derivative instruments used for hedging purposes was a net asset of £27.1m (2014: £35.5m net liability).

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The 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.

There has been no movements in level 3 financial assets during the period and there have been no transfers of assets or liabilities between levels of the fair value hierarchy.

## 5. SEGMENTAL INFORMATION

The Board of Directors and Group Executive 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 Group Executive 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 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| **Revenue** | | |
| Argos | **4,096.0** | 4,051.1 |
| Homebase | **1,479.3** | 1,489.2 |
| Financial Services | **135.1** | 122.7 |
| **Total revenue** | **5,710.4** | 5,663.0 |
| **Benchmark operating profit** | | |
| Argos | **129.2** | 112.3 |
| Homebase | **19.8** | 18.9 |
| Financial Services | **7.0** | 6.0 |
| Central Activities | **(26.5)** | (24.2) |
| **Total benchmark operating profit** | **129.5** | 113.0 |
| Benchmark net financing income | **2.6** | 2.4 |
| **Benchmark profit before tax** | **132.1** | 115.4 |
| Amortisation of acquisition intangibles | **(1.8)** | (1.8) |
| Post-employment benefit scheme administration costs | **(1.9)** | (1.9) |
| Adjustments in respect of store impairment and property provisions | **0.1** | 2.1 |
| Exceptional items | **(35.5)** | (41.4) |
| Financing fair value remeasurements | **(1.0)** | 9.0 |
| Financing impact on post-employment benefit obligations | **(3.0)** | (3.3) |
| Discount unwind on non-benchmark items | **(6.7)** | (6.9) |
| Balance sheet review | **11.5** | – |
| **Profit before tax** | **93.8** | 71.2 |
| Taxation | **(22.2)** | (17.2) |
| **Profit for the year attributable to equity holders of the Company** | **71.6** | 54.0 |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 5. SEGMENTAL INFORMATION CONTINUED

| | 2015 £m | 2014 £m |
|---|---|---|
| **Segment assets** | | |
| Argos | **2,395.9** | 2,286.3 |
| Homebase | **915.4** | 896.6 |
| Financial Services | **622.8** | 563.0 |
| Central Activities | **71.5** | 75.5 |
| **Total segment assets** | **4,005.6** | 3,821.4 |
| Tax assets | **57.8** | 51.7 |
| Cash and cash equivalents | **309.3** | 331.0 |
| **Total assets per balance sheet** | **4,372.7** | 4,204.1 |

Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and other financial assets. Tax assets and cash and cash equivalents are not allocated to segments.

| | 2015 £m | 2014 £m |
|---|---|---|
| **Segment liabilities** | | |
| Argos | **(841.4)** | (741.0) |
| Homebase | **(548.1)** | (517.7) |
| Financial Services | **(56.3)** | (67.2) |
| Central Activities | **(108.5)** | (109.4) |
| **Total segment liabilities** | **(1,554.3)** | (1,435.3) |
| Tax liabilities | **(31.1)** | (18.7) |
| Post-employment benefit obligations | **(114.4)** | (76.6) |
| **Total liabilities per balance sheet** | **(1,699.8)** | (1,530.6) |

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 28 February 2015** | | | | |
|---|---|---|---|---|---|---|
| **Other segment items** | Notes | **Argos £m** | **Homebase £m** | **Financial Services £m** | **Central Activities £m** | **Total £m** |
| Depreciation and impairment of property, plant and equipment | 16 | **(53.4)** | **(44.5)** | **–** | **(3.5)** | **(101.4)** |
| Amortisation of intangible assets | 15 | **(37.0)** | **(10.8)** | **(0.4)** | **(2.2)** | **(50.4)** |
| Share-based payment expense | 29 | **(4.8)** | **(1.2)** | **(0.7)** | **(1.9)** | **(8.6)** |
| Additions to property, plant and equipment | 16 | **42.3** | **36.8** | **–** | **2.1** | **81.2** |
| Additions to other intangible assets | 15 | **70.5** | **22.8** | **–** | **–** | **93.3** |

| | | 52 weeks ended 1 March 2014 | | | | |
|---|---|---|---|---|---|---|
| Other segment items | Notes | Argos £m | Homebase £m | Financial Services £m | Central Activities £m | Total £m |
| Depreciation and impairment of property, plant and equipment | 16 | (55.2) | (29.9) | – | (3.3) | (88.4) |
| 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 |

### 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. The profits, turnover and assets of the businesses in the Republic of Ireland are not significant to the group.

## 6. ANALYSIS OF REVENUE BY CATEGORY

| | 52 weeks ended 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Sale of goods | **5,575.3** | 5,540.3 |
| Provision of services by Financial Services | **135.1** | 122.7 |
| **Total** | **5,710.4** | 5,663.0 |

## 7. NET OPERATING EXPENSES

| | **52 weeks ended 28 February 2015** | | | 52 weeks ended 1 March 2014 | | |
|---|---|---|---|---|---|---|
| **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 |
| Selling costs | **(1,317.5)** | **–** | **(1,317.5)** | (1,349.8) | – | (1,349.8) |
| Administrative costs | **(318.1)** | **(35.5)** | **(353.6)** | (302.6) | (41.4) | (344.0) |
| **Total net operating expenses** | **(1,635.6)** | **(35.5)** | **(1,671.1)** | (1,652.4) | (41.4) | (1,693.8) |

| | Notes | 52 weeks ended 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|---|
| Profit before tax is stated after (charging)/crediting: | | | |
| Operating lease rental expense | | **(333.4)** | (347.9) |
| Cost of inventories and other direct expenses recognised in cost of sales | | **(3,820.6)** | (3,778.9) |
| Write down of inventories | | **(114.2)** | (117.7) |
| Profit on sale of property, plant and equipment and other intangible assets | | **1.5** | 0.2 |
| Depreciation of property, plant and equipment | 16 | **(85.6)** | (91.4) |
| Impairment (charges)/reversal | 16 | **(15.8)** | 3.0 |
| Amortisation of intangible assets | 15 | **(50.4)** | (38.1) |
| Employee benefit costs | 8 | **(643.2)** | (659.8) |

| **Auditors' remuneration** | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| **Audit services:** | | |
| Fees payable for the audit of the Company and the consolidated financial statements | **1.1** | (0.8) |
| Audit of the Company's subsidiaries pursuant to legislation | **(0.1)** | (0.1) |
| | **1.2** | (0.9) |
| **Other services:** | | |
| Fees payable to the Company's auditors and its associates for other services | | |
| – services relating to taxation | **(0.1)** | (0.1) |
| **Total fees payable to PricewaterhouseCoopers LLP** | **1.3** | (1.0) |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 8. EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS

| Employee costs | Notes | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|---|
| Wages and salaries | | **(581.2)** | (587.5) |
| Social security costs | | **(39.1)** | (42.4) |
| Other pension costs | 25 | **(14.3)** | (15.4) |
| Share-based payments | 29 | **(8.6)** | (14.5) |
| | | **(643.2)** | (659.8) |

| | **52 weeks ended 28 February 2015** | | 52 weeks ended 1 March 2014 | |
|---|---|---|---|---|
| **Average number of employees** | **Number of employees** | **Full time equivalent** | Number of employees | Full time equivalent |
| Argos | **28,791** | **14,726** | 29,040 | 14,458 |
| Homebase | **17,006** | **8,944** | 17,775 | 9,396 |
| Financial Services | **734** | **665** | 575 | 518 |
| Central Activities | **58** | **58** | 61 | 60 |
| | **46,589** | **24,393** | 47,451 | 24,432 |

| Key management compensation | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Short-term employee benefits | **(4.1)** | (5.7) |
| Post-employment benefits | **–** | (0.2) |
| Share-based payments | **(1.8)** | (3.2) |
| | **(5.9)** | (9.1) |

Key management consists of the members of the Home Retail Group plc Board of Directors and the managing director of Homebase. The directors' remuneration is set out on pages 44 to 61.

## 9. EXCEPTIONAL ITEMS

| | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Argos transformation and other restructuring charges | **(31.4)** | (27.8) |
| Customer redress – Payment Protection Insurance | **(4.1)** | (25.0) |
| Warranty insurance | **–** | 11.4 |
| **Exceptional items in operating profit** | **(35.5)** | (41.4) |
| Tax on exceptional items in profit before tax | **7.1** | 9.4 |
| **Exceptional loss after tax for the year** | **(28.4)** | (32.0) |

Exceptional restructuring charges totalling £31.4m (FY14: £27.8m) were incurred during the 52 weeks ended 28 February 2015. These charges relate to £12.2m (FY14: £19.0m) in Argos in respect of the ongoing project to transform Argos into a digital retail leader; £6.2m (FY14: £6.2m) in Homebase in respect of costs incurred as part of a Homebase head office restructuring programme together with the closure of a distribution centre in FY16 which were both related to the recently announced store exit programme; and Group restructuring costs of £13.0m (FY14: £2.6m) principally relating to the transitioning to Fujitsu of information systems infrastructure and services that support the Group's operations.

Financial Services offers PPI to its customers. In response to an industry-wide review by the FCA, a full investigation was undertaken in FY14 with the support of an independent expert. As a result, an exceptional charge of £25.0m was recognised. In FY15 an additional charge of £4.1m has been recognised. This charge principally reflects an anticipated increase in the operational costs expected to be incurred in respect of administering future customer redress payments.

Until June 2010, Allianz Insurance provided Home Retail Group an underwriting service for warranty products sold in both Argos and Homebase. Allianz Insurance notified Home Retail Group in FY14 that under a profit share arrangement relating to the run off of these historical policies, the Group was due commission income of £11.4m.

## 10. NET FINANCING INCOME/(EXPENSE)

| | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| **Finance income:** | | |
| Bank deposits | **0.7** | 0.3 |
| Financing fair value remeasurements – net exchange gains | **2.7** | 6.8 |
| Financing fair value remeasurements – available-for-sale financial assets | **–** | 3.4 |
| **Total finance income** | **3.4** | 10.5 |
| **Finance expense:** | | |
| Unwinding of discounts | **(7.5)** | (8.1) |
| Financing fair value remeasurements – net exchange losses | **(3.7)** | (1.2) |
| Net finance expense on post-employment benefit obligations | **(3.0)** | (3.3) |
| Other finance expense | **(1.2)** | – |
| **Total finance expense** | **(15.4)** | (12.6) |
| Less: finance expense charged to Financial Services cost of sales | **3.9** | 3.3 |
| **Total net finance expense** | **(11.5)** | (9.3) |
| **Net financing income/(expense)** | **(8.1)** | 1.2 |

Included within unwinding of discounts is a £6.7m charge (2014: £6.9m) relating to the discount unwind on non-benchmark property provisions.

## 11. TAXATION

| **Analysis of charge in year** | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Current tax: | | |
| UK corporation tax | **(22.5)** | (20.3) |
| Adjustments in respect of prior years | **13.3** | 12.8 |
| Total current UK tax charge | **(9.2)** | (7.5) |
| Overseas tax | **(1.0)** | (2.1) |
| Total current tax charge | **(10.2)** | (9.6) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **(1.7)** | (3.2) |
| Adjustments in respect of prior years | **(10.3)** | (4.6) |
| Rate change impact | **–** | 0.2 |
| **Total tax charge in income statement** | **(22.2)** | (17.2) |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 11. TAXATION CONTINUED

| Tax included in other comprehensive income | **52 weeks ended 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| **Items that may be reclassified subsequently to profit and loss:** | | |
| Cash flow hedges | **(9.1)** | 13.8 |
| Rate change impact | **–** | (0.7) |
| | **(9.1)** | 13.1 |
| **Items that will not be reclassified subsequently to profit and loss:** | | |
| Post-employment benefit obligations | **11.8** | 5.6 |
| Rate change impact | **(0.7)** | (2.3) |
| | **11.1** | 3.3 |
| **Total tax credit in other comprehensive income** | **2.0** | 16.4 |

### Factors affecting the tax charge

The effective tax rate for the year of 23.7% (2014: 24.2%), is higher than (2014: higher than) the standard rate of corporation tax in the UK of 21% (2014: 23.0%). This is analysed below:

| | **52 weeks ended 28 February 2015** | 52 weeks ended 1 March 2014 |
|---|---|---|
| Profit before tax | **93.8** | 71.2 |
| Profit before tax multiplied by the standard rate of corporation tax in the UK | **(19.7)** | (16.4) |
| Effects of | | |
| Benchmark | | |
| Expenses not deductible for tax purposes | **(6.0)** | (10.7) |
| Differences in effective tax rates on overseas earnings | **0.5** | 1.5 |
| Tax charge on non-benchmark items | **(7.8)** | (6.9) |
| Benchmark tax expense | **(33.0)** | (32.5) |
| Non-benchmark: | | |
| Tax credit on exceptional items | **7.1** | 9.4 |
| Tax credit/(charge) on non-benchmark items | **0.7** | (2.5) |
| Adjustments in respect of prior years | **3.0** | 8.2 |
| Corporation tax on chargeable gain | **6.7** | – |
| Utilisation of unprovided capital losses | **(6.7)** | – |
| Rate change impact | **–** | 0.2 |
| **Total tax charge in income statement** | **(22.2)** | (17.2) |

### 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.

The income tax expense for the year is based on the UK statutory rate of corporation tax for the period of 21% (2014: 23.0%). 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 21.0% to 20.0% from 1 April 2015, this is the substantively enacted rate, which differs from the substantively enacted rate of 21.0% from 1 April 2014.

## 12. DIVIDENDS

| Amounts recognised as distributions to equity holders | 52 weeks ended 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Final dividend of 2.3p per share (2014: 2.0p) for the prior year | **(17.8)** | (16.0) |
| Interim dividend of 1.0p per share (2014: 1.0p) for the current year | **(7.5)** | (7.9) |
| **Ordinary dividends on equity shares** | **(25.3)** | (23.9) |

A final dividend in respect of the year ended 28 February 2015 of 2.8p per share (2014: 2.3p), amounting to a total final dividend of £21.2m, 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 3.8p per share, amounting to £28.7m. The final dividend of 2.8p per share will be paid on 23 July 2015 to shareholders who are on the register of members at close of business on 22 May 2015. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends to the amount of £1.5m (2014: £0.5m).

## 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 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| **Profit after tax for the financial year** | **71.6** | 54.0 |
| Adjusted for: | | |
| Amortisation of acquisition intangibles | **1.8** | 1.8 |
| Post-employment benefit scheme administration costs | **1.9** | 1.9 |
| Adjustments in respect of store impairment and property provisions | **(0.1)** | (2.1) |
| Exceptional items | **35.5** | 41.4 |
| Financing fair value remeasurements | **1.0** | (9.0) |
| Financing impact on post-employment benefit obligations | **3.0** | 3.3 |
| Discount unwind on non-benchmark items | **6.7** | 6.9 |
| Balance sheet review | **(11.5)** | – |
| Attributable taxation credit | **(7.8)** | (6.9) |
| Non-benchmark tax credit in respect of prior years | **(3.0)** | (8.2) |
| Tax rate change | **–** | (0.2) |
| **Benchmark profit after tax for the financial year** | **99.1** | 82.9 |

| Weighted average number of shares | millions | millions |
|---|---|---|
| Number of ordinary shares for the purpose of basic EPS | **764.3** | 795.0 |
| Dilutive effect of share incentive awards | **36.0** | 26.4 |
| **Number of ordinary shares for the purpose of diluted EPS** | **800.3** | 821.4 |

| EPS | pence | pence |
|---|---|---|
| Basic EPS | **9.4** | 6.8 |
| Diluted EPS | **8.9** | 6.6 |
| | | |
| Basic benchmark EPS | **13.0** | 10.4 |
| Diluted benchmark EPS | **12.4** | 10.1 |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 14. GOODWILL

| | Argos £m | Homebase £m | Central Activities £m | Total £m |
|---|---|---|---|---|
| Cost | | | | |
| **At 2 March 2014 and 28 February 2015** | **1,152.3** | **770.4** | **2.9** | **1,925.6** |
| Accumulated impairment | | | | |
| **At 2 March 2014 and 28 February 2015** | **–** | **(381.7)** | **–** | **(381.7)** |
| **Net book value at 28 February 2015** | **1,152.3** | **388.7** | **2.9** | **1,543.9** |

| | 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 |

Goodwill has been allocated for impairment testing purposes to three individual 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 the financial plans approved by management looking forward five years. Benchmark operating profits for the current year, of £129.2m for Argos (2014: £112.3m) and £19.8m for Homebase (2014: £18.9m), 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, the announced store closure plan in Homebase 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% (2014: 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% (2014: 8.5%), which equates to a pre-tax rate of approximately 10.3% (2014: 10.6%), 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Argos** | **Homebase** | Argos | Homebase |
| Compound annual increase in sales | **3.4%** | **1.3%** | 2.7% | 4.9% |
| Compound annual decrease in gross margin rate | **(0.4%)** | **(0.5%)** | (0.2%) | (0.5%) |
| Compound annual increase/(decrease) in operating costs | **1.3%** | **(0.4%)** | 0.2% | 2.7% |
| 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 28 February 2015, the excess in the estimated recoverable amount of each business segment, calculated on a value-in-use basis, over its carrying value was £936m (2014: £1,298m) for Argos and £391m (2014: £494m) 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:

| **2015** | **Argos** | | **Homebase** | |
|---|---|---|---|---|
| | **In isolation** | **Including mitigating actions** | **In isolation** | **Including mitigating actions** |
| Decrease in the compound annual growth rate in sales | **(1.3%)** | **(1.8%)** | **(1.0%)** | **(1.5%)** |
| Decrease in the compound annual growth rate in gross margin rate | **(1.2%)** | **(1.5%)** | **(1.0%)** | **(1.3%)** |
| Increase in the compound annual growth rate in operating costs | **1.5%** | **1.5%** | **1.1%** | **1.1%** |

| 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% |

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.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 15. OTHER INTANGIBLE ASSETS

| | Computer software £m | Brands £m | Total £m |
|---|---|---|---|
| Cost | | | |
| At 2 March 2014 | 368.8 | 40.5 | 409.3 |
| Additions | 93.3 | – | 93.3 |
| Disposals | (3.8) | – | (3.8) |
| **At 28 February 2015** | **458.3** | **40.5** | **498.8** |
| Accumulated amortisation | | | |
| At 2 March 2014 | (199.5) | (16.2) | (215.7) |
| Charge for the year | (46.4) | (4.0) | (50.4) |
| Disposals | 2.8 | – | 2.8 |
| **At 28 February 2015** | **(243.1)** | **(20.2)** | **(263.3)** |
| **Net book value at 28 February 2015** | **215.2** | **20.3** | **235.5** |
| Assets in the course of construction included above at 28 February 2015 | 25.2 | – | 25.2 |

| | 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 |
| Net book value at 2 March 2013 | 100.9 | 28.3 | 129.2 |
| Assets in the course of construction included above at 1 March 2014 | 68.6 | – | 68.6 |

Amortisation of £2.6m (2014: £2.6m) is included in cost of sales in the income statement and £47.8m (2014: £35.5m) 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 2 March 2014 | 129.8 | 1.7 | 357.3 | 1,040.3 | 1,529.1 |
| Exchange differences | – | – | (2.1) | (5.8) | (7.9) |
| Additions | – | – | 6.2 | 75.0 | 81.2 |
| Disposals | – | – | (7.2) | (27.0) | (34.2) |
| Assets transferred to held for sale | (18.8) | – | (0.2) | (2.7) | (21.7) |
| **At 28 February 2015** | **111.0** | **1.7** | **354.0** | **1,079.8** | **1,546.5** |
| Accumulated depreciation and impairment losses | | | | | |
| At 2 March 2014 | (26.5) | (0.5) | (277.4) | (768.0) | (1,072.4) |
| Exchange differences | – | – | 1.6 | 5.2 | 6.8 |
| Depreciation charge for the year | (1.6) | – | (14.5) | (69.5) | (85.6) |
| Impairment charge | – | – | (3.2) | (12.6) | (15.8) |
| Disposals | – | – | 6.1 | 23.9 | 30.0 |
| Assets transferred to held for sale | 1.8 | – | – | 1.6 | 3.4 |
| **At 28 February 2015** | **(26.3)** | **(0.5)** | **(287.4)** | **(819.4)** | **(1,133.6)** |
| **Net book value at 28 February 2015** | **84.7** | **1.2** | **66.6** | **260.4** | **412.9** |
| Assets in the course of construction included above at 28 February 2015 | – | – | – | 15.3 | 15.3 |

| | 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 |
| Depreciation 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 |
| Net book value at 2 March 2013 | 104.9 | 1.3 | 90.2 | 278.5 | 474.9 |
| Assets in the course of construction included above at 1 March 2014 | – | – | 0.8 | 22.0 | 22.8 |

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. This year's impairment charge results from a more conservative view of future market growth which adversely impacts future Homebase profitability.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 17. INVESTMENTS IN ASSOCIATES

The Group has a 49% holding in HH Retail Limited, the Group's associate in China which is closed and no longer trades.

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.

## 18. OTHER FINANCIAL ASSETS AND LIABILITIES

| | Current 2015 £m | Non-current 2015 £m | Current 2014 £m | Non-current 2014 £m |
|---|---|---|---|---|
| **Other financial assets** | | | | |
| Forward foreign exchange contracts – cash flow hedges | **30.0** | **–** | 1.0 | – |
| Other financial assets | **–** | **10.6** | – | 9.9 |
| **Total other financial assets** | **30.0** | **10.6** | 1.0 | 9.9 |
| **Other financial liabilities** | | | | |
| Forward foreign exchange contracts – cash flow hedges | **(2.9)** | **–** | (36.5) | – |
| **Total other financial liabilities** | **(2.9)** | **–** | (36.5) | – |

### 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 28 February 2015 were £720.5m (2014: £805.3m). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

### Other financial assets

Other financial assets are classified as available-for-sale and are measured at fair value or, where fair value cannot be reliably measured, at cost less impairment. During the year, the Group disposed of no other financial assets (2014: £15.5m).

## 19. INVENTORIES

| | 2015 £m | 2014 £m |
|---|---|---|
| Goods for resale | **963.0** | 902.4 |

Included in goods for resale is a reduction in the unit cost of inventory for commercial income earned on stock which has not yet been sold.

## 20. TRADE AND OTHER RECEIVABLES

| | Current 2015 £m | Non-current 2015 £m | Current 2014 £m | Non-current 2014 £m |
|---|---|---|---|---|
| Trade receivables: | | | | |
| – Financial Services loan book | **644.1** | **–** | 594.2 | – |
| – Other trade receivables | **62.8** | **–** | 54.6 | – |
| | **706.9** | **–** | 648.8 | – |
| Less provision for impairment of receivables | **(68.4)** | **–** | (73.1) | – |
| | **638.5** | **–** | 575.7 | – |
| Other receivables | **98.8** | **1.4** | 80.2 | 1.8 |
| Prepayments and accrued income | **52.7** | **–** | 56.2 | – |
| | **790.0** | **1.4** | 712.1 | 1.8 |

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

Included in other receivables is £22.9m (2014: £21.7m) of commercial income balances which have been earned during FY15 and principally relate to contractually agreed volume-based rebates which are expected to be collected in the first few months of FY16.

As at 28 February 2015, trade receivables of £62.1m (2014: £66.4m) 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| At 1 March 2014 | **(73.1)** | (75.7) |
| Charge for the year | **(16.2)** | (23.6) |
| Utilised | **20.9** | 26.2 |
| **At 28 February 2015** | **(68.4)** | (73.1) |

As at 28 February 2015, trade receivables of £8.0m (2014: £7.6m) were past due but not impaired. These mainly relate to other trade receivable balances. The ageing analysis of these trade receivables is as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Less than 3 months | **4.1** | 6.2 |
| 3 to 6 months | **3.7** | 1.0 |
| 6 to 9 months | **0.2** | 0.1 |
| 9 to 12 months | **–** | 0.3 |
| | **8.0** | 7.6 |

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

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 21. CASH AND CASH EQUIVALENTS

| | 2015 £m | 2014 £m |
|---|---|---|
| Cash at bank and in hand | **309.3** | 331.0 |

The effective interest rate during the year ended 28 February 2015 for cash and cash equivalents was 0.6% (2014: 0.7%). The Group has provided letters of credit totalling £12.5m (2014: £12.5m) to AIG Europe Limited as part of their re-insurance agreement. These letters are secured by cash deposits.

## 22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

| | 2015 £m | 2014 £m |
|---|---|---|
| Freehold property | **18.3** | – |

On 24 November 2014, the Group announced that Homebase had exchanged contracts for the unconditional sale of its freehold store located in Battersea, London. The sale is due to complete in FY16 and the property has been sold for £57.0m, of which a deposit of £30.0m has been received in FY15, with the balance of £27.0m due on completion. As a consequence, this property has been presented as held for sale at the year-end. The unconditional sale agreement triggered a chargeable tax gain of £6.7m in the current financial year, however this has been fully offset against previously unrecognised capital losses and therefore had no impact on the tax charge for the year.

## 23. TRADE AND OTHER PAYABLES

| | Current 2015 £m | Non-current 2015 £m | Current 2014 £m | Non-current 2014 £m |
|---|---|---|---|---|
| Trade payables | **(687.8)** | **–** | (523.1) | – |
| Social security costs and other taxes | **(80.4)** | **–** | (69.5) | – |
| Accruals | **(193.3)** | **–** | (268.5) | – |
| Deferred income | **(180.8)** | **(46.4)** | (137.4) | (47.4) |
| Other payables | **(140.8)** | **–** | (116.8) | – |
| | **(1,283.1)** | **(46.4)** | (1,115.3) | (47.4) |

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.

During the first half of FY15 management commenced a review of certain higher risk areas within the Argos balance sheet. Subsequent to this and following the well-publicised accounting issues in the retail sector and the recently published FRC's December 2014 press release in respect of complex supplier arrangements, the review was broadened to encompass a review of the Group's balance sheet. This review resulted in a net credit of £11.5m being recognised as a one-off non-benchmark item in the current year. This amount comprises a credit of £11.3m in respect of changes to a small number of accounting estimates together with a net credit of £0.2m in respect of a small number of historic accounting errors that relate principally to trade and other payables. These adjustments all relate to Argos.

## 24. PROVISIONS

| | Property £m | Insurance £m | Restructuring £m | PPI customer redress £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| At 2 March 2014 | (151.8) | (38.1) | (9.5) | (33.7) | (3.0) | (236.1) |
| Charged to the income statement | (23.9) | (5.0) | (31.4) | (4.1) | – | (64.4) |
| Released to the income statement | 39.8 | 2.0 | – | – | – | 41.8 |
| Utilised during the year – cash | 12.0 | 5.6 | 22.8 | 8.8 | 2.8 | 52.0 |
| Utilised during the year – non-cash | – | – | 1.1 | – | – | 1.1 |
| Transfer from accruals | (1.4) | – | (3.8) | – | (5.7) | (10.9) |
| Exchange differences | 2.4 | – | – | – | – | 2.4 |
| Discount unwind | (7.8) | – | – | – | – | (7.8) |
| **At 28 February 2015** | **(130.7)** | **(35.5)** | **(20.8)** | **(29.0)** | **(5.9)** | **(221.9)** |

**Analysed as:**

| | 2015 £m | 2014 £m |
|---|---|---|
| Current | **(95.7)** | (46.1) |
| Non-current | **(126.2)** | (190.0) |
| | **(221.9)** | (236.1) |

Property provisions comprise obligations in respect of 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 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 cost of continuing to trade the store. Where the cost of continuing to trade the store 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 which have not been 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 operational costs to be incurred in administering future claims. The majority of this provision is expected to be utilised over the period to 2019.

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; the Homebase Productivity Plan which includes head office restructuring costs and costs associated with the closure of a distribution centre in FY16; and Group restructuring costs principally relating to the transitioning to Fujitsu of Information Systems infrastructure and services that support the Group's operations.

Financial Services offers PPI to its customers. In response to an industry-wide review by the FCA, a full investigation was undertaken in FY14 with the support of an independent expert. As a result, an exceptional charge of £25.0m was recognised. In FY15 an additional charge of £4.1m has been recognised. This charge principally reflects an anticipated increase in the operational costs expected to be incurred in respect of administering future customer redress payments. Redress payments have begun to be made, resulting in the partial utilisation of this provision in FY15. 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 operational costs of administering these claims. 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 28 February 2015 would have increased/(decreased) by approximately £1m. This provision is expected to be utilised within one year.

# Notes to the financial statements continued

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## 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 during FY13, 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 existing deficit recovery plan agreed with the Trustee provides for payments of £22.0m 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 28 February 2015 was £10.5m (2014: £9.8m). The Group's unfunded defined benefit arrangement closed to future accrual with effect from 30 April 2013. 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| **At 2 March 2014** | **(76.6)** | (85.1) |
| Total net charge recognised in the consolidated income statement | **(4.9)** | (5.2) |
| Remeasurement of the net defined benefit liability recognised in the consolidated statement of comprehensive income | **(55.6)** | (23.8) |
| Contributions paid by the Group – deficit recovery | **22.0** | 22.0 |
| – other | **0.7** | 15.5 |
| **At 28 February 2015** | **(114.4)** | (76.6) |

During the year, the Group has paid contributions totalling £22.7m (2014: £25.5m) to the Home Retail Group Pension Scheme including £22.0m (2014: £22.0m) 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 £22.0m, 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| Fair value of scheme assets | **989.3** | 891.8 |
| Present value of insured funded obligations | **(315.4)** | (293.6) |
| Present value of non-insured funded liabilities | **(776.2)** | (664.2) |
| Deficit in the funded scheme | **(102.3)** | (66.0) |
| Present value of unfunded pension arrangements | **(12.1)** | (10.6) |
| **Post-employment benefits recognised in the balance sheet** | **(114.4)** | (76.6) |

The weighted average duration to payment of the schemes' expected non-insured cash flows is 27 years (2014: 27 years).

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Post-employment benefit scheme administration costs | **(1.9)** | (1.9) |
| Net finance expense on post-employment benefit obligations (note 10) | **(3.0)** | (3.3) |
| **Total net charge recognised in the consolidated income statement** | **(4.9)** | (5.2) |

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

| | 2015 % | 2014 % |
|---|---|---|
| Rate of inflation | **3.0** | 3.3 |
| Rate of increase for pensions in payment | **2.9** | 3.2 |
| Rate of increase for deferred pensions | **2.9** | 3.2 |
| Discount rate | **3.5** | 4.4 |
| Life expectancy: | | |
| at age 65 for a male currently aged 65 | **22.4 years** | 22.3 years |
| at age 65 for a female currently aged 65 | **24.8 years** | 24.7 years |
| at age 65 for a male currently aged 50 | **24.0 years** | 23.9 years |
| at age 65 for a female currently aged 50 | **26.6 years** | 26.4 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 | 2015 Indicative effect on non-insured defined benefit obligations £m | 2014 Indicative effect on non-insured defined benefit obligations £m |
|---|---|---|---|
| Rate of inflation | 0.5% | **+/- 103** | +/- 86 |
| Rate of increase for pensions in payment | 0.5% | **+/- 47** | +/- 39 |
| Rate of increase for deferred pensions | 0.5% | **+/- 53** | +/- 44 |
| Discount rate | 0.5% | **-/+ 96** | -/+ 79 |
| Life expectancy | 1 year | **+/- 22** | +/- 18 |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 25. POST-EMPLOYMENT BENEFITS CONTINUED

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.

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **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 | **–** | **315.4** | **32** | – | 293.6 | 33 |
| Equities | **260.8** | **–** | **26** | 233.3 | – | 26 |
| Fund of hedge funds[1] | **–** | **99.7** | **10** | – | 95.7 | 11 |
| Diversified growth fund[2] | **139.8** | **–** | **14** | 94.0 | – | 10 |
| Property funds | **49.4** | **58.2** | **11** | 41.7 | 38.7 | 9 |
| Corporate bonds | **–** | **–** | **–** | 46.1 | – | 5 |
| Index linked government bonds | **6.2** | **–** | **1** | 4.9 | – | 1 |
| Cash and cash equivalents | **8.6** | **–** | **1** | 19.3 | – | 2 |
| Other | **–** | **51.2** | **5** | – | 24.5 | 3 |
| **Fair value of scheme assets** | **464.8** | **524.5** | **100** | 439.3 | 452.5 | 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:

| | **2015 £m** | 2014 £m |
|---|---|---|
| Opening defined benefit liabilities | **(968.4)** | (918.6) |
| Finance expense | **(42.2)** | (42.6) |
| Remeasurements due to: | | |
| Changes in financial assumptions | **(134.5)** | (42.4) |
| Experience on benefit liabilities | **20.6** | 3.0 |
| | **(113.9)** | (39.4) |
| Benefits paid | **20.8** | 32.2 |
| **Closing defined benefit liabilities** | **(1,103.7)** | (968.4) |

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

| | | 2015 £m | 2014 £m |
|---|---|---|---|
| Opening fair value of scheme assets | | **891.8** | 833.5 |
| Finance income | | **39.2** | 39.3 |
| Remeasurement of the assets recognised in the statement of comprehensive income | | **58.3** | 15.6 |
| Post-employment benefit scheme administration costs | | **(1.9)** | (1.9) |
| Contributions paid by the Group | – deficit recovery | **22.0** | 22.0 |
| | – other | **0.7** | 15.5 |
| Benefits paid | | **(20.8)** | (32.2) |
| **Closing fair value of scheme assets** | | **989.3** | 891.8 |

The actual return on scheme assets was a gain of £97.5m (2014: £54.9m).

*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 £14.3m (2014: £15.4m). Contributions totalling £1.5m (2014: £1.5m) were payable to the schemes at 28 February 2015 and are included within trade and other payables.

## 26. DEFERRED TAX

| | 2015 £m | 2014 £m |
|---|---|---|
| The movements on the net deferred tax account are as follows: | | |
| At 2 March 2014 | **28.4** | 14.1 |
| Income statement charge (note 11) | **(12.0)** | (7.8) |
| Rate change impact (note 11) | **–** | 0.2 |
| Tax credited to other comprehensive income and equity | **3.9** | 21.9 |
| **At 28 February 2015** | **20.3** | 28.4 |
| The deferred tax amounts recognised are as follows: | | |
| **Deferred tax assets:** | | |
| – Deferred tax asset to be recovered after more than one year | **44.6** | 41.3 |
| **Deferred tax liabilities:** | | |
| – Deferred tax liability to be settled after more than one year | **(24.3)** | (12.9) |
| **Net deferred tax assets** | **20.3** | 28.4 |

Closing deferred tax has been calculated at the substantively enacted UK corporation tax rate of 20% (2014: 20%), which is effective from 1 April 2015 and which differs from the UK corporation tax rate applied to the current year adjusted profits at 21%.

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 26. DEFERRED TAX CONTINUED

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 2 March 2014 | **19.6** | **–** | **15.5** | **6.2** | **41.3** |
| Income statement charge | **0.3** | **–** | **(3.8)** | **–** | **(3.5)** |
| Tax credited to other comprehensive income and equity | **1.9** | **–** | **11.1** | **–** | **13.0** |
| Transfer to deferred tax liabilities | **–** | **–** | **–** | **(6.2)** | **(6.2)** |
| **At 28 February 2015** | **21.8** | **–** | **22.8** | **–** | **44.6** |

| Deferred tax assets | Asset provisions £m | Accelerated tax depreciation £m | Post-employment benefit (restated) £m | Other £m | Total £m |
|---|---|---|---|---|---|
| At 3 March 2013 | 19.1 | – | 19.6 | 2.0 | 40.7 |
| Income statement credit/(charge) | (3.2) | – | (7.4) | (2.2) | (12.8) |
| Tax credited/(charged) to other comprehensive income and equity | 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 |

Other deferred tax assets consist of £nil (2014: £6.2m) in respect of other temporary differences.

| **Deferred tax liabilities** | **Property valuations £m** | **Accelerated tax depreciation £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| At 2 March 2014 | **(9.8)** | **(3.1)** | **–** | **(12.9)** |
| Income statement credit/(charge) | **0.7** | **(9.2)** | **–** | **(8.5)** |
| Tax credited to other comprehensive income and equity | **–** | **–** | **(9.1)** | **(9.1)** |
| Transfer from deferred tax assets | **–** | **–** | **6.2** | **6.2** |
| **At 28 February 2015** | **(9.1)** | **(12.3)** | **(2.9)** | **(24.3)** |

| 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 and equity | – | – | 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 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 £12.9m (2014: £19.6m) in respect of capital losses, which total £64.7m (2014: £99.9m) that can be carried forward against future taxable gains. These losses are available indefinitely.

## 27. SHARE CAPITAL

| | 2015 Number of shares | 2015 £m | 2014 Number of shares | 2014 £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 2 March 2014 | (58.3) | (23.3) | 29.3 | (52.3) |
| Other comprehensive income | – | 36.6 | (1.0) | 35.6 |
| Net movement in own shares | (44.8) | – | – | (44.8) |
| **Balance at 28 February 2015** | **(103.1)** | **13.3** | **28.3** | **(61.5)** |

| | 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) |

The net debit arising on the movement in own shares of £44.8m (2014: debit of £35.2m) 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 28 February 2015, the EST held 57,975,907 (2014: 34,025,109) shares with a market value of £117.3m (2014: £66.8m). The shares in the EST are held within equity of the Group at a cost of £100.8m (2014: £55.8m). During the 52 weeks ended 28 February 2015, 26.8m additional shares were purchased for a cost of £50.0m (2014: £37.4m). 2.8m shares were utilised at a weighted average cost of £5.0m. 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 28 February 2015, the Trust held 557,938 (2014: 602,332) shares with a market value of £1.1m (2014: £1.2m). These shares are held within equity of the Group at a cost of £2.3m (2014: £2.5m). No additional shares were purchased during the year (2014: nil). 44,394 shares were utilised at a weighted average cost of £0.2m.

## 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 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Share option awards | **(1.9)** | (2.0) |
| Share grant awards | **(6.7)** | (12.5) |
| **Total expense recognised (all equity-settled)** | **(8.6)** | (14.5) |

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 29. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

**Summary of share option and share award arrangements**

During the year ended 28 February 2015, 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 SAYE 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 10% or 20% discount (dependent upon the date of grant) 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 performance conditions, the percentage of the options exercisable by participants is determined either by ranking TSR relative to a comparator group or by reference to performance against other specific targets, such as EPS growth, or cumulative adjusted cash flow. The TSR target is considered a market-based performance condition under IFRS 2, and the values of options 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 options with these performance conditions have been valued by reference to the share price at the date of grant.

**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*

**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 TSR relative to a comparator group or by reference to performance against other specific targets, such as EPS growth, or cumulative adjusted 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 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 £0.31 (2014: £0.27) per option. The significant inputs into the option pricing model were as follows:

| Weighted average: | **52 weeks ended 28 February 2015** | 52 weeks ended 1 March 2014 |
|---|---|---|
| Share price on grant date (£) | **1.89** | 1.55 |
| Exercise price (£) | **1.71** | 1.26 |
| Expected volatility | **45.3%** | 47.1% |
| Expected dividend yield | **1.9%** | 2.2% |
| Risk free interest rate | **1.5%** | 1.1% |
| Expected option life to exercise | **3.3 years** | 3.4 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 28 February 2015 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 28 February 2015 | | 52 weeks ended 1 March 2014 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price £ | Number of options | Weighted average exercise price £ |
| Outstanding at beginning of year | **41,624,955** | **0.89** | 43,139,007 | 0.90 |
| Granted | **4,029,634** | **1.71** | 5,323,904 | 1.26 |
| Forfeited | **(3,336,647)** | **1.02** | (4,466,656) | 0.89 |
| Exercised | **(1,318,491)** | **1.03** | (396,213) | 0.67 |
| Expired | **(1,111,993)** | **3.39** | (1,975,087) | 2.08 |
| Outstanding at year-end | **39,887,458** | **0.89** | 41,624,955 | 0.89 |
| Exercisable at year-end | **2,324,980** | **2.65** | 2,989,989 | 3.01 |

The weighted average share price for share options exercised during the year was £1.90 (2014: £1.83).

**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 28 February 2015 | | | |
|---|---|---|---|---|
| | | Weighted average exercise price | Weighted average remaining lives | |
| Range of exercise prices £ | Number of options | £ | Expected years | Contractual years |
| Up to 0.99 | **29,729,242** | **0.59** | **1.0** | **1.6** |
| 1.00 – 1.99 | **8,456,841** | **1.49** | **2.1** | **2.8** |
| 2.00 – 2.99 | **439,241** | **2.00** | **0.3** | **0.6** |
| 3.00 – 3.99 | **1,262,134** | **3.61** | **–** | **0.3** |

| | 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 |

**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. The PSP'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 7,125,927 ordinary share awards (2014: 16,033,999) granted during the year with a weighted average fair value of £1.69 (2014: £1.29).

# Notes to the financial statements continued

For the 52 weeks ended 28 February 2015

## 30. OPERATING LEASES

| | 2015 £m | 2014 £m |
|---|---|---|
| Future aggregate minimum lease payments under non-cancellable operating leases are as follows: | | |
| Less than one year | **(313.5)** | (332.6) |
| Between one and five years | **(1,032.6)** | (1,104.3) |
| More than five years | **(996.1)** | (1,190.2) |
| **Total operating leases** | **(2,342.2)** | (2,627.1) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Capital expenditure for which contracts have been placed: | | |
| Property, plant and equipment | **(3.7)** | (1.3) |
| Intangible assets | **(4.1)** | (13.3) |
| **Total commitments** | **(7.8)** | (14.6) |

## 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 28 February 2015 £m | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Profit before tax | **93.8** | 71.2 |
| Net financing (income)/expense | **8.1** | (1.2) |
| Operating profit | **101.9** | 70.0 |
| Profit on sale of property, plant and equipment and other intangible assets | **(1.5)** | (0.2) |
| Depreciation and amortisation | **136.0** | 129.5 |
| Impairment charge/(reversal) | **15.8** | (3.0) |
| Finance expense charged to Financial Services cost of sales | **3.9** | 3.3 |
| (Increase)/decrease in inventories | **(60.6)** | 39.4 |
| Increase in trade and other receivables | **(23.0)** | (25.2) |
| Increase in payables | **120.2** | 4.2 |
| Movement in trade working capital | **36.6** | 18.4 |
| Working capital impact of restructuring charges | **–** | 1.3 |
| Increase in Financial Services loan book | **(55.4)** | (49.4) |
| Movement in total working capital | **(18.8)** | (29.7) |
| (Decrease)/increase in provisions | **(13.0)** | 12.4 |
| Movement in post-employment benefit obligations | **(20.8)** | (35.6) |
| Share-based payment expense (net of dividend equivalent payments) | **8.3** | 14.3 |
| **Cash generated from operations** | **211.8** | 161.0 |

## 34. RELATED PARTIES

The ultimate parent company of the Group is Home Retail Group plc. The principal subsidiary and associated undertakings at 28 February 2015 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 received £nil (2014: £3.5m) by way of loan repayment from its associates. At 28 February 2015, the amounts owed by its associates to the Group totalled £0.1m (2014: £0.1m), net of accumulated impairment losses totalling £3.9m (2014: £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 26 March 2015, the Group entered into a new unsecured multi-currency revolving credit facility of £250m with a syndicate of banks. This facility is for a minimum term of four years. On the same day, the Group cancelled its existing £165m facility, which was due to expire on 27 March 2016.

## 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

The Company has taken advantage of the exemption under section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results principally affected the financial statements. A full listing of all subsidiary undertakings will be attached to the Company's next annual return.

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

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

## Report on the Parent Company financial statements

### Our opinion

In our opinion, Home Retail Group plc's Parent Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Parent Company's affairs as at 28 February 2015 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 as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Home Retail Group plc's financial statements comprise:

- the Parent Company balance sheet as at 28 February 2015;
- the Parent Company statement of changes in equity and the Parent Company statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of the significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements 2015 ('Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

## Other required reporting

### Consistency of other information

*Companies Act 2006 opinion*

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.

*ISAs (UK & Ireland) reporting*

Under International Standards on Auditing (UK and Ireland) ('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
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

### 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

*Directors' remuneration report – Companies Act 2006 opinion*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

*Other Companies Act 2006 reporting*

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.

## 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.

**What an audit of financial statements involves**
We conducted our audit in accordance with 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. 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.

## Other matter

We have reported separately on the Group financial statements of Home Retail Group plc for the year ended 28 February 2015.

**Neil Grimes**
*(Senior Statutory Auditor)*
*for and on behalf of PricewaterhouseCoopers LLP*
*Chartered Accountants and Statutory Auditors*
*London*
29 April 2015

# Parent Company balance sheet

At 28 February 2015

| | Notes | 28 February 2015 £m | 1 March 2014 £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 | **72.2** | 23.9 |
| **Total current assets** | | **72.2** | 23.9 |
| **Total assets** | | **2,967.8** | 2,919.5 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8 | **(876.6)** | (811.0) |
| **Total current liabilities** | | **(876.6)** | (811.0) |
| **Total liabilities** | | **(876.6)** | (811.0) |
| **Net assets** | | **2,091.2** | 2,108.5 |
| **EQUITY** | | | |
| Share capital | 9 | **81.3** | 81.3 |
| Capital redemption reserve | | **6.4** | 6.4 |
| Retained earnings | | **2,003.5** | 2,020.8 |
| **Total equity** | | **2,091.2** | 2,108.5 |

The financial statements on pages 116 to 120 were approved by the Board of Directors on 29 April 2015 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 28 February 2015

| | Notes | Attributable to equity holders of the Company Share capital £m | Capital redemption reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| Balance at 2 March 2014 | | 81.3 | 6.4 | 2,020.8 | 2,108.5 |
| Loss for the year | 4 | – | – | (0.3) | (0.3) |
| Other comprehensive income | | – | – | – | – |
| Total comprehensive income for the year ended 28 February 2015 | | – | – | (0.3) | (0.3) |
| Transactions with owners: | | | | | |
| Movement in share-based compensation reserve | 3 | – | – | 8.6 | 8.6 |
| Equity dividends paid during the year | 5 | – | – | (25.3) | (25.3) |
| Other distributions | | – | – | (0.3) | (0.3) |
| Total transactions with owners | | – | – | (17.0) | (17.0) |
| **Balance at 28 February 2015** | | **81.3** | **6.4** | **2,003.5** | **2,091.2** |

| | Notes | Attributable to equity holders of the Company 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 |

# Parent Company statement of cash flows

For the 52 weeks ended 28 February 2015

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 28 February 2015

## 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 28 February 2015. 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 been recorded under UK GAAP at the nominal value of shares issued, under the provisions of section 615 of the Act. When transitioned to IFRS, the Company used the exemption available under IFRS 1 for measuring its cost of investment in Home Retail Group (UK) Limited at its deemed cost (previous GAAP carrying amount at the date of transition to IFRS).

## 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 that 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 loss for the financial year attributable to owners of the parent was £0.3m (2014: £20.9m).

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 61.

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 28 February 2015 £m** | 52 weeks ended 1 March 2014 £m |
|---|---|---|
| Final dividend of 2.3p per share (2014: 2.0p) for the prior year | **(17.8)** | (16.0) |
| Interim dividend of 1.0p per share (2014: 1.0p) for the current year | **(7.5)** | (7.9) |
| **Ordinary dividends on equity shares** | **(25.3)** | (23.9) |

A final dividend in respect of the year ended 28 February 2015 of 2.8p per share (2014: 2.3p), amounting to a total final dividend of £21.2m, 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 3.8p per share, amounting to £28.7m. The final dividend of 2.8p per share will be paid on 23 July 2015 to shareholders who are on the register of members at close of business on 22 May 2015. The Home Retail Group Employee Share Trust (EST) has waived its entitlement to dividends to the amount of £1.5m (2014: £0.5m).

## 6. INVESTMENT IN SUBSIDIARY

| | **2015 £m** | 2014 £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 2015 £m** | Current 2014 £m |
|---|---|---|
| Amount owed by related party (note 11) | **72.2** | 23.9 |

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 £72.2m (2014: £23.9m) is due from the Home Retail Group 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 £50.7m (2014: £50.4m).

Movements in the provision for impairment are as follows:

| | **£m** |
|---|---|
| At 1 March 2014 | (50.4) |
| Charge for the year | (0.3) |
| **At 28 February 2015** | **(50.7)** |

# Notes to the Parent Company financial statements continued

For the 52 weeks ended 28 February 2015

## 8. TRADE AND OTHER PAYABLES

| | Current 2015 £m | Current 2014 £m |
|---|---|---|
| Amounts owed to Group companies (note 11) | **(876.0)** | (810.4) |
| Other payables | **(0.6)** | (0.6) |
| | **(876.6)** | (811.0) |

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

| | 2015 Number of shares | 2015 £m | 2014 Number of shares | 2014 £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 26 March 2015, Home Retail Group (UK) Limited, a subsidiary of the Company, entered into a new unsecured multi-currency revolving credit facility of £250m with a syndicate of banks. This facility is for a minimum term of four years. On the same day, the Group cancelled its existing £165m facility which was due to expire on 27 March 2016. The Company is a borrower and a guarantor to this new facility.

There are no capital or operating lease commitments.

## 11. RELATED PARTY TRANSACTIONS

The principal subsidiary undertakings of the Company are shown in note 36 of the Group financial statements. Transactions between the Company and its subsidiaries and the Home Retail Group EST are shown below. All transactions carried out with related parties are in the normal course of business.

| | 2015 £m | 2014 £m |
|---|---|---|
| **Transactions with subsidiary undertakings** | | |
| Recharge of costs | **8.6** | 14.5 |
| Transfer of cash to the EST by subsidiary undertakings on behalf of the Company | **50.0** | 37.4 |
| Settlement of liabilities by subsidiary undertakings on behalf of the Company | **25.6** | 24.1 |
| Amounts owed to subsidiary undertakings | **(876.0)** | (810.4) |
| **Transactions with other related parties** | | |
| Amount owed by other related party – EST (note 7) | **72.2** | 23.9 |

# Group five-year summary

| Income statement | 52-week period to 28 February 2015 £m | 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 |
|---|---|---|---|---|---|
| Argos | **4,096.0** | 4,051.1 | 3,931.3 | 3,872.6 | 4,194.3 |
| Homebase | **1,479.3** | 1,489.2 | 1,430.7 | 1,509.8 | 1,550.7 |
| Financial Services | **135.1** | 122.7 | 113.4 | 109.1 | 106.9 |
| **Sales** | **5,710.4** | 5,663.0 | 5,475.4 | 5,491.5 | 5,851.9 |
| Argos | **129.2** | 112.3 | 100.3 | 94.2 | 219.0 |
| Homebase | **19.8** | 18.9 | 11.0 | 22.8 | 47.6 |
| Financial Services | **7.0** | 6.0 | 6.0 | 6.0 | 6.0 |
| Central Activities | **(26.5)** | (24.2) | (24.0) | (25.3) | (21.8) |
| **Benchmark operating profit** | **129.5** | 113.0 | 93.3 | 97.7 | 250.8 |
| Net financing income | **2.6** | 2.4 | 3.8 | 3.4 | 3.2 |
| Share of post-tax (loss)/profit of joint ventures and associates | **–** | – | (6.0) | 0.5 | 0.1 |
| **Benchmark PBT** | **132.1** | 115.4 | 91.1 | 101.6 | 254.1 |

| Statistics | 52-week period to 28 February 2015 £m | 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 |
|---|---|---|---|---|---|
| **Argos** | | | | | |
| Like-for-like change in sales | **0.6%** | 3.3% | 2.1% | (8.9%) | (5.6%) |
| Net space contribution to sales change | **0.5%** | (0.3%) | (0.6%) | 1.2% | 2.1% |
| Total sales change | **1.1%** | 3.0% | 1.5% | (7.7%) | (3.5%) |
| Number of stores at year-end | **755** | 734 | 737 | 748 | 751 |
| Of which are digital format | **60** | 6 | – | – | – |
| **Homebase** | | | | | |
| Like-for-like change in sales | **2.3%** | 5.9% | (4.9%) | (2.0%) | (0.3%) |
| Net space contribution to sales change | **(3.0%)** | (1.8%) | (0.3%) | (0.6%) | (1.1%) |
| Total sales change | **(0.7%)** | 4.1% | (5.2%) | (2.6%) | (1.4%) |
| Number of stores at year-end | **296** | 323 | 336 | 341 | 341 |
| Of which contain a mezzanine floor | **179** | 184 | 186 | 187 | 186 |

| Financial Services | 28 February 2015 £m | 1 March 2014 £m | 2 March 2013 £m | 3 March 2012 £m | 26 February 2011 £m |
|---|---|---|---|---|---|
| Store card net receivables | **580** | 524 | 475 | 457 | 456 |

# Group five-year summary continued

| Balance sheet | 28 February 2015 £m | 1 March 2014 £m | 2 March 2013 £m | 3 March 2012 £m | 26 February 2011 £m |
|---|---|---|---|---|---|
| Invested capital | **2,424.2** | 2,421.6 | 2,376.8 | 2,518.6 | 2,512.8 |
| Post-employment benefit obligations | **(114.4)** | (76.6) | (85.1) | (115.3) | (7.5) |
| Net tax assets | **26.7** | 33.0 | 10.7 | 24.7 | 4.6 |
| Forward foreign exchange contracts | **27.1** | (35.5) | 34.1 | 3.1 | (28.0) |
| Financing net cash | **309.3** | 331.0 | 396.0 | 194.3 | 259.3 |
| Reported net assets | **2,672.9** | 2,673.5 | 2,732.5 | 2,625.4 | 2,741.2 |

| Earnings and dividends | 52-week period to 28 February 2015 | 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 |
|---|---|---|---|---|---|
| Basic benchmark EPS | **13.0p** | 10.4p | 7.7p | 8.7p | 21.3p |
| Dividends per share (interim paid and final proposed) | **3.8p** | 3.3p | 3.0p | 4.7p | 14.7p |
| Dividend cover | **3.42x** | 3.15x | 2.57x | 1.85x | 1.45x |

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 FY12 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 was 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 was required.

# Shareholder information

**Who are the Group's shareholders?**
The Group had 25,918 ordinary shareholders at 28 February 2015, 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 | 89 | 0.3% | 698,937,690 | 85.9% |
| 100,001–1,000,000 | 206 | 0.8% | 75,857,391 | 9.3% |
| 10,001–100,000 | 504 | 1.9% | 14,200,054 | 1.7% |
| 5,001–10,000 | 698 | 2.7% | 4,828,610 | 0.6% |
| 2,001–5,000 | 2,527 | 9.7% | 7,677,658 | 0.9% |
| 1–2,000 | 21,894 | 84.5% | 11,943,598 | 1.5% |
| | **25,918** | **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 shareholders | 1,780 | 6.9% | 782,757,276 | 96.2% |
| Individuals* | 24,138 | 93.1% | 30,687,725 | 3.8% |
| | **25,918** | **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: +44 (0) 371 664 0437*
- Fax number: +44 (0) 1484 600 914
- Postal address: Capita Asset Services, 34 Beckenham Road, Beckenham Kent BR3 4TU

* Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Capita Asset Services are open between 8.30 am and 5.30 pm Monday to Friday, excluding public holidays in England and Wales.

**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 Asset Services, 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 telephone +44 (0) 371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.
Capita Deal Services are open between 8.00 am and 4.00 pm Monday to Friday, excluding public holidays in England and Wales.

**When are the next major events for shareholders?**

| | |
|---|---|
| First quarter trading statement | 11 June 2015 |
| Annual General Meeting | 1 July 2015 |
| Final dividend paid | 23 July 2015 |

**Where is the next Annual General meeting?**

The AGM will be held at 11.00 am on Wednesday, 1 July 2015 at the Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ.

**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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## STRATEGIC REPORT



## GOVERNANCE

# Index continued

## FINANCIAL STATEMENTS



## ADDITIONAL INFORMATION

**Design**
mslgroup.com

**Board photography**
Iain Crockart
James Johnson
Ben Normington
Lucy Cheveralls

**Print**
Printed by CPI Colour

**Paper**
This has been printed on Cocoon Offset paper. The paper has been awarded the NAPM 100% Recycled Mark. Produced at a mill that is certified with the ISO14001 environmental management standard. FSC® Recycled Product supporting responsible use of forest resources. The fibre source is 100% de inked post consumer waste. The pulp is bleached using a totally chlorine free (TCF) process and the inks used are all vegetable oil based.

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