



Half-year results
26 weeks to 29 August 2015

21 October 2015



Disclaimer

The following presentations are being made only to, and are only directed at, persons to whom this presentation may lawfully be communicated ("relevant persons"). Any person who is not a relevant person should not act or rely on these presentations or any of their contents.

Information in these presentations relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments. These presentations do not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in any company within the Home Retail Group (the "Group").

The presentations contain forward-looking statements which are subject to risks and uncertainties because they relate to future events. These risks and uncertainties may cause actual results to differ from any expected future events or events referred to in the forward looking statements.

The presentations also contain certain non-GAAP financial information. The Group's management believes these measures provide valuable additional information in understanding the performance of the Group or the Group's businesses because they provide measures used by the Group to assess performance. Although these measures are important in the management of the business, they should not be viewed as replacements for, but rather as complementary to, the GAAP measures.



Agenda

- ▶ **John Walden**
 - Introduction

- ▶ **Richard Ashton**
 - Group financial review

- ▶ **John Walden and Echo Lu**
 - Update on Homebase
 - Update on Argos

- ▶ **Q&A**



Richard Ashton
Finance Director



Argos – financial performance

▶ **Sales down (1.5%) to £1,743m**

- (3.4%) LFL; decline in sales, principally driven by electrical products as a result of declines in TV's, tablets and white goods, partially offset by growth in mobiles and toys
- 1.9% net new space; net 85 stores opened in the period including 76 concessions within Homebase and 10 trial concessions within Sainsbury's. Portfolio increased to 840 stores

▶ **Gross margin rate up c.100 basis points**

- Improvement driven by the anticipated impact of favourable currency and shipping costs
- Positive sales mix impact
- Timing benefit of a small number of other positive items
- Partially offset by an increased level of promotional sales

▶ **Total costs increased by 3% or £14m**

- Principally driven by investment in Transformation Plan initiatives

▶ **Operating profit reduced by 47% to £6.4m**



Homebase – financial performance

- ▶ **Sales down (2.2%) to £816m**
 - 5.6% LFL; growth across all product categories, particularly in sales of big ticket. LFL sales supported by trade transfer and stock clearance activity
 - (7.8%) net closed space; with 25 store closures reducing the store portfolio to 271

- ▶ **Gross margin rate down c.125 basis points**
 - Adverse impact of increased stock clearance relating to both store closure programme and distribution centre closure
 - Adverse sales mix impact
 - Partially offset by the anticipated impact of favourable currency and shipping costs

- ▶ **Total costs reduced by 7% or £26m**
 - Principally driven by the store closure programme

- ▶ **Operating profit increased by 23% to £34.3m**



Financial Services – financial performance

- ▶ **Credit sales reduced by 1% to £318m**
- ▶ **Reported sales increased by 6% to £69m**
- ▶ **Delinquency rate (30+ days) reduced by 40bps**
- ▶ **Operating profit increased by 13% to £3.5m**
- ▶ **Loan book increased by £33m to £550m since H1 last year**
- ▶ **Loan book asset fully funded from internal cash generation with no third party financing**



Benchmark operating profit

FY 15	£m	H1 16	H1 15	Change
129.2	Argos	6.4	12.0	(47%)
19.8	Homebase	34.3	27.8	23%
7.0	Financial Services	3.5	3.1	13%
(26.5)	Central Activities	(11.7)	(13.0)	10%
129.5	Benchmark operating profit	32.5	29.9	9%
	% sales			
3.2%	Argos	0.4%	0.7%	
1.3%	Homebase	4.2%	3.3%	
2.3%	Total Group	1.2%	1.1%	



Income statement

FY 15	£m	H1 16	H1 15	Change
5,710.4	Revenue	2,628.5	2,668.6	(2%)
(3,673.3)	Cost of goods	(1,655.3)	(1,687.9)	
2,037.1	Gross margin	973.2	980.7	(1%)
(1,907.6)	Operating and distribution costs	(940.7)	(950.8)	
129.5	Benchmark operating profit	32.5	29.9	9%
2.6	Net interest income	1.6	1.0	
132.1	Benchmark PBT	34.1	30.9	10%
	% sales			
35.7%	Gross margin	37.0%	36.7%	
(33.4%)	Operating and distribution costs	(35.8%)	(35.6%)	
2.3%	Benchmark operating profit	1.2%	1.1%	



Income statement

FY 15	£m	H1 16	H1 15	Change
132.1	Benchmark PBT	34.1	30.9	10%
(1.8)	Amortisation of acquisition intangibles	(0.9)	(0.9)	
(1.9)	Retirement benefit scheme administration costs	(0.9)	(0.7)	
0.1	Adjustments in respect of store impairment and property provisions	0.7	0.7	
(35.5)	Exceptional items	(4.4)	(11.8)	
(1.0)	Financing fair value remeasurements	(0.1)	0.3	
(3.0)	Financing impact on retirement benefit obligations	(1.9)	(1.6)	
(6.7)	Discount unwind on non-benchmark items	(3.2)	(3.4)	
11.5	Balance sheet review	-	-	
93.8	Profit before tax	23.4	13.5	
(33.0)	Taxation on benchmark PBT	(8.2)	(7.9)	(4%)
10.8	Other taxation	2.1	3.9	
<u>71.6</u>	Profit for the period	<u>17.3</u>	<u>9.5</u>	
25.0%	Benchmark PBT - tax rate	24.0%	25.5%	
13.0p	Basic benchmark EPS	3.4p	3.0p	13%
764.3m	Weighted average ordinary shares for basic EPS	763.7m	773.1m	
3.8p	Dividend per share	1.0p	1.0p	0%



Balance sheet

£m	H1 16	FY 15	H1 15	Change vs FY 15	Change vs H1 15
Goodwill	1,543.9	1543.9	1,543.9	-	-
PPE & other intangibles	658.0	648.4	655.1	9.6	2.9
Stock	988.8	963.0	930.1	25.8	58.7
Financial Services loan book	549.6	579.5	516.2	(29.9)	33.4
Other assets	263.6	240.8	187.4	22.8	76.2
Invested capital assets	4,003.9	3,975.6	3,832.7	28.3	171.2
Trade & other payables	(1,271.8)	(1,329.5)	(1,252.2)	57.7	(19.6)
Provisions	(191.2)	(221.9)	(227.6)	30.7	36.4
Invested capital liabilities	(1,463.0)	(1,551.4)	(1,479.8)	88.4	16.8
INVESTED CAPITAL	2,540.9	2,424.2	2,352.9	116.7	188.0
Retirement benefit obligations	(100.5)	(114.4)	(104.9)	13.9	4.4
Net tax assets	29.0	26.7	38.4	2.3	(9.4)
Forward foreign exchange contracts	0.6	27.1	(0.6)	(26.5)	1.2
Net cash	193.1	309.3	333.1	(116.2)	(140.0)
NET ASSETS	2,663.1	2,672.9	2,618.9	(9.8)	44.2
TOTAL LEASE COMMITMENTS	2,181	2,342	2,502	(161)	(321)



Cash flow statement

FY 15	£m	H1 16	H1 15
129.5	Benchmark operating profit	32.5	29.9
(1.8)	Amortisation of acquisition intangibles	(0.9)	(0.9)
(1.9)	Retirement benefit scheme administration costs	(0.9)	(0.7)
0.1	Adjustments in respect of store impairment and property provisions	0.7	0.7
(35.5)	Exceptional items within operating profit	(4.4)	(11.8)
11.5	Balance sheet review	-	-
101.9	Statutory operating profit	27.0	17.2
136.0	Depreciation and amortisation	69.6	66.8
36.6	Movement in trade working capital	(94.8)	69.8
(55.4)	Movement in Financial Services loan book	29.9	7.9
(22.8)	Cash flow impact of restructuring costs	(14.3)	(13.0)
(22.0)	Pension scheme deficit recovery payments	(11.0)	(11.0)
(9.0)	Cash impact of Homebase leasehold store closure costs	(5.8)	(5.0)
(8.8)	Cash impact of PPI customer redress payments	(17.7)	(2.7)
46.3	Other operating items	11.2	16.9
202.8	Cash flows from operating activities	(5.9)	146.9



Cash flow statement

FY 15	£m	H1 16	H1 15
202.8	Cash flows from operating activities	(5.9)	146.9
(167.8)	Net capital expenditure	(79.2)	(71.7)
30.0	Battersea freehold sale	-	-
(12.1)	Taxation	(7.3)	(6.0)
0.7	Net interest	(2.7)	0.3
53.6	Cash inflow before financing activities	(95.1)	69.5
(25.3)	Dividends paid	(21.2)	(17.8)
(48.5)	Cash flow in relation to Employee Share Trust	0.8	(49.7)
(20.2)	Change in cash and cash equivalents	(115.5)	2.0
(1.5)	Effect of foreign exchange rate changes	(0.7)	0.1
(21.7)	Change in financing net cash	(116.2)	2.1
331.0	Opening financing net cash	309.3	331.0
309.3	Closing financing net cash	193.1	333.1



FY16 modelling assumptions – P&L

	Argos	Homebase
Net store number change	c.90	c.(35)
Net space change	c.3%	c.(7%)
Gross margin rate movement	c.(75bps)	c.(100bps)

- ▶ Absolute level of costs expected to increase by c.£10m (FY15: £14m decrease) with a cost increase at Argos of c.£40m partially offset by a cost decrease at Homebase of c.£30m
- ▶ Exceptional costs in respect of the Argos Transformation Plan over the three year period to FY16 are consistent with the previously guided total of c.£50m. Having incurred a total of £31m in FY14 and FY15, the remaining Transformation Plan costs are expected to be no greater than £19m in FY16
- ▶ Effective tax rate on benchmark PBT estimated at c.24% (FY15: 25.0%)
- ▶ Number of shares for EPS purposes is expected to increase to c.775m (FY15: 764m) due to the expected vesting in FY16 of various employee share schemes
- ▶ FY16 Benchmark PBT expected to be slightly below the bottom of the current range of analysts forecasts of £115m to £140m



FY16 modelling assumptions - Homebase closures

<u>Benchmark PBT</u>	FY 15	FY 16	Total
Store closures	(30)	c.(35)	c.(65)
Distribution centre closure	-	(1)	(1)
Sales – Store closures	(3.0%)	c.(7%)	c.(10%)
Sales – LFL at c.15% sales transfer	c.0.5%	c.1%	c.1.5%
Gross margin - Stock clearance impact	c.(100bps)	c.(50bps)	c.(150bps)
Benchmark PBT	c.£0m	c.£0m	c.£0m
<u>Non-Benchmark PBT</u>			
Profit on sale of Battersea	-	c.£38m	c.£38m
Closure costs net of provisions	c.£0m	c.£0m	c.£0m
<u>Cash Flow</u>			
Sale of Battersea freehold	£30m	£27m	£57m
Closure costs	(£9m)	c.(£20m)	c.(£29m)
Working capital	c.£5m	c.£5m	c.£10m
Total cash inflow	<u>c.£26m</u>	<u>c.£12m</u>	<u>c.£38m</u>

The timing of store closures in FY16 is subject to change which could impact elements of the above guidance



FY16 modelling assumptions – cash flow

- ▶ Trade working capital expected to be a c.£50m outflow (FY15: £37m inflow)
- ▶ Financial Services loan book expected to be a c.£25m outflow (FY15: £55m outflow)
- ▶ Capital expenditure of c.£200m (FY15: £168m)
- ▶ Other cash flows:
 - Balance of Battersea freehold sale proceeds of £27m (FY15: £30m)
 - Homebase store closure costs of c.£20m (FY15: £9m)
 - Cash flow in respect of Employee Share Trust expected to be c.£15m inflow (FY15: £49m outflow)
 - Cash element of exceptional restructuring charges of c.£30m (FY15: £23m)
 - Pension scheme deficit recovery payment of £22m (FY15: £22m)
 - PPI customer redress payments of c.£25m (FY15: £9m)
- ▶ **Total cash outflow expected to be c.£100m (FY15: £22m outflow)**



Homebase Update



Productivity Plan

▶ **Strategic Review**

- Homebase is a good business
- To position Homebase for long-term investment and growth, an ambitious plan is required in the short-term to improve its foundations – a three-year Productivity Plan

▶ **Store estate and infrastructure**

▶ **Customer standards and propositions**

▶ **Digital readiness**





FY16 H1 performance

- ▶ **Strong LFL sales performance up 5.6%**
 - Good big ticket performance
 - Growth in seasonal products
 - All other areas saw LFL growth
 - LFL was supported by trade transfer & stock clearance activity
- ▶ **Digital sales growth of 43%**
- ▶ **Operating profit of £34.3m, up 23%**





Initial observations on Homebase

▶ Strengths

- Warmth towards the brand
- A strong customer and colleague base
- Strength in certain categories together with unique and exclusive brands
- “Do It For Me” services
- Good digital platform
- Capability to manage seasonality and complexity

▶ Challenges and Opportunities

- Retail excellence
- Improve end to end customer experience
- Price competitiveness
- Optimise in-store space and range
- Differentiated and winning propositions
- Leverage Group/Argos capabilities



▶ **Store estate**

- FY15 - 30 stores closed
- FY16 H1 - 25 further stores closed reducing store portfolio to 271
- FY16 H2 - c.10 store closures anticipated
- Battersea freehold store – sale agreed & due for completion in FY16 H2

▶ **Infrastructure & cost reduction**

- Programme to reduce head office & support costs concluded in FY16 H1
- Closure of distribution centre on track for FY16 H2



Customer standards and propositions

▶ Store standards

- First phase of system optimisation improved customer availability
- Simplified stockroom and replenishment processes to improve store productivity

▶ Pricing & promotions

- Removal of some blanket 15% discount events
- Continued trial of pricing investment

▶ Argos & Habitat concessions

- Opened a further 76 Argos concessions, taking the total to 96
- Opened a further 33 Habitat concessions, taking the total to 68

▶ Range development

- Launch of Simply Hygena brand
- New ranges in horticulture and furniture





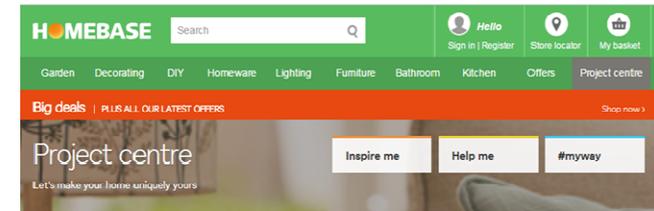
Digital enhancements

▶ Digital performance

- Digital sales growth of 43% year-on-year
- Digital sales now represent c.10% of total sales

▶ Website developments

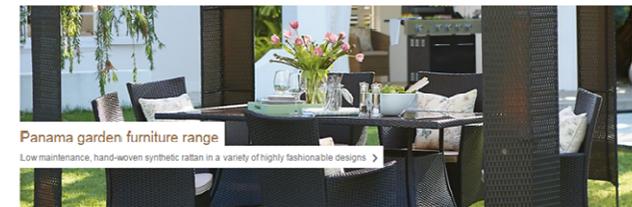
- Improved natural search
- Better product information and recommendations
- More inspirational and helpful content through 'Project Centre'
- More personalised promotions through Campaign tool



Inspiration | Garden inspiration

Garden inspiration

Now is the perfect time to start thinking about making your outside space come alive. With garden design as important to a home as interior decor, we want you to be able to relax, dine and play outside, in style. To help you do this, we've highlighted this year's key styles for creative inspiration to help you achieve your chosen look at home. From guaranteed plant quality and useful tools, to accessories and garden furniture, we'll make your outdoors great.



Garden furniture buying guide
Whether you're relaxing in the garden or dining al fresco, find the perfect garden furniture to suit your needs >



Homebase 'Urban Retreat'
Our GOLD medal winning garden at Chelsea Flower Show 2015 >



Dolly Bow Bow's Homebase garden haul
See how Dolly Bow Bow (Kate Mumane) transformed her garden with help from Homebase >



Garden styles 2015: Classic Country
Timeless charm with formal features >



The Homebase Garden Academy
Find out about our Garden Academy - helping to train the next generation of gardeners >



FY16 milestones

Store Estate

- ▶ c.35 store closures
- ▶ Accelerated infrastructure cost reduction programme

Customer Standards and Propositions

- ▶ c.80 Argos and c.50 Habitat concessions opened
- ▶ Store standards programme, including stock optimisation, showroom simplification and colleague training
- ▶ Trial and improve price competitiveness and promotional effectiveness in select categories

Digital Enhancements

- ▶ Improve 'click & collect' process
- ▶ Improve basics of digital offer
- ▶ Homebase product collection trial in Argos stores



Argos Update



Reminder of strategic context

- ▶ **In 2012, after a large-scale business review, Argos announced an ambitious Transformation Plan to reinvent itself as a 'digital retail leader'**
 - Uniquely positioned to define retailing for a digital age
 - Success would require overcoming competitive challenge while building significant new capabilities, in a rapidly changing market
 - Established long-term goals to anchor ambition
- ▶ **The Transformation Plan has several critical success factors**
 - Scale of change required across many critical areas of operations
 - Technology development, replacing an out-dated and complex infrastructure and installing an agile capability
 - Consumer take-up of new Argos propositions in a competitive environment
- ▶ **Argos has progressed well, and its strategic aspiration remains compelling and achievable**



Reinvent Argos as a digital retail leader





FY16 H1 performance

- ▶ **Facing into FY16 we expected difficult H1 trading . . .**
 - Cyclical declines across several electronics categories
 - Seasonal comparisons against prior year

- ▶ **. . . and undertook an ambitious agenda to further the Transformation and FY16 performance**
 - Customer experiences and IT infrastructure improvements
 - 'Hub & spoke' stocking improvements
 - Development and launch of new digital propositions
 - c.90 new digital format stores

- ▶ **H1 trading was, as expected, mixed**
 - Total sales down (1.5%), like-for-like sales down (3.4%)
 - Operating profit reduced by £5.6m to £6.4m
 - Good growth in digital and mobile participation, and digital visits

- ▶ **Substantial progress on the Transformation Plan**



Digital fulfilment propositions

- ▶ **Argos store and distribution network, strengthened by 'hub & spoke', are strategic advantages**
 - c.160 'hub' stores, daily replenishment from DCs
 - 840 total stores/collection locations – access to all hub lines immediately or within hours
 - Cost advantage for local stock vs. competitors
- ▶ **'Hub & spoke' has been further refined**
 - Investments in both stock and stock allocation systems, improving availability
 - Online payment will improve store collection rates and stock efficiency
 - 'Regional hub' introduced in London to extend stock and handle increased demand



Introducing Fast Track

- ▶ **Market-beating propositions for store collection and same day home delivery**
 - c.20,000 products available as “Fast Track”
 - Introduced nationally, after market and operational testing
 - Requires online payment, also introduced nationally, which improves store collection rates
 - Stored credit cards for future purchases
 - Digital navigation and performance improvements
 - ▶ Improved payment options
 - ▶ Increased delivery slots with better options
 - ▶ More relevant search on store browsers
 - ▶ Improved page load speeds

The screenshot shows the Argos website interface. At the top, there's a search bar and navigation links like 'HELP', 'STORE LOCATOR', 'SIGN IN / JOIN', and 'TROLLEY'. Below the search bar, there are category links: TECHNOLOGY, HOME & GARDEN, BABY & NURSERY, TOYS, SPORTS & LEISURE, HEALTH & BEAUTY, CLOTHING, JEWELLERY & WATCHES, and GIFTS. A prominent 'FAST TRACK' banner is visible, along with 'BUY ONLINE' and 'COLLECT IN AS LITTLE AS 60 SECONDS' options. The main content area displays 'Activity trackers (12 products)' with a list of 12 matching products. Two products are highlighted: 'Fitbit Charge HR Large Heart Rate Monitor Wristband - Black' for £99.99 and 'Fitbit Surge Large Activity Tracker Wristband - Black' for £157.99. Both products are marked as 'FAST TRACK' and have 'ADD TO TROLLEY' buttons. A 'LOOK OUT FOR PRODUCTS TAGGED FAST TRACK' banner is also present, featuring an image of an Argos delivery van.



Introducing Fast Track

▶ **Fast Track Collection**

- Purchase from among c.20,000 products
- Collection in as little as 60 seconds
- Free of charge

▶ **Fast Track Delivery**

- Purchase from among c.20,000 products
- Choose same day delivery from 4 time slots, 7 days a week including Sundays
- Only £3.95

**FAST
TRACK
COLLECTION**

**FAST
TRACK
DELIVERY**



Introducing Fast Track

▶ **Significant execution**

- Technology developments
 - ▶ Voice pick extended to home delivery
 - ▶ Epods introduced (handheld scanning, phone, dynamic scheduling, satnav delivery devices)
- Improvements to hub stocking and replenishment
- Digital improvements
- Systems, training and operational rollout individually to 160 hubs
- c.2,300 multi-skilled drivers recruited and trained, increasing to c.3,300 by peak
- c.800 dedicated vans

▶ **Market and operational testing**

- Systems and operational trials commenced in May in South East England, scaled as confidence increased
- Full market trial, including marketing, in August/September
- Encouraging results



Fast Track launch





Express large item delivery

▶ Large item delivery market

- Fulfilment has quickly moved to next day on white goods
- For other large items delivery standards are days to weeks
- Argos has one of the biggest, large item delivery networks in the UK, which can be used for greater advantage

▶ Express large item delivery

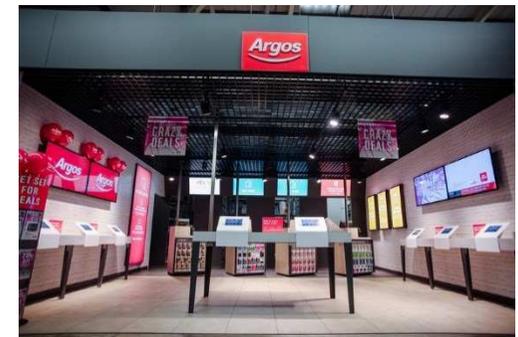
- Next day delivery for our most popular large products, 7 days a week, with new evening slots
- Last order time extended to 8pm for next day delivery, expanded routes and capacity
- Dynamic route scheduling development
 - ▶ Real time delivery slot availability and booking
 - ▶ Later cut-off times
- National introduction during FY16 H2





Digital stores

- ▶ **Further scaling of successful digital store formats in FY16 H1**
 - 76 digital concessions within Homebase
 - 10 digital concessions within Sainsbury's
 - 1 small format digital store
- ▶ **Impressive operational execution**
 - Averaged c.3 new stores each week
- ▶ **New trial of low cost Argos store conversion to digital format**
 - c.50 planned by end of financial year
- ▶ **Digital stores on track to deliver a good return on investment**





FY16 milestones

Reposition Channels for Digital Future

- ▶ Restore standard of digital customer experiences
- ▶ Improvements to technology infrastructure
- ▶ Launch key digital propositions
- ▶ c.200 digital stores

More Choice Available Faster

- ▶ Refine 'hub & spoke' stock optimisation
- ▶ Complete Fast Track delivery national launch
- ▶ Improve stock availability
- ▶ Express large item delivery national introduction
- ▶ Grow Ebay collection volume

Universal Customer Appeal

- ▶ Growth in product lines, own brands, aspirational brands
- ▶ New categories and segments
- ▶ Reinforce value perception
- ▶ Extension of new brand positioning
- ▶ Utilisation of increased customer data



Group summary

▶ **Performance during H1 was mixed**

- Strong Homebase peak trading
- Homebase has made good progress with its Productivity Plan
- Argos demonstrated strength in execution across a range of complex challenges, launching new digital propositions

▶ **Argos is well-prepared for Christmas, but faces greater risk from a less certain promotional environment**

- Fast Track one-time launch investment is necessary to drive customer awareness
- Fast Track customer take-up will build over time
- Combination of increased investment, promotional uncertainty and H1 underlying profit reduction means, at this stage, the Group is likely to deliver full year benchmark profit before tax slightly below the bottom-end of current range

▶ **Argos Transformation is on track to accomplish strategic intent – a digital leader with restored growth prospects**



Q&A



Appendix



FY 16 modelling assumptions tracker – P&L

		FY15 Actual	FY16 Apr 15	FY16 Oct 15
▶ Net number of stores	: Argos : Homebase	21 (27)	c.90 c.(35)	c.90 c.(35)
▶ Net space sales change	: Argos : Homebase	0.5% (3.0%)	c.3% c.(7%)	c.3% c.(7%)
▶ Gross margin rate change	: Argos : Homebase	c.25bps c.(100bps)	c.(25bps) c.(50bps)	c.(75bps) c.(100bps)
▶ Absolute level of costs		£14m decrease	“broadly flat”	c.£10m increase
▶ Effective tax rate on benchmark PBT		25.0%	c.24%	c.24%



FY16 modelling assumptions tracker – cash flow

	FY15 Actual	FY16 Apr 15	FY16 Oct 15
▶ Trade working capital	£37m	“small outflow”	c.(£50m)
▶ Financial Services loan book	(£55m)	c.(£25m)	c.(£25m)
▶ Capital expenditure	(£168m)	c.(£200m)	c.(£200m)
▶ Battersea freehold sale	£30m	£27m	£27m
▶ Homebase store closure costs	(£9m)	c.(£20m)	c.(£20m)
▶ Employee Share Trust	(£49m)	c.£0m	c.£15m
▶ Cash element of exceptional costs	(£23m)	c.(£30m)	c.(£30m)
▶ Pension scheme deficit recovery payment	(£22m)	(£22m)	(£22m)
▶ PPI Customer redress payments	(£9m)	c.(£25m)	c.(£25m)
▶ Group total cash flow	(£22m)	c.(£75m)	c.(£100m)



Cost productivity – HY

£m	Argos					Homebase					Group				
	H1 12	H1 13	H1 14	H1 15	H1 16	H1 12	H1 13	H1 14	H1 15	H1 16	H1 12	H1 13	H1 14	H1 15	H1 16
Total sales change	(45)	0	10	15	(5)	(5)	(20)	15	5	(10)	(50)	(20)	25	25	(15)
Add: underlying cost inflation	15	10	10	10	5	5	5	5	5	5	20	15	15	15	10
Equals: potential total operating cost change	(30)	10	20	25	0	0	(15)	20	10	(5)	(30)	(5)	40	40	(5)
Versus: actual total operating cost change	(10)	(5)	(5)	15	15	5	(5)	5	0	(25)	(5)	(10)	5	15	(10)
Equals: cost productivity	(20)	15	25	10	(15)	(5)	(10)	15	10	20	(25)	5	35	25	5
Total sales change	(8%)	0%	2%	3%	(1%)	(2%)	(6%)	4%	2%	(2%)	(6%)	(1%)	3%	3%	(2%)
Add: underlying cost inflation	3%	2%	2%	2%	1%	2%	2%	2%	1%	1%	3%	1%	2%	2%	1%
Equals: potential total operating cost change	(5%)	2%	4%	5%	0%	0%	(4%)	6%	3%	(1%)	(3%)	0%	5%	5%	(1%)
Versus: actual total operating cost change	(2%)	(1%)	(1%)	3%	(3%)	2%	(2%)	2%	0%	(7%)	0%	(1%)	1%	2%	(1%)
Equals: cost productivity	(3%)	3%	5%	2%	(3%)	(2%)	(2%)	4%	3%	6%	(3%)	1%	4%	3%	0%

- All figures are approximates to the nearest whole percentage point or £5m and are based on total costs being the sum of operating costs and distribution costs
- Group represents the total of Argos, Homebase and all other operating areas. The sum of Argos and Homebase will not therefore necessarily equal the Group total



Cost productivity - FY

£m	Argos					Homebase					Group				
	FY 11	FY 12	FY 13	FY 14	FY 15	FY 11	FY 12	FY 13	FY 14	FY 15	FY 11	FY 12	FY 13	FY 14	FY 15
Total sales change	(40)	(90)	15	35	10	(10)	(20)	(40)	30	(5)	(50)	(120)	(10)	65	15
Add: underlying cost inflation	10	25	20	20	15	10	15	15	10	10	20	40	30	35	25
Equals: potential total operating cost change	(30)	(65)	35	55	25	0	(5)	(25)	40	5	(30)	(80)	20	100	40
Versus: actual total operating cost change	(45)	0	(10)	5	5	(15)	5	(15)	10	(20)	(60)	5	(20)	15	(15)
Equals: cost productivity	15	(65)	45	50	20	15	(10)	(10)	30	25	30	(85)	40	85	55
Total sales change	(4%)	(8%)	1%	3%	1%	(1%)	(3%)	(5%)	4%	(1%)	(3%)	(6%)	(1%)	3%	1%
Add: underlying cost inflation	1%	2%	2%	2%	1%	1%	2%	2%	1%	1%	1%	2%	2%	2%	1%
Equals: potential total operating cost change	(3%)	(6%)	3%	5%	2%	0%	(1%)	(3%)	5%	0%	(2%)	(4%)	1%	5%	2%
Versus: actual total operating cost change	(4%)	0%	(1%)	1%	0%	(2%)	1%	(2%)	1%	(3%)	(3%)	0%	(1%)	1%	(1%)
Equals: cost productivity	1%	(6%)	4%	4%	2%	2%	(2%)	(1%)	4%	3%	1%	(4%)	2%	4%	3%

- All figures are approximates to the nearest whole percentage point or £5m and are based on total costs being the sum of operating costs and distribution costs
- Group represents the total of Argos, Homebase and all other operating areas. The sum of Argos and Homebase will not therefore necessarily equal the Group total



Net interest and Financial Services

FY 15	£m	H1 16	H1 15
2.6	Net interest within benchmark PBT	1.6	1.0
(1.0)	Financing fair value remeasurements	(0.1)	0.3
(3.0)	Financing impact on retirement benefit obligations	(1.9)	(1.6)
(6.7)	Discount unwind on non-benchmark items	(3.2)	(3.4)
(8.1)	Income statement net financing charge	(3.6)	(3.7)
Financial Services			
10.9	Benchmark operating profit before financing costs	5.5	4.8
(3.9)	Financing costs charged by Group	(2.0)	(1.7)
7.0	Benchmark operating profit	3.5	3.1



Exceptional items

£m	H1 16	FY 15	FY 14
Argos Transformation Plan – restructuring	(4.4)	(12.2)	(19.0)
Homebase Productivity Plan – restructuring	-	(6.2)	(6.2)
Group – restructuring	-	(13.0)	(2.6)
Customer redress	-	(4.1)	(25.0)
Warranty insurance	-	-	11.4
Total exceptional items	<u>(4.4)</u>	<u>(35.5)</u>	<u>(41.4)</u>



Balance sheet

£m	FY 11	FY 12	FY 13	FY 14	H1 15	FY 15	H1 16
Goodwill	1,541.0	1,543.9	1,543.9	1,543.9	1,543.9	1,543.9	1,543.9
PPE & intangibles	631.2	653.4	604.1	650.3	655.1	648.4	658.0
Stock	1,016.8	933.2	941.8	902.4	930.1	963.0	988.8
Financial Services loan book	456.1	456.7	474.7	524.1	516.2	579.5	549.6
Other assets	181.7	167.4	198.8	199.7	187.4	240.8	263.6
Invested capital assets	<u>3,826.8</u>	<u>3,754.6</u>	<u>3,763.3</u>	<u>3,820.4</u>	<u>3,832.7</u>	<u>3,975.6</u>	<u>4,003.9</u>
Trade & other payables	(1,106.2)	(1,000.7)	(1,168.7)	(1,162.7)	(1,252.2)	(1,329.5)	(1,271.8)
Provisions	(207.8)	(235.3)	(217.8)	(236.1)	(227.6)	(221.9)	(191.2)
Invested capital liabilities	<u>(1,314.0)</u>	<u>(1,236.0)</u>	<u>(1,386.5)</u>	<u>(1,398.8)</u>	<u>(1,479.8)</u>	<u>(1,551.4)</u>	<u>(1,463.0)</u>
INVESTED CAPITAL	2,512.8	2,518.6	2,376.8	2,421.6	2,352.9	2,424.2	2,540.9
Retirement benefit obligations	(7.5)	(115.3)	(85.1)	(76.6)	(104.9)	(114.4)	(100.5)
Net tax assets	4.6	24.7	10.7	33.0	38.4	26.7	29.0
Forward foreign exchange contracts	(28.0)	3.1	34.1	(35.5)	(0.6)	27.1	0.6
Net cash	259.3	194.3	396.0	331.0	333.1	309.3	193.1
NET ASSETS	<u>2,741.2</u>	<u>2,625.4</u>	<u>2,732.5</u>	<u>2,673.5</u>	<u>2,618.9</u>	<u>2,672.9</u>	<u>2,663.1</u>



Financial Services loan book

£m	FY 11	FY 12	FY 13	FY 14	H1 15	FY 15	H1 16
Revolving gross loan book	288.7	276.7	280.4	299.4	308.1	307.9	320.6
Promotional gross loan book	241.4	258.5	266.4	294.8	276.5	336.2	291.0
Total gross loan book	530.1	535.2	546.8	594.2	584.6	644.1	611.6
Provision	(74.0)	(78.5)	(72.1)	(70.1)	(68.4)	(64.6)	(62.0)
Total net loan book	456.1	456.7	474.7	524.1	516.2	579.5	549.6
Provision % of gross loan book	14.0%	14.7%	13.2%	11.8%	11.7%	10.0%	10.1%
Delinquency (30+ days)	7.0%	6.5%	6.2%	5.7%	5.8%	4.9%	5.4%



Provisions

£m	FY 11	FY 12	FY 13	FY 14	FY 15	H1 16
Property	(162.6)	(158.6)	(151.0)	(151.8)	(130.7)	(127.1)
Insurance	(31.9)	(46.7)	(41.5)	(38.1)	(35.5)	(37.2)
Restructuring	(7.8)	(24.3)	(11.8)	(9.5)	(20.8)	(9.7)
Customer redress	(1.0)	(4.9)	(12.3)	(33.7)	(29.0)	(11.3)
Other	(4.5)	(0.8)	(1.2)	(3.0)	(5.9)	(5.9)
Total	<u>(207.8)</u>	<u>(235.3)</u>	<u>(217.8)</u>	<u>(236.1)</u>	<u>(221.9)</u>	<u>(191.2)</u>
Opening property	(170.5)	(162.6)	(158.6)	(151.0)	(151.8)	(130.7)
(Charged)/released to non-benchmark PBT	7.4	8.6	13.5	(0.9)	15.9	0.7
Utilised during the year	10.3	3.7	4.6	6.0	12.0	7.3
Discount unwind	(9.0)	(8.7)	(8.5)	(8.3)	(7.8)	(3.5)
Other	(0.8)	0.4	(2.0)	2.4	1.0	(0.9)
Closing property	<u>(162.6)</u>	<u>(158.6)</u>	<u>(151.0)</u>	<u>(151.8)</u>	<u>(130.7)</u>	<u>(127.1)</u>



Cash flow – management reporting view

£m	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Benchmark PBT	377	433	328	293	254	102	91	115	132
Depreciation	146	152	159	130	128	126	125	130	136
EBITDA	523	585	487	423	382	228	216	245	268
Working capital - trade	145	(33)	(18)	75	(63)	5	132	18	37
Working capital - loan book	(18)	(15)	8	(5)	(27)	(5)	(18)	(49)	(55)
Taxation	(102)	(95)	(75)	(107)	(11)	(27)	(26)	(18)	(12)
Other	(28)	45	15	9	9	23	14	(2)	15
Operating cash flow	520	487	417	395	290	224	318	194	253
Capital expenditure	(149)	(197)	(125)	(87)	(122)	(131)	(79)	(173)	(168)
(Acquisitions)/Disposals	(4)	(46)	(23)	(9)	(2)	(26)	(12)	25	-
Freehold Property (Purchase)/Sale	(10)	(11)	(7)	-	(21)	-	-	-	30
Homebase Store Closures	-	-	-	-	-	-	-	-	(9)
Restructuring costs	-	-	(3)	(17)	(7)	(4)	(9)	(28)	(23)
PPI Customer redress	-	-	-	-	-	-	-	-	(9)
Pension deficit	-	-	-	(17)	(12)	(10)	(8)	(22)	(22)
Dividends	(97)	(119)	(127)	(126)	(124)	(118)	(8)	(24)	(25)
Share purchases	-	-	(22)	(9)	(157)	-	-	(37)	(49)
Total cash flow	260	114	110	130	(155)	(65)	202	(65)	(22)
Opening net cash	(200)	60	174	284	414	259	194	396	331
Total cash flow	260	114	110	130	(155)	(65)	202	(65)	(22)
Closing net cash	60	174	284	414	259	194	396	331	309



Movement in working capital

£m	H1 11	H1 12	H1 13	H1 14	H1 15	H1 16
Stock	(78.1)	5.1	(67.9)	(23.5)	(27.7)	(25.8)
Trade & other receivables	8.4	7.2	(13.6)	(7.2)	12.2	(20.9)
Trade & other payables	83.7	20.4	160.2	73.5	85.3	(48.1)
Total trade working capital	14.0	32.7	78.7	42.8	69.8	(94.8)
Financial Services loan book	22.0	29.1	19.6	5.0	7.9	29.9
Total working capital	36.0	61.8	98.3	47.8	77.7	(64.9)

£m	FY 11	FY 12	FY 13	FY 14	FY 15
Stock	(81.4)	93.2	(8.6)	39.4	(60.6)
Trade & other receivables	(0.8)	16.9	(22.9)	(25.0)	(23.0)
Trade & other payables	19.0	(105.4)	163.4	4.0	120.2
Total trade working capital	(63.2)	4.7	131.9	18.4	36.6
Financial Services loan book	(26.7)	(4.7)	(18.0)	(49.4)	(55.4)
Total working capital	(89.9)	-	113.9	(31.0)	(18.8)



Capital expenditure - FY

£m	FY 11	FY 12	FY 13	FY 14	FY 15
New stores	(10)	(12)	-	(3)	(16)
Store enhancement & refurbishment	(52)	(49)	(25)	(28)	(40)
Distribution & supply chain	(7)	(9)	(7)	(23)	(14)
Other	(56)	(65)	(49)	(121)	(105)
Total gross capital expenditure	<u>(125)</u>	<u>(135)</u>	<u>(81)</u>	<u>(175)</u>	<u>(175)</u>
Property, plant & equipment	(81)	(97)	(56)	(72)	(81)
Intangible assets	(44)	(38)	(25)	(103)	(94)
Total gross capital expenditure	<u>(125)</u>	<u>(135)</u>	<u>(81)</u>	<u>(175)</u>	<u>(175)</u>
Proceeds from disposals	3	4	2	2	7
Total net capital expenditure	<u>(122)</u>	<u>(131)</u>	<u>(79)</u>	<u>(173)</u>	<u>(168)</u>
Depreciation	<u>(128)</u>	<u>(126)</u>	<u>(125)</u>	<u>(130)</u>	<u>(136)</u>
Gross capital expenditure to depreciation ratio	<u>1.0x</u>	<u>1.1x</u>	<u>0.6x</u>	<u>1.3x</u>	<u>1.3x</u>



Store lease profile - Group

	FY 12	FY 13	FY 14	FY 15
FY 13	c.40	-	-	-
FY 14	c.60	c.55	-	-
FY 15	c.55	c.50	c.45	-
FY 16	c.75	c.75	c.75	c.95
FY 17	c.65	c.70	c.75	c.75
FY 18	-	c.95	c.95	c.100
FY 19	-	-	c.105	c.105
FY 20	-	-	-	c.100
Total expiries & breaks	c.295	c.345	c.395	c.475
Total store portfolio	1,089	1,073	1,057	1,051
Total of store portfolio	c.27%	c.32%	c.37%	c.45%



Store lease profile - Argos

	FY 12	FY 13	FY 14	FY 15
FY 13	c.30	-	-	-
FY 14	c.40	c.35	-	-
FY 15	c.45	c.40	c.35	-
FY 16	c.55	c.55	c.55	c.75
FY 17	c.60	c.65	c.70	c.70
FY 18	-	c.80	c.80	c.85
FY 19	-	-	c.90	c.90
FY 20	-	-	-	c.95
Total expiries & breaks	c.230	c.275	c.330	c.415
Total store portfolio	748	737	734	755
Total of store portfolio	c.31%	c.37%	c.45%	c.55%
Average remaining years	7.1 years	6.3 years	5.5 years	4.9 years



Store lease profile - Homebase

	FY 12	FY 13	FY 14	FY 15
FY 13	c.10	-	-	-
FY 14	c.20	c.20	-	-
FY 15	c.10	c.10	c.10	-
FY 16	c.20	c.20	c.20	c.20
FY 17	c.5	c.5	c.5	c.5
FY 18	-	c.15	c.15	c.15
FY 19	-	-	c.15	c.15
FY 20	-	-	-	c.5
Total expiries & breaks	c.65	c.70	c.65	c.60
Total store portfolio	341	336	323	296
Total of store portfolio	c.19%	c.21%	c.20%	c.21%
Average remaining years	10.0 years	9.3 years	8.9 years	8.3 years



Capital structure metrics

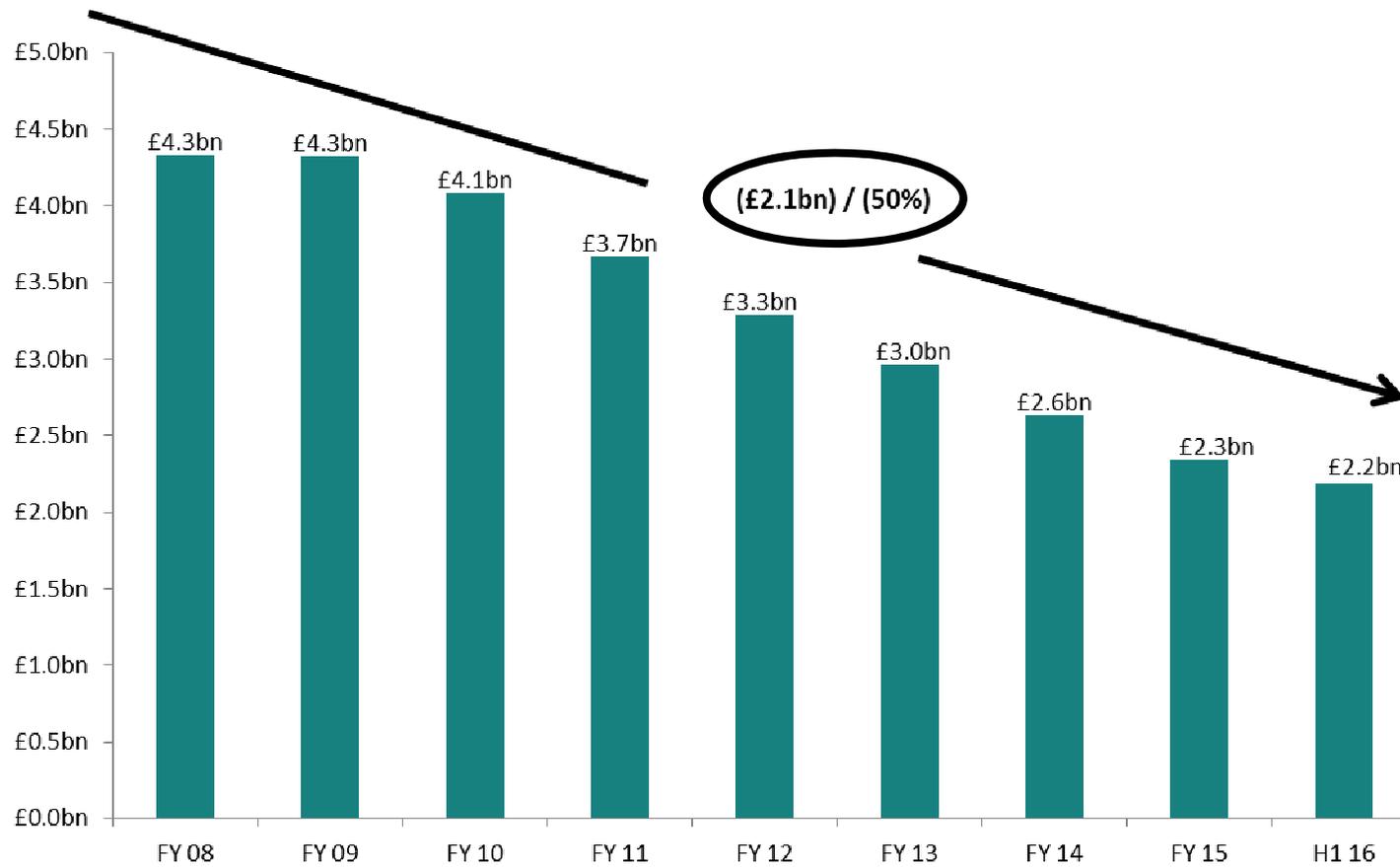
£m	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Benchmark PBT	337.1	376.7	432.9	327.7	292.9	254.1	101.6	91.1	115.4	132.1
Add : benchmark dpr and amort	134.9	147.5	151.6	159.4	130.1	127.5	124.5	122.9	127.7	136.0
Add : lease rental expense	299.2	328.2	344.8	372.8	379.1	370.8	363.6	353.9	347.9	333.4
Deduct : interest income	(9.5)	(16.6)	(33.3)	(29.7)	(5.2)	(3.2)	(3.4)	(3.8)	(2.4)	(2.6)
Total EBITDAR	761.7¹	835.8¹	896.0	830.2	796.9	749.2	586.3¹	564.1	588.6	598.9
Total lease commitments	4,043	4,206	4,330	4,324	4,078	3,668	3,285	2,962	2,627	2,342
<u>Lease multiplier methodology (x8)</u>										
Financing net (debt)/cash	(200)	60	174	284	414	259	181 ²	396	331	309
Capitalised lease rental expense	(2,394)	(2,626)	(2,758)	(2,982)	(3,033)	(2,966)	(2,909)	(2,831)	(2,783)	(2,667)
Total adjusted net debt	(2,594)	(2,566)	(2,584)	(2,698)	(2,619)	(2,707)	(2,728)	(2,435)	(2,452)	(2,358)
Adjusted net debt / EBITDAR ratio	3.4x	3.1x	2.9x	3.2x	3.3x	3.6x	4.7x	4.3x	4.2x	3.9x
<u>Lease discount methodology (NPV)</u>										
Financing net (debt)/cash	(200)	60	174	284	414	259	181	396	331	309
Capitalised lease rental expense	(2,795)	(2,920)	(3,057)	(3,304)	(3,148)	(2,874)	(2,702)	(2,362)	(2,046)	(1,914)
Total adjusted net debt	(2,995)	(2,860)	(2,883)	(3,020)	(2,734)	(2,615)	(2,521)	(1,966)	(1,715)	(1,605)
Adjusted net debt / EBITDAR ratio	3.9x	3.4x	3.2x	3.6x	3.4x	3.5x	4.3x	3.5x	2.9x	2.7x
Fixed charge cover (EBITDAR/rent+interest)	2.6x	2.7x	2.9x	2.4x	2.1x	2.0x	1.6x	1.6x	1.7x	1.8x

1 The total EBITDAR has been calculated on a 52-week pro forma basis for FY06, FY07 & FY12

2 The net cash position for FY12 is as at the 52-week proforma year end date. Net cash as at 3 March 2012 was £194m



Gross lease commitments





Financial calendar

- 12 November 2015 - *Interim ex-dividend date*
- 14 January 2016 - *Trading Statement*
- 21 January 2016 - *Interim dividend paid*
- 10 March 2016 - *End of Year Trading Statement*
- 27 April 2016 - *Full-Year Results*
- 19 May 2016 - *Final ex-dividend date*
- 9 June 2016 - *First Quarter Trading Statement*
- 29 June 2016 - *Annual General Meeting*
- 21 July 2016 - *Final dividend paid*



Investor relations contacts

For investor information and related services, including copies of all presentations, visit:

www.homeretailgroup.com/home/investors

www.homeretailgroup.com/home/investors/ADRs

**Home Retail Group
489-499 Avebury Boulevard
Milton Keynes
MK9 2NW
Tel: +44 (0)845 603 6677
Website: www.homeretailgroup.com**

Mark Willis
Director of Investor Relations
Tel: +44 (0)1908 600291
Email: mark.willis@homeretailgroup.com

Richard Ashton
Finance Director
Tel: +44 (0)1908 600001
Email: richard.ashton@homeretailgroup.com