



Deutsche Bank store tour, 1 February 2008

Paul Loft
Managing Director, Homebase



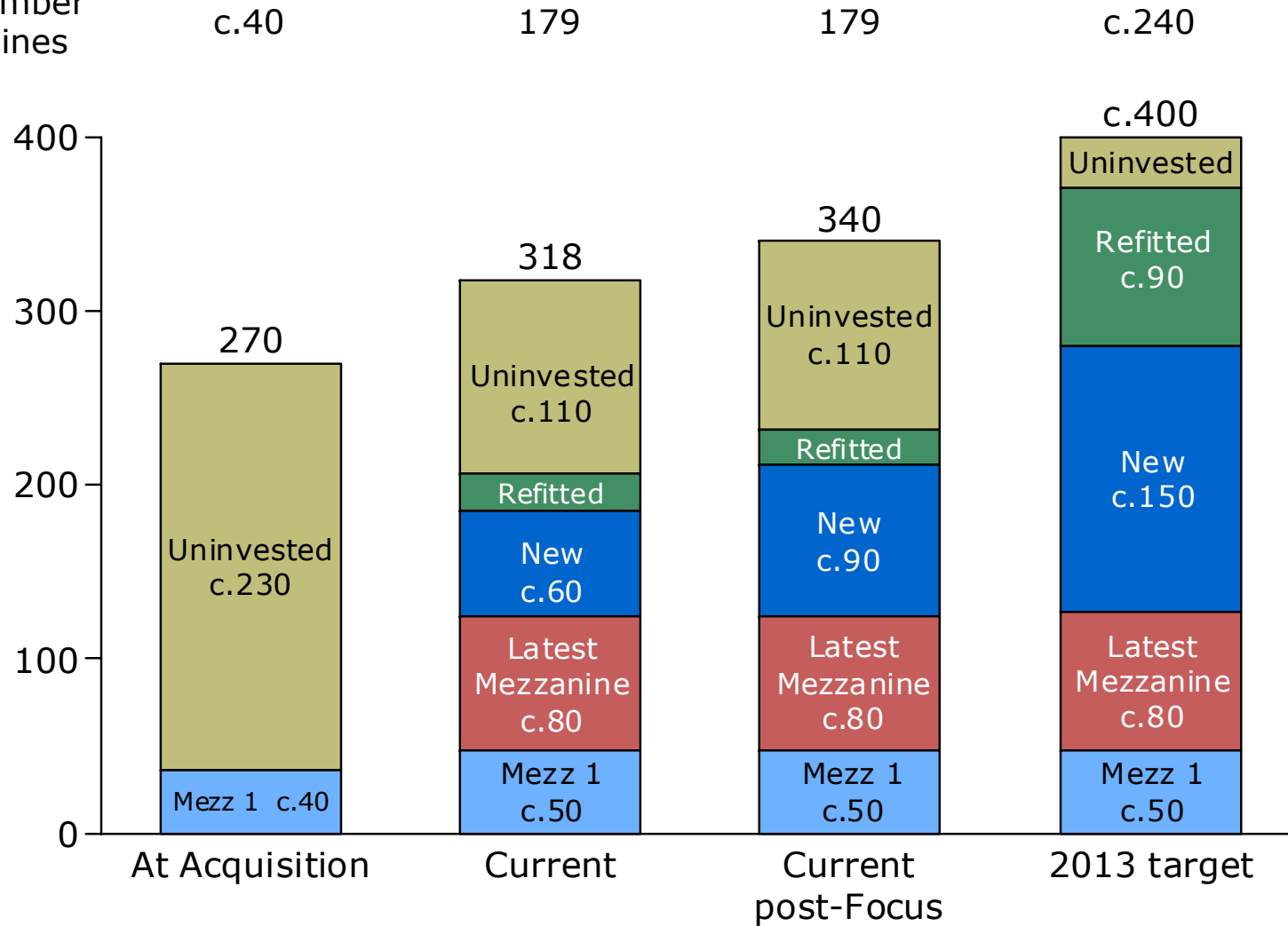
Agenda

- ▶ 'Virtual' store tours
- ▶ Operational improvements
- ▶ Differentiation
- ▶ Margin progress
- ▶ Consumer outlook
- ▶ Investment case summary



Homebase – store portfolio

Memo: number of mezzanines



► **Total long-term potential of c.450 Homebase stores**



Homebase – new stores

- ▶ Pipeline of 10-15 new stores a year
 - Capital of c.£1-2m per store
 - Total sales contribution from net new space c.3% p.a.
- ▶ Majority of new stores in smaller format
 - c.20-25k sq ft internal ground area
 - c.10k sq ft mezzanine
 - c.10k sq ft external garden centre
- ▶ Offer full range despite c.20% less space than average existing stores
- ▶ Enables us to target smaller catchments other retailer formats won't reach





Homebase - New store example



Photos from Bromborough store, opened 14 December 2007, 22k ft² gross internal area



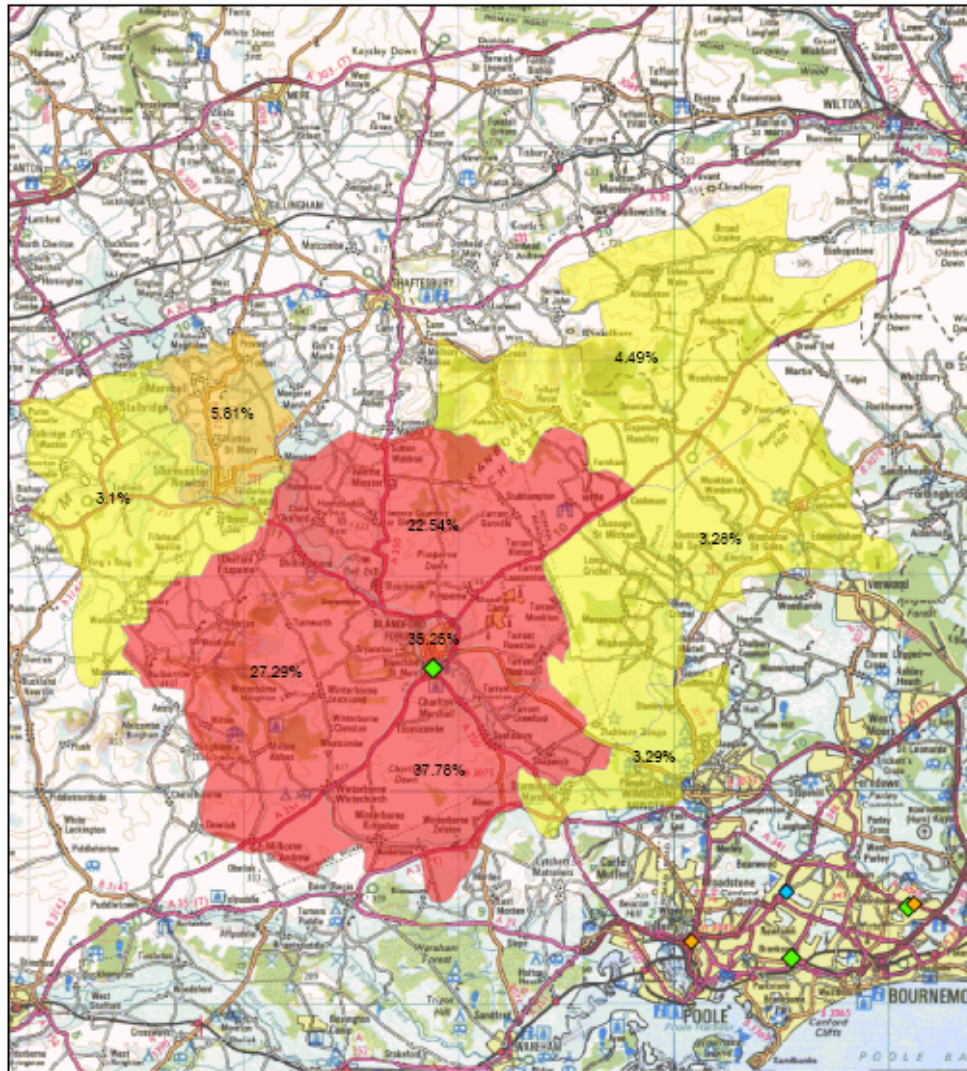
Homebase – full range in smaller space

- ▶ Space freed up from DIY area enabled us to put full range in smaller footprint
- ▶ Edited ranges in 'hard' DIY categories
 - Handtools, plumbing, timber etc
 - Freed up c.20% of space but maintained c.95% sales
- ▶ Maintained/ increased space in 'softer' or 'enhancement' DIY categories
 - Decorative fittings, radiator cabinets etc
 - Moved nearer front of DIY section
- ▶ Also grew space in non-DIY areas
 - Tiling, flooring etc



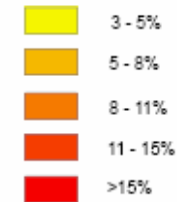


Homebase – smaller catchments



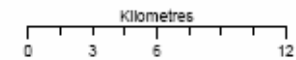
Blandford Forum HB Catchment

MARKET SHARE BY POST SECTOR



CATCHMENT DATA

Households in catchment - 20,814
Available Market - £18.964m
Overall Market Share - 19.4%
Store Size
Internal - 21,516 sqft
External - 6,972 sqft





Homebase – uninvested stores

- ▶ Strong performance of refit trials
 - 10 trials since 2006
 - Capital of c.£500k
 - Sales uplifts of c.15%
- ▶ Roll out programme being developed
 - c.70 stores identified
 - Capital of c.£300k to £700k
 - Sales uplifts of c.10%-15%
- ▶ Roll out programme to commence post integration of Focus stores

Changes made in recent refits

- ▶ Added/ increased space to:
 - Kitchens
 - Bathrooms
 - Furniture
 - Tiling & Flooring
 - Interior Store
- ▶ Downsized:
 - Core DIY areas
- ▶ Made only minor amends to:
 - Lighting



Homebase – uninvested stores



Photos from Salisbury and Loughborough refits, both completed October 2007



Homebase – Focus stores acquisition

Acquisition details

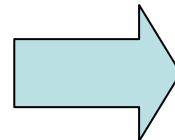
- ▶ 27 leasehold stores for £40m
- ▶ 22 (net) new sites
- ▶ c.700 new colleagues
- ▶ Capital investment £30m
- ▶ Transitional costs c.£15m
- ▶ Adds c.1m sqft / 6% new space
- ▶ Adds c.£90m sales / 6% sales
- ▶ 1st year EBIT contribution c.£10m

Timetable to Peak 2008

- ▶ Contracts complete 11th Oct
- ▶ Assignment Oct-Dec
- ▶ Colleague training Nov-Dec
- ▶ Store fit-out Nov-Feb
- ▶ All stores trading Peak '08



Homebase – Focus stores



Photos from Horwich and Stafford stores



Homebase – operational improvements

	Initially	Now	Aspiration
Availability	89%	97%	98%
Store service	74%	81%	85%
Staff engagement	19%	56%	60%

Source: Company data on all lines availability, ABA 2007 Mystery Shopper research, Company annual staff survey



Homebase – operational improvements

Shelf-ready packaging



'House2Home' DVD



Launch of 'Free2' cultural programme

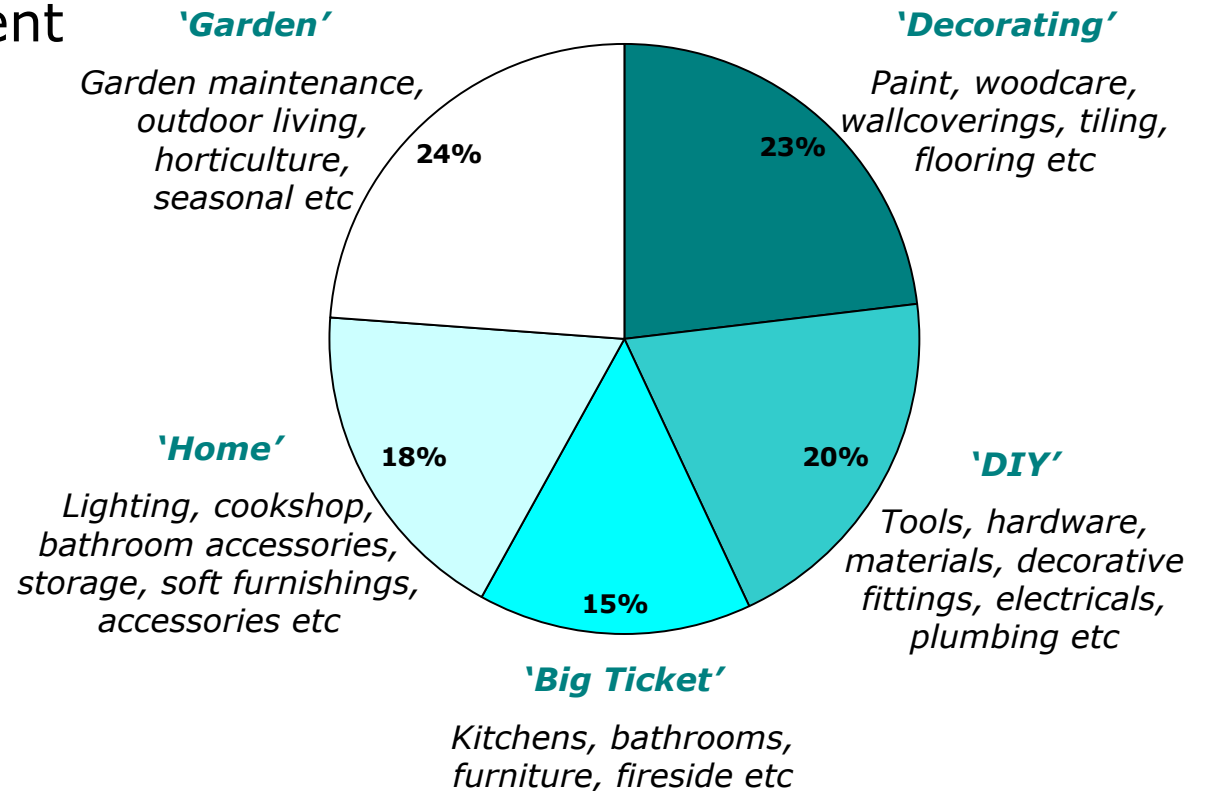




Homebase – a differentiated brand

- ▶ Focus on Home Enhancement
- ▶ 'Shop not Shed'
- ▶ DIY convenience store
- ▶ Big Ticket destination
- ▶ Furniture and furnishings
- ▶ Spend & Save

Homebase by 'World'



Year ended 3 March 2007



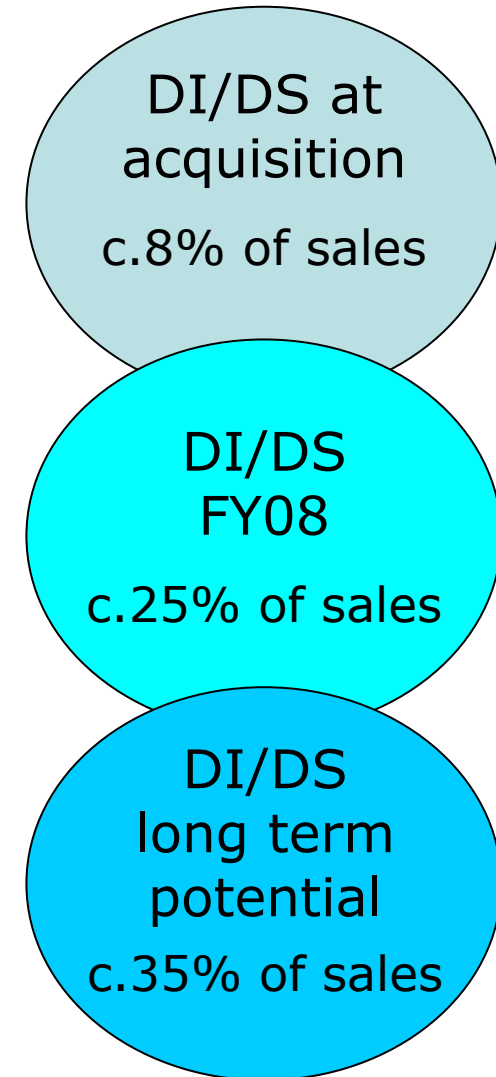
Homebase – margin progress

Historic factors

- ▶ c.100 bps gross margin improvement p.a. from ongoing sourcing initiatives
- ▶ Other gross margin impacts from:
 - Changes to promotion/clearance activity
 - FX movement
 - Stock management procedures

Continuing/future factors

- ▶ Scope for up to c.100 bps gross margin benefit p.a. over the short to medium term from further supply chain initiatives
- ▶ Further scale benefits from Focus acquisition and store opening programme





Homebase – margin progress

Joint buying with Argos



Offshore consolidation (e.g. Christmas)



Remote sourcing & packing





Homebase – consumer outlook

- ▶ **As referenced in latest trading statement**
 - Anticipated consumer slowdown now more evident
 - Obvious that sales growth in the short-term will be harder to come by

- ▶ **Trading for latest 18 weeks of September to early January demonstrated**
 - An overall sales decline that was fairly consistent across the business
 - ‘Big ticket’ was in overall positive growth, but this was driven by our own developments in Kitchens

- ▶ **Despite increasingly challenging environment, continue to believe we are well positioned in our market**
 - More top-line leverage from new space and Focus integrations
 - Targeting further gross margin gains via ongoing supply chain progress
 - Cost environment could prove better than previous slowdown



Homebase – investment case summary

▶ Deal logic remains

- Strong, differentiated brand and format
- Significant product overlap and other synergy benefits with Argos
- But impacted by market slowdown and operational gearing

▶ Clear achievements to date

- Product and format development
- Operational improvements
- Delivery of synergies in Homebase P&L and more so in Argos

▶ Key drivers of future growth and delivery on original investment

- Large home enhancement market with long-term growth
- Ongoing brand repositioning
- New store and investment programme (midi fits)
- Margin improvement plan



Deutsche Bank store tour, 1 February 2008

Sara Weller
Managing Director, Argos



Agenda

- ▶ The Argos store in a multi-channel model
- ▶ The customer journey
- ▶ The impulse opportunity
- ▶ 'Touch & feel' categories
- ▶ Operational performance
- ▶ A multi-channel Christmas 2007
- ▶ New catalogue
- ▶ Summary and outlook



The Argos store in a multi-channel model

"When is a store, not a store..."

▶ Customer journey starts at home

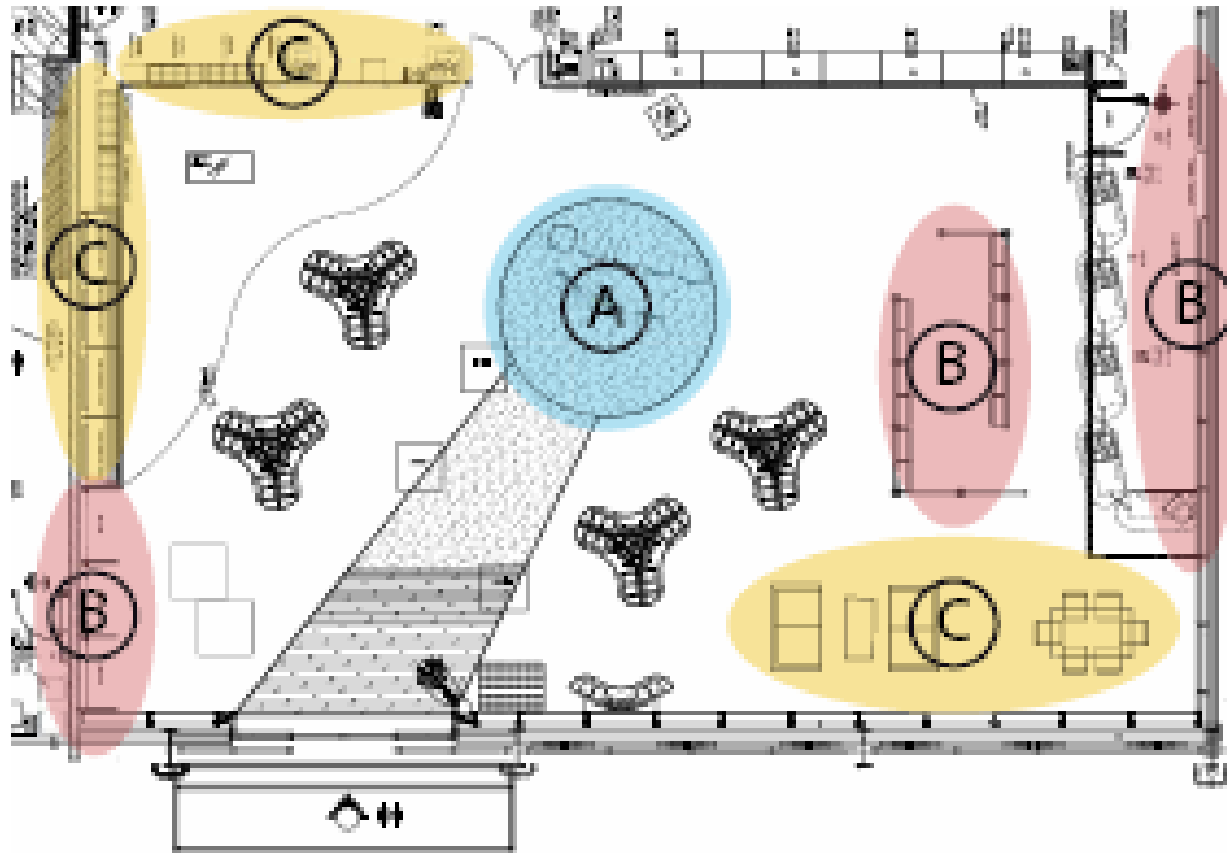
- Prompted by the catalogue, website, flyers, advertisements
- Approximately 80% of all customers part pre-select at home before coming to the store
- Approaching 20% of all sales are now pre-reserved ahead of store collection

▶ Role of store is to accommodate different 'journeys'

- "get in, get it, get out" service for pre-selectors
- Comfortable browsing space for in-store selectors
- Create impulse opportunities around 'deals' and essential add-ons
- Raise awareness and credibility of key categories



The store plan



- ▶ 700 stores; 478 traditional high street/shopping centre, 222 out-of-town
- ▶ Adding c.30 stores p.a.
- ▶ Focus on three aspects
 - a. 'The customer journey'
 - b. Impulse
 - c. 'Touch & Feel' categories

*Standard core format:
c.10,000 sq ft footprint
c.3,500 sq ft customer area
c.15,000 stockroom on 2 levels*



The customer journey

Goal: a clear and well signposted route through the store, for customers to get what they want quickly and easily



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▶ 'Red Route'





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Goal: a clear and well signposted route through the store, for customers to get what they want quickly and easily

- ▶ 'Red Route'
- ▶ Self service kiosks and new till operations

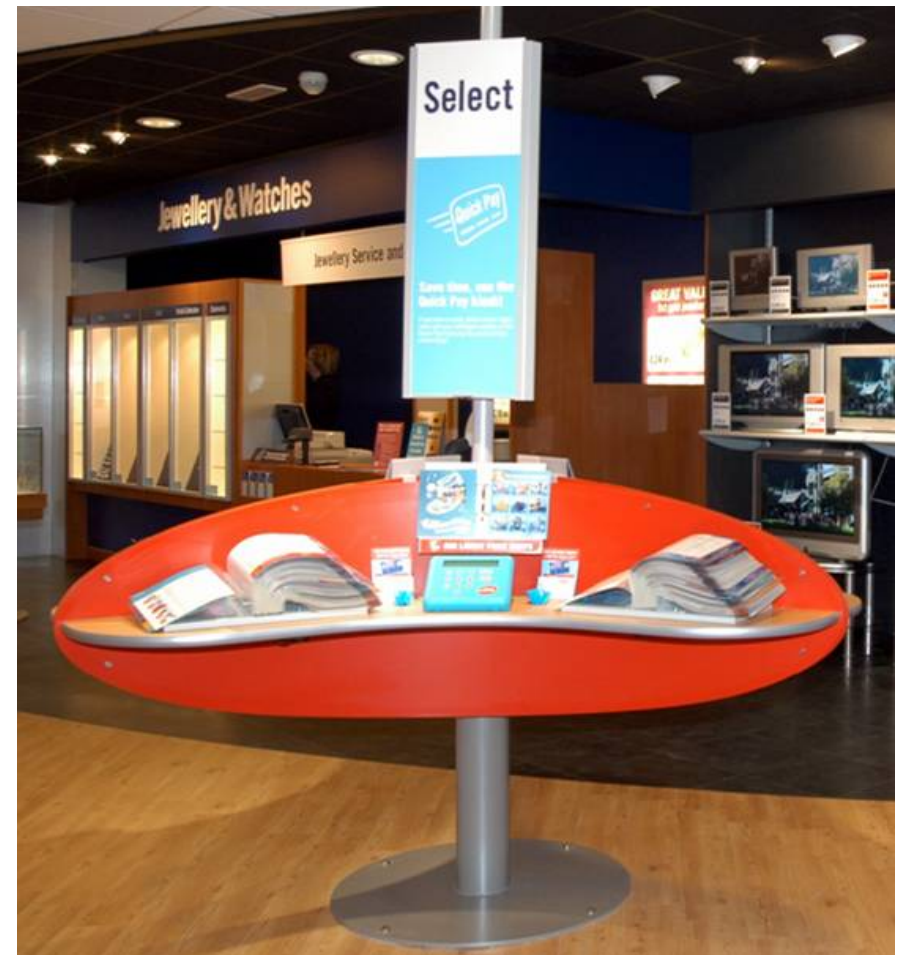




The customer journey

Goal: a clear and well signposted route through the store, for customers to get what they want quickly and easily

- ▶ 'Red Route'
- ▶ Self service kiosks and new till operations
- ▶ Comfortable browsers with all information to hand





The impulse opportunity

Goal: to capture value perception and additional spend via promotional presence and the presentation of 'add-ons'



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- ▶ Shop floor presentation





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- ▶ Wall-based merchandising
- ▶ Shop floor presentation
- ▶ Till-area opportunities
 - Baskets in queue





The impulse opportunity

Goal: to capture value perception and additional spend via promotional presence and the presentation of 'add-ons'

- ▶ Wall-based merchandising
- ▶ Shop floor presentation
- ▶ Till-area opportunities
 - Baskets in queue
 - Slat walls





'Touch & Feel': Technology

Goal: to reinforce credibility in high growth technology categories

- ▶ Key drivers of performance over past year and through peak



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- ▶ TV growth helped by greater 'stocked-in' range





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Goal: to reinforce credibility in high growth technology categories

- ▶ Key drivers of performance over past year and through peak
- ▶ TV growth helped by greater 'stocked-in' range
- ▶ Dedicated use of cabinet for single category (e.g. cameras) zoned by quality





'Touch & Feel': Technology

Goal: to reinforce credibility in high growth technology categories

- ▶ Key drivers of performance over past year and through peak
- ▶ TV growth helped by greater 'stocked-in' range
- ▶ Dedicated use of cabinet for single category (e.g. cameras) zoned by quality
- ▶ Increased 'interactive' presence for gaming consoles





'Touch & Feel': Furniture

Goal: to reinforce credibility (range and quality) in high headroom furniture category



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- ▶ Increased presence of 'Home' in core 3,500 sq ft customer area





'Touch & Feel': Furniture

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- ▶ Increased presence of 'Home' in core 3,500 sq ft customer area
- ▶ Supported by the 'Home' catalogue

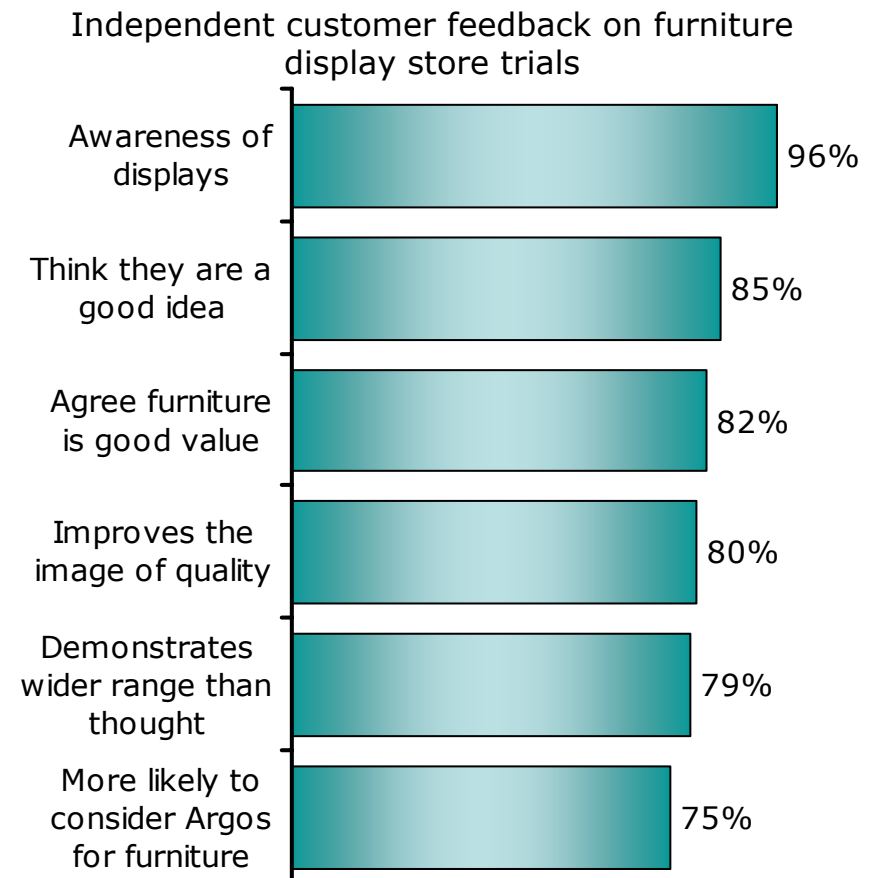




'Touch & Feel': Furniture

Goal: to reinforce credibility (range and quality) in high headroom furniture category

- ▶ Increased presence of 'Home' in core 3,500 sq ft customer area
- ▶ Supported by 'Home' catalogue
- ▶ Small number of large space opportunities, driving longer term customer perception



Source: Shoptalk Customer Insight, October 2007



'Touch & Feel': Furniture

Goal: to reinforce credibility (range and quality) in high headroom furniture category

- ▶ Increased presence of 'Home' in core 3,500 sq ft customer area
- ▶ Supported by 'Home' catalogue
- ▶ Small number of large space opportunities, driving longer term customer perception
- ▶ Actively seeking additional opportunities
 - e.g. Argos store carve-out from over-spaced Homebase Livingston store





'Touch & Feel': Furniture

Goal: to reinforce credibility (range and quality) in high headroom furniture category

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 - Supported by 'Home'
- ▶ Small number of large space opportunities, driving longer term customer perception
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'Touch & Feel': Jewellery

Goal: to create professional and efficient presentation for a high value 'Touch & Feel' category

- ▶ Profitable sales opportunity
- ▶ Market leader in watches and in jewellery overall by volume
- ▶ Improved core store offer and catalogue presentation
- ▶ Over-spaced in some older stores relative to new categories (e.g. technology)
- ▶ Space reallocated at no impact to sales participation



The jewellery opportunity: phase II





The jewellery opportunity: phase II





The Argos store vision

- ▶ Customer shops from home
- ▶ Further potential to enhance store service
 - Payment at home
 - Fast track collection
 - Combining “select and pay” steps
- ▶ Goal of a sub-3 minute experience, if that’s what customers want



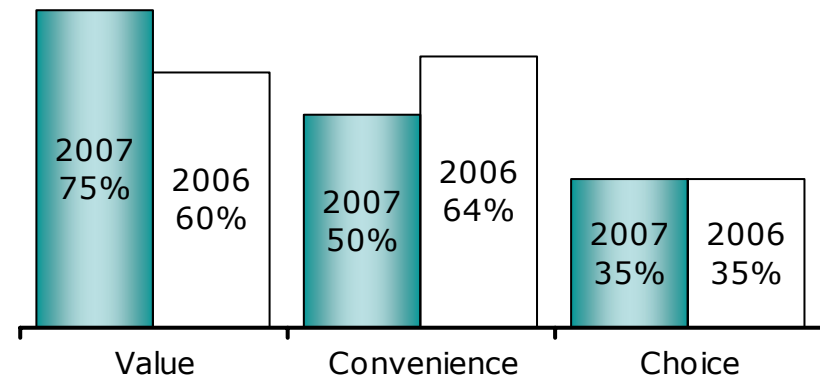


Operational performance: a customer view

- ▶ Core brand recognised for market-leading strengths in choice, value and convenience
- ▶ Value becoming even more important in H2 2007
- ▶ Christmas 2007 saw strong response to promotional offers
- ▶ Argos firmly #1 in gifts, toys, furniture, audio, SDAs, etc...

Brand image statement	Latest score	vs last year	Nearest competitor
Brand I'd recommend	81%	+5%	73%
Prices are really good	88%	+1%	66%
Convenient way to shop	90%	+3%	61%
Rarely run out of stock	66%	+6%	62%
Wide range of goods	92%	-2%	65%

Why did you choose to buy from Argos?
(multiple answers allowed)



Source: HPI Tracking Study, October to December 2007



Operational performance: behind the scenes

- ▶ Strong focus for Q3 on 'operational effectiveness' – deliver what we promise
 - Continued improvements in stockroom efficiency
 - Improved 'speed of service' across Q3
- ▶ Increased convenience of service for customers
 - Kiosks in every store, with around half of all stores using kiosk 'buddies' to assist customers
 - Prioritise highly flexible contracts (e.g. average base of 16 hours per week) to balance capacity with cost effectiveness
- ▶ Strong customer communication of Argos 'convenience'
- ▶ Best ever 'final week' performance against market, in probably biggest ever week for UK retail overall



Christmas 2007 – Another step to multi-channel shopping

- ▶ Continued strong growth in Internet shopping
 - Overall web orders £445m up 33% (18 weeks to Jan 5 2008)
 - Grew to represent 23% of total Argos sales
- ▶ Re-launched website drove higher customer visits
 - Number 2 Internet retailer behind amazon.co.uk
 - Visits up c.43% year-on-year in December
 - Year-on-year growth almost doubled post re-launch (23% H1, +39% Q3)
- ▶ 'Check & Reserve' strongly preferred way of shopping
 - Online reservations grew nearly 50% (18 weeks to Jan 5 2008)
 - Reservations represent 18.5% of total Argos sales (14.9% online, 3.6% by phone) or nearly one quarter of all sales collected at store



'Check & Reserve' Performance – Christmas 2007

- ▶ Strongest growing part of offer
- ▶ Opportunity to
 - Shop from home
 - Avoid wasted journeys
 - Find 'hot products'
- ▶ c.250,000 reservations in peak day (20th December); averaged 300-400 reservations per store
- ▶ At maximum, represented 30% of our store sales





New Spring/Summer 2008 catalogue

- ▶ 35 years of Argos
- ▶ Launched Saturday 19 January
 - Already distributed c.6 million catalogues
- ▶ Outstanding value
 - Average year-on-year reincluded lines price reduction of 4%
 - 3,000+ initial price cuts versus the Autumn/Winter catalogue just ended
- ▶ Continued growth in choice
 - 18,500 lines, up c.10% on 2007 Spring/Summer
 - 20 completely new areas e.g. fitness clothing, saunas and spas
 - Re-presentation of existing categories, especially jewellery





Summary – well set for 2008

- ▶ Argos operates a unique model as a catalogue-based multi-channel retailer
- ▶ Store fulfils a very specific role in the customer journey
- ▶ Combination of store and at-home shopping (via catalogue and web) can access growth opportunities
- ▶ Cautious outlook for calendar 2008
 - Consumer slowdown now more evident
 - Sales growth will be harder to come by
- ▶ Business model resilient enough to prosper despite challenges of consumer slowdown



Q&A

All presentations available at www.homeretailgroup.com/home/investors/



Financial calendar

- | | |
|-------------------|---|
| 13 March 2008 | - <i>Full-Year Trading Statement</i> |
| 30 April 2008 | - <i>Full-Year Results</i> |
| 21 May 2008 | - <i>Final ex-dividend date</i> |
| 12 June 2008 | - <i>Interim Management Statement</i> |
| 23 July 2008 | - <i>Final dividend payment date</i> |
| 11 September 2008 | - <i>Second Quarter Trading Statement</i> |
| 22 October 2008 | - <i>Half-Year Results</i> |



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

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