Registration Number
533033

Homebase Limited

Annual Report and Financial Statements

For the 52 weeks ended
1 March 2014

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Contents

Homebase Limited
Strategic report for the 52 weeks ended 1 March 2014

Principal activities

The principal trading activity of the Company is the retailing of home enhancement products from Homebase stores within Great Britain.

Review of the business and future developments

The results and dividends and exceptional charge are discussed on page 3.

The Company sells home enhancement products from 301 Homebase stores and online in Great Britain. The Company has generated sales of £1,415,829k in the year representing an increase of 4.5% compared to the prior year. Seasonal products benefited from the improved weather in the second quarter annualising against poor weather through the summer in the prior year. Big ticket sales were also ahead of last year, whilst remaining categories were broadly flat compared to last year.

The Company is a part of Home Retail Group plc, and as such a detailed review of Homebase's business and future developments, which includes the trading activity of the Company, is contained within Home Retail Group's 2014 annual report, which does not form part of this report, starting on page 16.

The Homebase strategy is to position itself as a clearly differentiated multi-channel home enhancement retailer, creating both a store and online experience, with a softer, more stylish look and feel. Homebase is progressing with its Renewal plan which incorporates store format development, an enhanced multi-channel offer, exclusive brands and increased levels of customer service. This plan accelerates the development of Homebase as a destination for a broad range of home and garden projects, securing a larger share of customer spend and a higher frequency of visit. The strategy, key initiatives and competitive position of the Homebase business are also considered in the strategic report of Home Retail Group's 2014 annual report, which does not form part of this report, starting on page 5.

It is anticipated that the Company will continue to act as a retailing company for Homebase stores within Great Britain for the foreseeable future.

Principal risks and uncertainties

The principal risks and uncertainties of Home Retail Group plc, which includes the Company, are discussed on pages 24-25 of Home Retail Group's 2014 annual report, which does not form part of this report. The Company is a significant part of Home Retail Group (the "Group"), so most of the risks detailed in that report are relevant to the Company, and are managed by the directors on a basis consistent with, and as part of, Home Retail Group's structured risk management process.

The Group operates a centralised treasury function which is responsible for managing the market risk (foreign exchange and interest rate risk), credit risk and liquidity risks associated with the Group's activities. These activities include those of the Company. The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties.

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 Group's Board of Directors as well as subject to internal audit review.

Market risk - foreign exchange risk

The Company is subject to foreign exchange risk with respect to a euro denominated group loan. Gains or losses arising from movements in the euro exchange rate are taken through the profit and loss account in the period to which they relate.

Market risk - interest rate risk

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

The Company's cash and borrowing requirements are managed centrally by the Group treasury function in order to manage the net interest income/expense for the Group as a whole. As a result, the Group's interest rate risk arises from the variance in market rate when deposits are made. 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.

Principal risks and uncertainties (continued)

Market risk - interest rate risk (continued)

The Company monitors its group receivable balances on an ongoing basis with any provision for impairments made as required.

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

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

- for a term deposit of up to £50m for up to 3 months a bank must have a minimum long-term rating of A- or better;
- for an additional 3 month term deposit of up to £50m, a bank must have a minimum long-term rating of A+, or a minimum rating of A if the UK Government holds a minimum shareholding of 25%;
- for a term deposit of up to £50m for a period 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.

Liquidity risk

The Company's liquidity risk is managed centrally by the Group treasury function.

The Group manages its cash and committed borrowing facilities to maintain liquidity and funding flexibility. Liquidity is achieved through arranging funding ahead of requirements and maintaining sufficient undrawn committed facilities to meet short-term needs, and facilities are in place for this purpose. At 2 March 2013, the Group had an undrawn committed borrowing facility available of £685m which had a contractual maturity date in July 2013. This facility, which was unsecured, included a covenant related to adjusted benchmark earnings before interest, tax, depreciation, amortisation and rent. The Group agreed a new unsecured, committed borrowing facility of £165m that will expire in March 2016. This new facility includes the covenant noted above and also includes a covenant related to net balance sheet debt. As a result of agreeing this new facility, the £685m facility that existed at 2 March 2013 was cancelled prior to its contractual maturity date. No drawings were made under either of the facilities in the year ended 1 March 2014.

Key performance indicators

The development, performance and position of the Homebase retail division, which includes the Company, is discussed on pages 16-19 in Home Retail Group plc's annual report for 2014 which does not form part of this report.

By order of the Board

PA McKelvey

P A McKelvey
Company Secretary

Date: 24/7/2014

The directors present their report and the audited financial statements of the Company for the 52 weeks ended 1 March 2014 (the "year").

Registered number

The registered number of the Company is 533033.

Results and dividends

The loss for the financial year was £22,222k (2013: loss £15,340k) after an exceptional charge of £45,603k (2013: charge £27,760k). Further details of the exceptional charge are provided in note 6. No dividend has been paid during the year, and the directors do not recommend the payment of a dividend (2013:£nil). The future developments and principal risks and uncertainties are discussed within the Strategic report on pages 1 and 2.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

R Ashton
T Duddy
P Loft
M Thompson
D W Adams (resigned 22 March 2013)
D F Davis (appointed 22 March 2013)

After the year end, on 14 March 2014, T Duddy resigned as a director and J Walden was appointed a director.

Company secretary

P A Parker resigned as Company Secretary of the Company on 28 June 2013 and P A McKelvey replaced him on the same date.

Land and Buildings

In the opinion of the directors, the market value of the Company's properties is not significantly different from the amount stated in note 11 to the financial statements.

Political Donations

The Company has made no political donations and incurred no items of political expenditure during the year (2013: £nil).

Creditor Payment Policy

For all trade creditors, it is the Company's policy to:
- Agree and confirm the terms of payment at the commencement of business with that supplier;
- Pay suppliers in accordance with applicable terms; and
- Continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationship.

Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. In addition, meetings are held to ensure that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newsletters, briefing groups and the distribution of the Home Retail Group plc 2014 results.

Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the 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 comply with the Companies Act 2006. 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.

Directors' liability insurance and third party indemnification provisions

During the year and up to the date of approval of the financial statements the Company maintained liability insurance for its directors. The Group also maintains third party indemnification provisions for certain directors, under which the Group has agreed to indemnify those 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 Group during business hours on any weekday except public holidays.

Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that:
a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
b) the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

By order of the Board

PAMcKelvey

P A McKelvey
Company Secretary

Date: 24/7/2014

Independent auditors' report to the members of Homebase Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

• give a true and fair view of the state of the company's affairs as at 1 March 2014 and of its loss for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

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

What we have audited

The financial statements, which are prepared by Homebase Limited, comprise:

• the balance sheet as at 1 March 2014;
• the profit and loss account and statement of comprehensive income for the year then ended;
• the statement of changes in equity for the year then ended; and
• the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

• whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
• the reasonableness of significant accounting estimates made by the directors; and
• the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the financial statements (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 misstatement or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

• we have not received all the information and explanations we require for our audit; or
• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
• the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Homebase Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, 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.

Graham Parsons (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date : 24 JULY 2014

Homebase Limited
Profit and loss account
For the 52 weeks ended 1 March 2014

	Notes	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Turnover		**1,415,829**	1,355,013
Cost of sales		**(754,195)**	(706,187)
Gross profit		**661,634**	648,826
Net operating expenses - before exceptional items	4	**(630,121)**	(622,063)
Operating profit before exceptional items		**31,513**	26,763
Net operating expenses - exceptional items	4, 6	**(45,603)**	(27,760)
Operating loss		**(14,090)**	(997)
- Interest receivable and similar income		**496**	20
- Interest payable and similar charges		**(6,627)**	(5,725)
Net interest payable and similar charges	7	**(6,131)**	(5,705)
Loss on ordinary activities before taxation		**(20,221)**	(6,702)
Tax on loss on ordinary activities	8	**(2,001)**	(8,638)
Loss for the financial year		**(22,222)**	(15,340)

Homebase Limited
Statement of comprehensive income
For the 52 weeks ended 1 March 2014

	Notes	**52 weeks ended 1 March 2014 £'000**	52 weeks ended 2 March 2013 £'000
Loss for the financial year		**(22,222)**	(15,340)
Items that may be reclassified subsequently to the profit and loss account			
Net change in fair value of forward foreign exchange contracts - cash flow hedges		**(10,873)**	4,982
Tax credit/(charge) in respect of items that will be or have been reclassified	8	**2,338**	(1,137)
Other comprehensive (expense)/income for the financial year, net of tax		**(8,535)**	3,845
Total comprehensive expense for the financial year attributable to the owners of the Company		**(30,757)**	(11,495)

Homebase Limited
Balance sheet
As at 1 March 2014

	Notes	2014	2013
ASSETS		**£'000**	£'000
Fixed assets			
Intangible assets	9, 10	**26,924**	10,491
Tangible assets	11	**156,995**	159,970
Total fixed assets		**183,919**	170,461
Current assets			
Stock	13	**208,095**	219,425
Debtors	14	**755,814**	741,836
Other financial assets	19	**183**	5,805
Cash at bank and in hand	15	**20,936**	78,294
Total current assets		**985,028**	1,045,360
Total assets		**1,168,947**	1,215,821
LIABILITIES			
Long-term liabilities			
Creditors - amounts falling due after more than one year	16	**(174,574)**	(26,434)
Provisions for liabilities	17	**(85,919)**	(71,609)
Total long-term liabilities		**(260,493)**	(98,043)
Current liabilities			
Creditors - amounts falling due within one year	16	**(467,720)**	(665,936)
Provisions for liabilities	17	**(30,811)**	(17,773)
Other financial liabilities	19	**(5,597)**	(347)
Total current liabilities		**(504,128)**	(684,056)
Total liabilities		**(764,621)**	(782,099)
Net assets		**404,326**	433,722
Capital and reserves			
Called up share capital	21	**472,579**	472,579
Profit and Loss account		**(63,900)**	(43,039)
Hedging reserve		**(4,353)**	4,182
Total shareholders' funds		**404,326**	433,722

The financial statements on pages 8 to 34 were approved by the Board of Directors and were signed on their behalf by:

D F Davis
Director

Date: 24/1/2014

Homebase Limited
Statement of changes in equity
For the 52 weeks ended 1 March 2014

	Attributable to owners of the Company			
	Called up share capital	**Profit and loss account**	**Hedging reserve**	**Total shareholders' funds**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 3 March 2013	472,579	(43,039)	4,182	433,722
Loss for the financial year	-	(22,222)	-	(22,222)
Other comprehensive expense	-	-	(8,535)	(8,535)
Tax credit related to share based compensation	-	1,361	-	1,361
Total comprehensive expense	-	(20,861)	(8,535)	(29,396)
Balance at 1 March 2014	**472,579**	**(63,900)**	**(4,353)**	**(404,326)**

	Attributable to owners of the Company			
	Called up share capital	Profit and loss account	Hedging reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000
Balance at 4 March 2012	472,579	(27,699)	337	445,217
Loss for the financial year	-	(15,340)	-	(15,340)
Other comprehensive income	-	-	3,845	3,845
Total comprehensive (expense)/income	-	(15,340)	3,845	(11,495)
Balance at 2 March 2013	472,579	(43,039)	4,182	433,722

1. General information

Homebase Limited ("the Company") is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company's registered address is 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW.

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

2. Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historic cost basis modified for the revaluation of certain financial instruments. The principal accounting policies applied in the preparation of these financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied to all the years presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 26 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has adopted the intermediate parent exemption under section 400 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements as the ultimate parent company prepares publicly available consolidated financial statements in accordance with IFRS.

The key disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:
- Statement of cash flows
- IFRS 2 Share-based payments; IFRS 7 Financial Instrument disclosures; IAS 1 – Information on management of capital; IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective; IAS 24 disclosure of key management personnel compensation and for related party transactions entered into between two or more members of a group; the requirement to present roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16), intangible assets (IAS 38).

A summary of the more important accounting policies is set out below.

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting policies of the Company are described in further detail below.

Changes in accounting standards

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

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

2. Basis of preparation (continued)

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 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

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 Company 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.

Impairment of Goodwill

Goodwill is allocated to cash-generating units (CGUs) at the level of business segment. The Company 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. Actual outcomes could vary from these estimates.

Impairment of assets

Assets are subject to impairment reviews whenever changes in events or circumstances indicate that an impairment may have occurred. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. In the case of store assets, a CGU represents a single store.

Assets (or CGUs) are written down to their recoverable amount, which is the higher of fair value less costs to sell and value-in-use. Value-in-use is calculated by discounting the expected cash flows from the asset at an appropriate discount rate for the risks associated with that asset. This includes estimates of both the expected cash flows and an appropriate discount rate which use management's assumptions and estimates of the future performance of the asset. Differences between expectations and the actual cash flows will result in differences in the level of impairment required.

A previously recognised impairment loss is reversed if there has been a significant change in the underlying assumptions used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

Stock provisions

Stock is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Net realisable value takes into account slow moving, obsolete and defective stock. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

Provisions

Provisions have been estimated for property (including onerous leases), insurance, restructuring and other liabilities. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular store or the incidence of insurance claims against the Company. 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.

3. Summary of principal accounting policies

Turnover

Turnover 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 returns. Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of turnover can be measured reliably. Turnover on goods to be delivered is recognised when the customer receives delivery of the goods. The Company operates a variety of sales promotion schemes that give rise to goods being sold at a discount to the standard retail price. Turnover is shown net of value added tax, returns, discounts and the cost of Nectar reward points issued and redeemed. Commissions receivable on the sale of services for which the Company acts as agents are included within turnover. A provision for estimated returns is made representing the profit on goods sold during the period which will be returned and refunded after the period end.

Foreign currencies

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 profit and loss account 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 profit and loss account as appropriate.

Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition of a business over the fair value of the identifiable net assets 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. 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 Company.

Other Intangible Assets

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.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licenses 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 Company, 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 three to seven 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.

3. Summary of principal accounting policies (continued)

Tangible assets

Tangible assets 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. 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 Company's business.

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 - 10 years according to the estimated life of the asset;
- land and assets in 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.

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.

Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of debtors. The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade debtors recognised in the profit and loss account immediately.

Stock

Stock is stated at the lower of cost and net realisable value. The cost bases in use within the Company are general retail goods valued on a weighted average basis which approximates to actual cost. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of stock include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to their purchase.

The Company legally owns consignment stocks held at the retail outlets of two Group companies, Hampden Group Limited and Homebase House and Garden Centre Limited. Ownership of this consignment stock passes from the Company to Hampden Group Limited and Homebase House and Garden Centre Limited when the stock is sold to customers. This consignment stock is recognised in the balance sheets of Hampden Group Limited and Homebase House and Garden Centre Limited as they bear the risks and rewards of ownership of the stock. This consignment stock is therefore not included in the Company's stock shown in the balance sheet.

3. *Summary of principal accounting policies (continued)*

Cash at bank and in hand

Cash at bank and in hand 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.

Creditors

Trade creditors 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 one year. They are recognised initially at fair value and subsequently remeasured at amortised cost.

Current and non-current tax

Current tax and non-current tax are based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

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 taxation 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 temporary differences can be utilised either through future profits generated by the Company or through being made available via group relief.

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.

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 profit and loss account 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.

3. Summary of principal accounting policies (continued)

Provisions

Provisions are recognised when:
- the Company 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 Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Provisions are made for property provisions, including onerous lease contracts for stores that have closed or where a decision to close has been announced, and for those stores where the projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. Provisions for other costs and income on store closures are recognised where such an outflow or inflow is likely.

Provisions are also made for the estimated costs of insurance claims incurred by the Company but not settled at the balance sheet date, restructuring costs and other liabilities.

Pensions and post retirement benefits

For certain employees, the Company contributed to the Home Retail Group defined benefit pension plan. This scheme is closed to new employees, and on 31 January 2013 the scheme also closed to future pension accrual. The assets of the scheme are administered by trustees and are separate from the Company.

The Company's participation in the Home Retail Group defined benefit pension plan falls within the multi-employer scheme exemptions permitted within IAS19 - Employee benefits. The Company's participation in this defined benefit scheme has therefore been accounted for as if it were a defined contribution scheme, and contributions have been charged in the profit and loss account in the period in which they are due.

The Company also contributed to the defined contribution Home Retail Group Personal Pension Plan. The scheme is funded by contributions partly from the employee and partly from the Company at rates determined in accordance with the Scheme rules. The cost of these are charged to the profit and loss account during the year in which contributions are payable.

Financial instruments

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through the profit and loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets and liabilities at fair value through the profit and loss

Financial assets and liabilities at fair value through the profit and loss account are so designated by management on initial recognition. Derivatives are generally designated as hedges. Financial assets and liabilities at fair value through profit or loss are initially recorded at fair value with gains or losses arising from changes in their fair value presented in the profit and loss account. Items in this category are classified as current assets or current liabilities if they are expected to be realised within 12 months of the balance sheet date.

3. Summary of principal accounting policies (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment and are included in current assets. Loans and receivables comprise trade and other receivables, cash at bank and in hand and current asset investments in the balance sheet.

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 Company designates certain derivatives as cash flow hedges - hedges of highly probable forecast transactions.

The Company 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 Company 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 Company's statement of comprehensive income.

Cash flow hedges

The cash flow hedges are intended to hedge the foreign currency exposures of the future purchases of stock. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account. The hedged cash flow is expected to occur up to 9 months into the future and will be transferred to the profit and loss account via stock carrying value as applicable.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the profit and loss account over the period to maturity.

Fair value estimation

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Company 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 debtors and creditors 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 Company for similar financial instruments.

3. Summary of principal accounting policies (continued)

Share-based payments

The Company 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 vesting estimate is revisited at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes or Monte Carlo models, or closing market price is most appropriate to the award. Market based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance. The Company is recharged an allocation of the Homebase group charge, based on numbers of full time equivalent employees, with the charge taken to the profit and loss account.

Non-GAAP financial information

Exceptional items

Items which are both material and non-recurring are presented as exceptional items within the profit and loss account. The separate reporting of exceptional items helps provide a better indication of underlying performance of the Company. Examples of items which may be recorded as exceptional items are property provisions including onerous leases, impairment charges and restructuring costs.

4. Net operating expenses

	52 weeks ended 1 March 2014			52 weeks ended 2 March 2013		
	Before exceptional items	**Exceptional items (note 6)**	**After exceptional items**	Before exceptional items	Exceptional items (note 6)	After exceptional items
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Expenses by function						
Selling costs	**(557,138)**	**(23,068)**	**(580,206)**	(554,550)	(4,433)	(558,983)
Administrative expenses	**(72,983)**	**(22,535)**	**(95,518)**	(67,513)	(23,327)	(90,840)
Net operating expenses	**(630,121)**	**(45,603)**	**(675,724)**	(622,063)	(27,760)	(649,823)

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Profit before tax is stated after (charging)/crediting:		
Operating lease rentals:		
- Plant and equipment	**(1,290)**	(1,292)
- Property	**(173,955)**	(178,382)
Rents receivable	**3,526**	3,958
Cost of stocks recognised as an expense in cost of sales	**(659,764)**	(617,209)
Write down of stock	**(12,832)**	(12,201)
Profit on sale of tangible assets	**270**	151
Depreciation of tangible assets (note 11)	**(28,994)**	(30,149)
Amortisation of intangible assets (note 10)	**(3,869)**	(1,107)
Exceptional items (note 6)	**(45,603)**	(27,760)
Auditors' remuneration:		
Company audit	**(163)**	(168)
Fee payable to the auditors for audit of other group companies	**(10)**	(30)

5. Employee costs and employee numbers

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Employee costs		
Wages and salaries	(193,078)	(192,491)
Social security costs	(13,183)	(13,631)
Other pension costs	(3,676)	(3,408)
Share-based payment costs	(3,463)	(3,861)
	(213,400)	(213,391)

5. Employee costs and employee numbers (continued)

The monthly average number of persons employed by the Company during the year including directors and those employed on a part-time basis, was made up as follows:

	52 weeks ended 1 March 2014 Number	52 weeks ended 2 March 2013 Number
Average number of employees		
Stores	**15,187**	15,947
Administration and other	**920**	904
	16,107	16,851

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Directors emoluments		
Aggregate emoluments	**(1,282)**	(1,376)

T Duddy and R Ashton are directors of Home Retail Group plc, the Company's ultimate holding company. M Thompson is also a director of Argos Limited. It is not possible to calculate a meaningful allocation of the emoluments of the Home Retail Group plc and Argos Limited directors to subsidiaries. Consequently, no emoluments relating to these directors have been apportioned or recharged to the Company.

Following the closure of the Home Retail Group's defined benefit pension scheme to future accrual from 31 January 2013, and excluding the directors of Home Retail Group plc and Argos Limited, no director (2013: nil) is accruing retirement benefits under a defined benefit scheme at the end of the year. During the year no director (2013: nil) exercised share options, and two directors (2013: one) received shares or became entitled to receive shares under long-term incentive schemes.

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Highest paid director		
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long-term incentive schemes).	**(966)**	(1,063)

The highest paid director also received a dividend equivalent payment of £36k (2013: £23k) following the vesting of share awards. The accrued pension per annum of the highest paid director under the defined benefit scheme at 1 March 2014 was £59k (2013: £183k). During the year the highest paid director received shares or became entitled to receive shares under long-term incentive schemes, but did not exercise any share options (2013: none).

6. Exceptional items	**52 weeks ended 1 March 2014 £'000**	52 weeks ended 2 March 2013 £'000
Impairment of investment in subsidiary undertaking (note 12)	**(19,032)**	-
Restructuring of subsidiary undertaking	**(271)**	-
Reversal/(charge) of impairment loss on amounts owed by subsidiary company	**13,746**	(21,549)
Property provision charge (note 17)	**(36,379)**	(6,369)
Reversal of impairment loss for tangible assets (note 11)	**2,305**	-
Restructuring and reorganisation provision charge (note 17)	**(5,972)**	158
Total exceptional (charge)/release	**(45,603)**	(27,760)

During the year, the Company invested £19,032k in the acquisition of new ordinary shares in its subsidiary undertaking Homebase House and Garden Centre Limited which trades in the Republic of Ireland. The Company acquired these new shares as part of a restructuring of Homebase House and Garden Centre Limited which successfully exited Examinership under the Republic of Ireland's Companies (Amendment) Act 1990. This new investment in Homebase House and Garden Centre Limited is impaired, and an exceptional charge of £19,032k has been made to write down this investment to its recoverable amount. This follows an impairment review as a result of the Examinership process and the ongoing difficult trading environment in the Republic of Ireland. The Company also incurred costs of £271k relating to the restructuring of its subsidiary undertaking.

In the prior year, amounts owed to the Company by Homebase House and Garden Centre Limited, had become impaired, and an exceptional charge of £21,549k was made in 2013 to reflect the write down to its recoverable amount. In the current year, the €19,062k owing to Homebase House and Garden Centre Limited by the Company for the purchase of 15,128,570 of the total 17,832,538 shares acquired were offset against the outstanding intercompany sum due to the Company from Homebase House and Garden Centre Limited. This has contributed to the partial reversal of the impairment of amounts owed by subsidiary company, and an exceptional release of £13,746k has therefore been credited to the profit and loss account in the year.

Property provisions of £36,379k have been charged to the profit and loss account as an exceptional item in the financial year (2013: £6,369k). This follows a review of the property provisions for a number of onerous lease contracts and for store closures.

In 2009, tangible assets were subject to an impairment review. Following that review, certain store property, plant and equipment was written down to the higher of fair value less costs to sell and value-in-use, and an exceptional impairment charge was recognised in 2009. During the current year management has undertaken an impairment review of tangible assets, and as a result, a surplus £2,305k of impairment provision in respect of certain stores' property, plant and equipment has been released to the profit and loss account as an exceptional item, and debited to the carrying value of tangible assets. Where the value-in-use of the store assets is higher that their net realisable value, the value-in-use is based on the present value of the expected future cashflows from trading the stores using a discount rate of 5.8%.

Restructuring and reorganisation costs represent costs relating to several organisational changes to improve the efficiency of the Company and to drive further cost productivity in stores.

7. Net interest payable and similar charges

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Interest receivable and similar income		
Bank deposit interest and similar income	45	20
Financing fair value remeasurements - net exchange gains	451	-
Total interest receivable and similar income	496	20
Interest payable and similar charges		
Interest to group undertakings	(1,464)	(1,122)
Bank loans and other interest	20	133
Unwinding of discounts	(5,183)	(4,736)
Total interest payable and similar charges	(6,627)	(5,725)
Net interest payable and similar charges	(6,131)	(5,705)

Bank loans and other interest expense includes a release of a surplus prior year accrual of £24k (2013: £137k).

8. Tax on loss on ordinary activities

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Analysis of charge in the year		
Current tax:		
UK corporation tax	(5,538)	(8,860)
Adjustment in respect of previous years	6,898	374
Total current tax credit/(charge)	1,360	(8,486)
Deferred tax:		
Origination and reversal of temporary differences	22	938
Adjustment in respect of previous years	(1,579)	197
Rate change impact	(1,804)	(1,287)
Total deferred tax charge (note 20)	(3,361)	(152)
Total tax charge in profit and loss account	(2,001)	(8,638)

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Tax included in other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Cash flow hedges	2,501	(1,196)
Rate change impact	(163)	59
Total tax credit/(charge) in other comprehensive income	2,338	(1,137)

8. Tax on loss on ordinary activities (continued)

Factors affecting the tax charge

The effective tax rate for the year of -9.9% (2013: -128.9%), is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	52 weeks ended 1 March 2014 £'000	52 weeks ended 2 March 2013 £'000
Loss before tax	(20,221)	(6,702)
Loss before tax multiplied by the standard rate of corporation tax in the UK	4,666	1,620
Effects of:		
Expenses not deductible for taxation purposes	(9,257)	(7,681)
Transfer pricing adjustments	(6,625)	(6,907)
Adjustment in respect of previous years	5,319	571
Rate change impact	(1,804)	(1,287)
Loss relief surrendered by group companies for nil consideration	5,700	5,046
Total tax charge in profit and loss account	(2,001)	(8,638)

Factors that may affect future tax charges

The income tax expense for the year is based on the United Kingdom statutory rate of corporation tax for the year of 23% (2013: 24%). The rate change impact relates to the reduction of the UK corporation tax rates from 23% to 20% from 1 April 2015, this is the substantively enacted rate, which differs from the substantively enacted rate of 21% from 1 April 2014. This change has resulted in a deferred tax charge arising from the reduction in the balance sheet carrying value of the net deferred tax asset to reflect the enacted rate of tax at which those assets are expected to reverse.

9. Goodwill

	Goodwill £'000
Cost	
At 3 March 2013 and 1 March 2014	43,771
Impairment	
At 3 March 2013 and 1 March 2014	(43,771)
Net book value at 1 March 2014 and 3 March 2013	-

The goodwill arose on the acquisition of the Focus DIY stores in 2008.

10. Other intangible assets

	Computer software £'000
Cost	
At 3 March 2013	25,987
Additions	17,304
Reclassification from tangible assets	2,998
At 1 March 2014	**46,289**
Accumulated amortisation	
At 3 March 2013	(15,496)
Charge for the year	(3,869)
At 1 March 2014	**(19,365)**
Net book value at 1 March 2014	**26,924**
Net book value at 2 March 2013	10,491
Assets in the course of construction included above at 1 March 2014	1,060

11. Tangible assets

	Freehold properties £'000	Short leasehold properties £'000	Plant & Equipment £'000	Total £'000
Cost				
At 3 March 2013	52,174	167,024	395,983	615,181
Additions	-	1,518	25,909	27,427
Disposals	-	(922)	(2,362)	(3,284)
Reclassification to other intangible assets	-	-	(2,998)	(2,998)
At 1 March 2014	**52,174**	**167,620**	**416,532**	**636,326**
Accumulated depreciation				
At 3 March 2013	(26,292)	(126,570)	(302,349)	(455,211)
Charge for the year	(479)	(4,659)	(23,856)	(28,994)
Disposals	-	665	1,904	2,569
Exceptional impairment release (note 6)	426	572	1,307	2,305
At 1 March 2014	**(26,345)**	**(129,992)**	**(322,994)**	**(479,331)**
Net book value at 1 March 2014	**25,829**	**37,628**	**93,538**	**156,995**
Net book value at 2 March 2013	25,882	40,454	93,634	159,970
Assets in the course of construction included above at 1 March 2014	-	-	291	291

In 2009, store fixed assets were subject to an impairment review. Following that review, a number of stores' fixed assets were written down to the higher of fair value less costs to sell and value-in-use, and an exceptional impairment charge was recognised in 2009. During the current year management has undertaken an impairment review of store fixed assets, and as a result, a surplus £2,305k of impairment provision in respect of certain stores' property, plant and equipment has been released to the profit and loss account as an exceptional item. Where the value-in-use of the store assets is higher that its net realisable value, the value-in-use is based on the present value of the expected future cashflows from trading the store using a discount rate of 5.8%.

12. Investments in other companies

	Subsidiaries
	£'000
Cost	
At 3 March 2013	2,508
Additions	19,032
At 1 March 2014	21,540
Impairment	
At 3 March 2013	(2,508)
Exceptional charge for the year (note 6)	(19,032)
At 1 March 2014	(21,540)
Net book value at 1 March 2014	-

	Subsidiaries
	£'000
Cost	
At 4 March 2012 and 2 March 2013	2,508
Impairment	
At 4 March 2012 and 2 March 2013	(2,508)
Net book value at 2 March 2013	-

The principal subsidiary undertaking is Homebase House and Garden Centre Limited which is a trading company incorporated in the Republic of Ireland (ROI) and its activity is the retailing of home enhancement products within the ROI.

During the year, the Company acquired 2,703,968 new ordinary shares of €1.26 each, at par, in its subsidiary undertaking, Homebase House and Garden Centre Limited, for €3,407k in cash. The Company acquired a further 15,128,570 new ordinary shares, at par, and the €19,062k owed in respect of these shares was offset against the outstanding intercompany sum due to the Company from Homebase House and Garden Centre Limited. The Company acquired these new shares due to the restructuring of Homebase House and Garden Centre Limited as part of its successful exit from the Examinership process under the Republic of Ireland's Companies (Amendment) Act 1990.

This new investment in Homebase House and Garden Centre Limited is impaired, and an exceptional charge of £19,032k has been made to write down this investment to its recoverable amount. This follows an impairment review as a result of the Examinership process and the ongoing difficult trading environment in the Republic of Ireland.

The investments in other companies above are stated at cost less provision for impairment and include the following:

12. Investments in other companies (continued)

Investment in subsidiaries

Company Name	Principal activity	Country of Incorporation	Class and proportion of nominal shares held	
Homebase House & Garden Centre Limited	Home enhancement retailer	Republic of Ireland	Ordinary	91.11%*
			Deferred Ordinary	100%
Index Limited	Dormant	United Kingdom	Ordinary	100%
Texas Services Limited	Dormant	United Kingdom	Ordinary	100%
Homebase Spend & Save Limited	Dormant	United Kingdom	Ordinary	100%
Focal Point (Lighting) Limited	Dormant	United Kingdom	Ordinary	100%
MI Home Limited	Dormant	United Kingdom	Ordinary	100%
Modern Interiors Limited	Dormant	United Kingdom	Ordinary	100%
Texas (NI) Limited	Dormant	Northern Ireland	Ordinary	100%
Homebase (NI) Limited	Dormant	Northern Ireland	Ordinary	100%

* The remaining 8.89% of the ordinary shares in Homebase House and Garden Centre Limited are held by Hampden Group Limited, a parent company of the Company.

13. Stock

	2014 £'000	2013 £'000
Finished goods	**208,095**	219,425

Trading stock excludes £9,805k (2013: £11,052k) of consignment stock, which is legally owned by the Company but which is held by Hampden Group Limited and Homebase House and Garden Centre Limited. This consignment stock is shown in the financial statements of these other Group companies as they bear substantially all the risks and rewards of trading this stock through their retail stores. Ownership of this stock passes from the Company to Hampden Group Limited and Homebase House and Garden Centre Limited when these companies sell the stock.

14. Debtors

	2014 £'000	2013 £'000
Amounts falling due after more than one year:		
Deferred tax (note 20)	**14,998**	15,911
Amounts falling due within one year:		
Trade debtors	**2,946**	2,633
Less provision for impairment of debtors	**(137)**	(301)
	2,809	2,332
Amounts owed by group undertakings	**662,418**	658,907
Other debtors	**55,313**	44,437
Prepayments and accrued income	**20,276**	20,249
	755,814	741,836

Amounts owed by group undertakings are unsecured, repayable on demand and non-interest bearing.

The current amounts owed by group undertakings include a provision of £6,652k (2013: £21,549) against amounts receivable from the Company's directly held subsidiary in Ireland, Homebase House and Garden Centre Limited, following an impairment review.

15. Cash at bank and in hand

	2014	2013
	£'000	£'000
Cash at bank and in hand	**20,936**	78,294

16. Creditors

	Amounts falling due within one year 2014	**Amounts falling due after more than one year 2014**	Amounts falling due within one year 2013	Amounts falling due after more than one year 2013
	£'000	**£'000**	£'000	£'000
Trade creditors	**(95,482)**	**-**	(98,892)	-
Amounts owed to group undertakings	**(131,788)**	**(150,000)**	(342,826)	-
Amounts owed to immediate parent undertaking	**(54,944)**	**-**	(54,944)	-
Social security costs and other taxes	**(37,161)**	**-**	(33,804)	-
Accruals and deferred income	**(115,361)**	**(24,574)**	(104,241)	(26,434)
Corporation tax liability	**(4,259)**	**-**	(4,590)	-
Other creditors	**(28,725)**	**-**	(26,639)	-
	(467,720)	**(174,574)**	(665,936)	(26,434)

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

The Company had an unsecured loan totalling £150,000k (2013: £150,000k) with an effective rate of interest of Bank Base Rate plus 0.25% from a group undertaking, Home Retail Group (UK) Limited, which matured on 24 January 2014. On the same day, the Company entered into a new loan agreement with Home Retail Group (UK) Limited, for a principal sum of £150,000k with a repayment date of 24 January 2019. This new loan carries interest at the Official Bank Rate plus 2.5% per annum.

Other amounts owed to group undertakings at the year end are unsecured, repayable on demand and non-interest bearing.

17. Provisions for liabilities

	Property	Restructuring	Insurance	Deferred tax (note 20)	Total
	£'000	£'000	£'000	£'000	£'000
At 3 March 2013	(84,731)	(86)	(3,314)	(1,251)	(89,382)
Credited/(charged) to the profit and loss account	7,002	-	(1,103)	-	5,899
Credited to the statement of comprehensive income	-	-	-	2,338	2,338
Exceptional (charge)/release to the profit and loss account (note 6)	(36,379)	(5,972)	-	-	(42,351)
Utilised during the year	4,921	5,986	1,678	-	12,585
Exchange differences	451	-	-	-	451
Discount unwind	(5,183)	-	-	-	(5,183)
Transfer to deferred tax assets (note 20)	-	-	-	(1,087)	(1,087)
At 1 March 2014	**(113,919)**	**(72)**	**(2,739)**	**-**	**(116,730)**

Analysed as	**2014** £'000	**2013** £'000
Amounts falling due within one year	**(30,811)**	**(17,773)**
Amounts falling due after more than one year	**(85,919)**	**(71,609)**
	(116,730)	**(89,382)**

Property provisions comprise obligations on onerous leases together with other costs or income associated with store closures. In respect of onerous leases, provision is made for onerous lease contracts on stores that have either closed, or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. Where the value-in-use calculation is lower, the provision is based on the present value of expected future cash flows relating to rents, rates and other property costs to the end of the lease terms net of expected trading or sublet income. This provision is expected to be utilised over the life of the leases.

A number of organisational changes have taken place to improve the operational efficiency of the Company and drive further cost productivity. Actions taken included the restructuring of store-based staff. The remaining provision is expected to be utilised within one year.

Provision is made for the estimated costs of insurance claims incurred by the Company but not settled at the balance sheet date, including the costs of claims that have arisen but have not yet been reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The majority of this provision is expected to be utilised within one year.

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

18. Post-employment benefits

The Company contributes to the Home Retail Group Personal Pension Plan, a defined contribution pension plan operated by Home Retail Group plc for employees of the group. Both the Company and the employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in the profit and loss account, comprises the amount of the contributions payable to the scheme in respect of the year.

Certain employees of the Company participated in the defined benefit Home Retail Group Pension Scheme until it closed to future accrual with effect from 31 January 2013. The assets of this scheme are held by independently administered funds. The contributions to this defined benefit scheme are based on actuarial valuations, carried out by Towers Watson, an independent actuary and the contributions are set at a common level for the scheme as a whole. The latest actuarial valuation of the defined benefit Home Retail Group Pension Scheme was undertaken on 31 March 2012. The next full actuarial valuation of the scheme will be carried out as at 31 March 2015. The Company is unable to identify its share of the underlying assets and liabilities in this scheme on a consistent and reasonable basis. The scheme's assets are used to provide benefits for all its members irrespective of the participating employers and it is not possible to place a value on the assets only in respect of the Homebase employees.

As a result, the Company's membership of the defined benefit Home Retail Group Pension Scheme falls within the multi-employer scheme exemption of IAS 19. The contributions to the defined benefit scheme are therefore accounted for as if they were made to a defined contribution scheme.

At 1 March 2014, the IAS 19 valuation of the Home Retail Group Pension Scheme shows a net pension deficit £75,538k (2013: deficit £83,599k). The valuations used for IAS 19 have been based on the most recent 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 scheme at the year end. This net pension deficit is recognised in the 2014 financial statements of Argos Limited. Further details of the defined benefit Home Retail Group Pension Scheme can be found in the 2014 financial statements of Argos Limited.

The cost of the contributions for all schemes for the year were £3,676k (2013: £3,408k).

Outstanding pension contributions at the balance sheet date were £472k (2013: £417k).

19. Other financial assets and liabilities

	Current 2014 £'000	Current 2013 £'000
Total other financial assets:		
Forward foreign exchange contracts - cash flow hedges	**183**	5,805
Total other financial liabilities:		
Forward foreign exchange contracts - cash flow hedges	**(5,597)**	(347)

Forward foreign exchange contracts

The forward foreign exchange contracts are intended to hedge the foreign currency exposures of future purchases of stock. The hedged cash flows are expected to occur up to 9 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 to stock within one year from the balance sheet date. The notional principal amounts of the outstanding forward foreign exchange contracts at 1 March 2014 were £122,017k (2013: £121,882k). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

20. Deferred tax

The movements on the net deferred tax account are as follows:	**2014**	2013
	£'000	£'000
Opening deferred tax asset	**14,660**	15,949
Profit and loss account charge	**(3,361)**	(152)
Deferred tax credited/(charged) to statement of comprehensive income.	**2,338**	(1,137)
Deferred tax credited to equity	**1,361**	-
Closing deferred tax asset	**14,998**	14,660

The deferred tax amounts recognised are as follows:

Deferred tax assets:		
- Deferred tax asset to be recovered after more than one year	**14,998**	15,911
Deferred tax liabilities:		
- Deferred tax liability to be settled after more than one year	**-**	(1,251)
Net deferred tax asset	**14,998**	14,660

The closing deferred tax has been calculated at the enacted rate of 20% (2013: 23%), which differs from the UK corporation tax rate applied to the current year adjusted profits at 23%. The effect of the reduction in the UK corporation tax rate from 23% to 20% is a reduction in the net deferred tax asset at the end of 2014 of £2,249k. Of this £2,249k, £1,804k has been charged in the profit and loss account, £163k has been charged to the statement of comprehensive income and £282k has been charged directly to equity.

The movement in deferred tax assets and liabilities during the year is as follows:

	Share Options	**Asset provisions**	**Accelerated tax depreciation**	**Other temporary**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Deferred tax assets:					
At 3 March 2012	201	1,501	14,361	-	16,063
Profit and loss account credit/(charge)	321	2,621	(1,807)	-	1,135
Rate change impact	(29)	(225)	(1,033)	-	(1,287)
At 2 March 2013	493	3,897	11,521	-	15,911
Profit and loss account credit/(charge)	26	(1,523)	(60)	-	(1,557)
Rate change impact	-	(310)	(1,494)	-	(1,804)
Deferred tax credited to equity	1,361	-	-	-	1,361
Transfer from deferred tax liabilities	-	-	-	1,087	1,087
At 1 March 2014	**1,880**	**2,064**	**9,967**	**1,087**	**14,998**

	Other temporary differences	**Total**
	£'000	**£'000**
Deferred tax liabilities:		
At 3 March 2012	(114)	(114)
Deferred tax charged to statement of comprehensive income	(1,137)	(1,137)
At 2 March 2013	(1,251)	(1,251)
Deferred tax credited to statement of comprehensive income	2,338	2,338
Transfer to deferred tax assets	(1,087)	(1,087)
At 1 March 2014	**-**	**-**

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that temporary differences can be utilised either through future profits generated by the Company or through being made available via group relief.

21. Called up share capital	**2014**	2013
	£'000	£'000
Authorised:		
1,000,000,000 (2013: 1,000,000,000) ordinary shares at £1 each	**1,000,000**	1,000,000
Allotted, called-up and fully paid:		
472,579,474 (2013: 472,579,474) ordinary shares at £1 each	**472,579**	472,579

22. Share-based payments arrangements

Summary of share option and share award arrangements

During the year ended 1 March 2014, Home Retail Group plc had a number of share option and share award arrangements for its employees, all of which are equity settled. Details of these arrangements are as follows:

Share options

The Home Retail Group plc save-as-you-earn (SAYE) plan permits the grant to employees of options over the Company's shares linked to a building society save-as-you-earn contract for a term of three or five years with contributions from employees of between £5 and £250 per month. Options are normally capable of being exercised at the end of the three or five-year period at an exercise price calculated at a 20% discount to market price over the three dealing days preceding invitation to participants. Options must be exercised within six months of the end of the three or five-year SAYE contract.

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

The 1998 approved and non-approved executive share option schemes. Under these schemes, the exercise price of granted options was equal to the market price of the shares over the three dealing days preceding grant. The options became exercisable three years from the grant date, subject to the Group's EPS compound annual growth exceeding compound annual retail price inflation by 4% per annum over a continuous three-year period and the employee completing three years' service. The EPS growth target is not a market-based performance condition as defined by IFRS 2. The options have a maximum term of 10 years from grant. No new options have been granted under these schemes since 2006 and all outstanding awards have vested.

Share awards

The performance share plan (PSP). Awards made under this plan will normally vest three years after the date of grant for nil consideration. For all awards under this plan, vesting is conditional on participants' continued service. For those awards with performance conditions, the percentage of the award distributed to participants is determined either by ranking total shareholder return (TSR) relative to a comparator group or by reference to performance against other specific targets such as EPS growth, profit or free cash flow. The TSR target is considered a market-based performance condition under IFRS 2, and the awards with this performance condition have been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three-year period preceding valuation. The other targets are non market-based performance condition, and the awards with this performance condition have been valued by reference to the share price at the date of grant.

The plan was amended in 2010 to add an HM Revenue & Customs approved option to the share awards at no additional cost. The approved option is over the same number of shares as awarded under the normal PSP award, up to a maximum of £30,000. The value of the award determined 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.

22. Share-based payment arrangements (continued)

Summary of share option and share award arrangements (continued)

Share awards (continued)

The deferred bonus plan permitted the award of a deferred bonus that was converted into a conditional award of shares and operated for the year ended 27 February 2010 only. The award was based on performance against a benchmark PBT and a Group net cash target and was made at the maximum of 150% of salary in May 2010. The grant date is the start of the financial year in which the performance stage is assessed, which is one year before the shares are awarded. All awards have now vested, 1/6 on the first anniversary of the award, 2/6 on the second and 3/6 on the third anniversary.

The share incentive plan was a one-off free share grant to all employees at the time of the demerger. The shares were acquired by a trust on behalf of participants and will normally be forfeited if a participant's employment with the Group ceases 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.

The weighted average share price for share options exercised during the year was £1.88 (2013: £1.24).

Share options outstanding at the end of the year

Share options at the end of the year had the following exercise prices and remaining contractual lives:

	As at 1 March 2014			
		Weighted average exercise price	Weighted average remaining lives	
Range of exercise prices	Number of options	£	Expected years	Contractual years
£				
0.01 - 0.99	**6,957,598**	**0.59**	**1.9**	**2.5**
1.00 - 1.99	**1,881,081**	**1.37**	**2.3**	**3.0**
2.00 - 2.99	**168,684**	**2.01**	**1.1**	**1.9**
3.00 - 3.99	**565,720**	**3.60**	**0.0**	**1.3**

This information relates to the whole of the Homebase retail division (which includes employees of the Company, Hampden Group Limited and Homebase House and Garden Centre Limited).

23. Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014		2013	
	Land and buildings	**Equipment and vehicles**	Land and buildings	Equipment and vehicles
	£'000	**£'000**	£'000	£'000
Less than one year	**(172,259)**	-	(173,737)	(3)
Between one and five years	**(595,840)**	-	(610,199)	-
More than five years	**(745,684)**	-	(848,348)	-
Total operating leases	**(1,513,783)**	-	(1,632,284)	(3)

24. Capital commitments

Capital expenditure for which contracts have been placed:

	2014	2013
	£'000	£'000
Tangible assets	**1,103**	1,177
Intangible assets	**3,595**	-
	4,698	1,177

25. Contingent Liabilities

The Company participates in cash pooling arrangements with other Home Retail Group Plc companies. The Company's bank account balances in these arrangements are pledged to guarantee borrowings by other companies in the pool. At the balance sheet date, the Group had total net cash balances on these cash pooling arrangements.

At 2 March 2013, Home Retail Group Plc had an undrawn committed borrowing facility available of £685m which had a contractual maturity date in July 2013. On 27 March 2013, the Group agreed a new unsecured, committed borrowing facility of £165m that will expire in March 2016. As a result of agreeing this new facility, the £685m facility that existed at 2 March 2013 was cancelled prior to its contractual maturity date. The Company acceded to both the £685m facility and the replacement £165m facility as a borrower and a guarantor. At the balance sheet date there were no drawings made under either of the facilities.

Several counter indemnities have been entered into by the Company relating to bank guarantee facilities of £5,099k (2013: £5,099k) provided to the Company.

The Company has guaranteed the lease obligations of several stores owned by its subsidiary undertaking, Homebase House and Garden Centre Limited, which trades in the Republic of Ireland. The annual lease payments made by Homebase House and Garden Centre Limited and which have been guaranteed by the Company amount to €487k (2013: €4,503k). The average remaining life of these guaranteed Homebase House and Garden Limited leases, allowing for lease break clauses, is 2 years (2013: 11 years). This contingent liability has reduced in the year following the completion of Examinership by Homebase House and Garden Centre Limited. As a consequence of this Examinership process a number of leases previously guaranteed by the Company were assigned to the Company.

26. Ultimate parent undertakings

The Company's immediate parent undertaking is Homebase Card Handling Services Limited, a company registered in England and Wales, by virtue of its 100% shareholding in the Company.

The Company's ultimate and controlling party is Home Retail Group plc, a company registered in England and Wales. The largest and smallest group of undertakings for which group financial statements have been prepared was that of Home Retail Group plc. Copies of these financial statements are available from its registered office at 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW.