

## Corporate governance

The Board is responsible for the Group's system of corporate governance and is committed to maintaining high standards. For the period under review, Home Retail Group plc has complied fully with the main and supporting principles set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 ('the Code'). This statement, together with the directors' report and the directors' remuneration report, provides a summary of the Group's procedures for applying the principles of the Code and the extent to which such principles have been applied.

The Company has complied fully with the remainder of the Code during the period under review by applying its principles as follows.

### The Board

The Board consists of the chairman, Oliver Stocken; chief executive, Terry Duddy; finance director, Richard Ashton; and three non-executive directors: John Coombe (the senior independent director), Andy Hornby and Penny Hughes. The biographical details of the directors are shown in the Board of Directors and Operating Board section on page 51.

The three non-executive directors are all determined by the Board to be independent and there are no relationships or circumstances which could affect, or appear to affect, a non-executive director's judgement. The Company has in place formal procedures regarding conflicts of interest which are reviewed on an annual basis. The non-executive directors are appointed for three-year renewable terms. The Board is satisfied that the chairman's other Board appointments and commitments do not place constraints on his ability to fulfil properly his role as chairman of Home Retail Group.

The Board has six scheduled meetings each year and meets more frequently, as required. During the year, in addition to the scheduled meetings, four additional meetings were held. The chairman has also met with the non-executive directors without the executive directors present.

The time commitment expected of non-executive directors is not restricted to meetings of the Board and Board committees. They are available for consultation on specific issues related to their particular fields of expertise and additional time is spent visiting the Group's businesses, distribution centres and stores and meeting informally with the chairman, executive directors and senior management. The chairman also attends management conferences. During the year, all the non-executive directors attended a meeting with members of the Operating Board and senior management from Argos and Homebase to discuss progress on business initiatives.

There is a formal schedule of matters specifically reserved to the Board. The Board has responsibility for:

- the overall management of the Group, approval of the Group's long-term objectives and commercial strategy, and the review of performance, ensuring that any necessary corrective action is taken;
- the approval of announcements of half-yearly and final results, including dividends, and the annual report and accounts, including the corporate governance statement, remuneration report and statement on internal controls;
- the approval of documentation to be put forward to shareholders at general meetings and all circulars and prospectuses other than routine documents;
- the approval of all appointments to the Board and of the company secretary, following recommendations by the nomination committee, ensuring adequate succession planning for the Board and senior management, and approving the terms of reference of the Board committees; and
- determining the responsibilities of the chairman and of the chief executive.

The chairman is responsible for the leadership of the Board and ensuring its effectiveness, for effective communication with shareholders and for facilitating the effective contribution of the non-executive directors and their constructive relationship with the executive directors.

The chief executive is responsible for the day-to-day business of the Group, and is supported by the Operating Board, which includes the finance director and the managing directors of the main businesses and shared services functions. Members of the Operating Board meet informally with the chairman and non-executive directors and regularly attend and present at Board meetings when relevant agenda items are under consideration.

There is in place a procedure under which the directors, in furtherance of their duties, are able to take independent professional advice, if necessary, at the Company's expense. The company secretary, who has been appointed by the Board, is responsible for advising the Board on all corporate governance matters and for ensuring that Board procedures are followed, and all directors have access to this professional advice. The company secretary ensures that the Board receives regular briefings on corporate governance matters and company legislation. During the year the Board received a presentation from the Company's external legal advisers on directors' responsibilities and developments in corporate governance and the regulatory environment. Following the changes made to the Company's Articles of Association on 1 October 2008, which gave the directors the power to authorise fellow directors' conflicts of interest, the Company has put in place formal procedures for ensuring that the Board's powers of authorisation are exercised properly and in accordance with the new Articles.

## Corporate governance continued

A formal evaluation of the performance of the Board and its committees was conducted during the year. The functioning of the Board, Board processes and interaction with management were discussed and opportunities for improvement were considered. In addition, the audit and remuneration committees conducted internal reviews of their effectiveness, taking into account the views of senior management working with these committees. Individual appraisals of directors have been undertaken by the chairman. Under the leadership of the senior independent director, the non-executive directors met without the chairman present to appraise the chairman's performance, taking account of any views expressed by the executive directors.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and, thereafter, in accordance with the Company's Articles of Association. All directors will be required to submit themselves for re-election at least once every three years. Oliver Stocken and Richard Ashton will retire at the Annual General Meeting to be held on 1 July 2009 and will be eligible for re-election.

The letters of appointment for non-executive directors, including the chairman, are available for inspection by any person at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to the meeting and during the meeting).

### Board committees

The Board has appointed the following principal committees: remuneration committee, nomination committee and audit committee. The terms of reference of each of these committees are available on the Company's website at [www.homeretailgroup.com](http://www.homeretailgroup.com). In order to facilitate better communication with Board members and the provision of information to the Board, all independent non-executive directors serve on each of the Board committees.

The attendance of directors at scheduled meetings of the Board and the Board committees was as follows:

Board member	Board meetings (10) <sup>3,4</sup>	Audit committee (4) <sup>3</sup>	Remuneration committee (6) <sup>3</sup>	Nomination committee (2) <sup>3</sup>
Terry Duddy <sup>1</sup>	10	4	6	2
Richard Ashton <sup>1</sup>	10	4	–	–
Oliver Stocken <sup>2</sup>	10	4	6	2
John Coombe	10	4	6	2
Andy Hornby	9	3	5	2
Penny Hughes	10	4	6	2

#### Notes:

1. Terry Duddy and Richard Ashton are not members of the audit committee or the remuneration committee.
2. Oliver Stocken is not a member of the audit committee.
3. Includes the final meetings of the period under review which took place in early March 2009.
4. In addition to the six scheduled meetings of the Board, four additional meetings were held in which all Board members participated.

### Remuneration committee

The remuneration committee is chaired by Andy Hornby and its other members are John Coombe, Penny Hughes and Oliver Stocken. Terry Duddy attends meetings of the committee at the request of the committee chairman. In accordance with the Code, the committee meets not less than three times a year. Details of its responsibilities and of compliance with Section B of the Code regarding remuneration are set out in the directors' remuneration report on pages 58 to 66.

### Nomination committee

The nomination committee is chaired by Oliver Stocken and its other members are John Coombe, Terry Duddy, Andy Hornby and Penny Hughes. The nomination committee meets not less than twice a year and has responsibility for making recommendations to the Board on the composition of the Board and its committees, on retirements, appointments of additional and replacement directors and on succession planning. During the year, the nomination committee has considered the composition of the Board and its committees and succession planning.

### Audit committee

The audit committee is chaired by John Coombe and its other members are Andy Hornby and Penny Hughes. John Coombe was formerly chief financial officer of GlaxoSmithKline plc. The Board considers that he has the recent and relevant financial experience required to chair the audit committee. Andy Hornby and Penny Hughes also contribute a wide range of experience from positions at the highest level of business. Oliver Stocken, Terry Duddy, Richard Ashton, the Group head of internal audit and the external auditors attend meetings of the committee at the request of the committee chairman. Further details of the members of the audit committee are set out in the Board of Directors and Operating Board section on page 51.

The audit committee normally meets no fewer than four times a year and its principal responsibilities cover internal control and risk management, internal audit, external audit (including auditor independence) and financial reporting. The committee met with the external auditors and the head of internal audit at least once during the year without the presence of executive directors or management.

The committee has a structured programme linked to the Group's financial calendar. During the period under review, the committee undertook the following activities:

- reviewed the full-year announcement, annual report and financial statements and the half-yearly announcement and considered reports from the external auditors identifying any accounting or judgemental issues requiring its attention;
- reviewed the statement in the annual report on the system of internal control;
- reviewed and approved audit plans for the external and internal auditors;
- considered quarterly reports from the head of internal audit on the results of internal audit reviews, significant findings, management action plans and timeliness of resolution;
- reviewed reports on the Group's risk management process and risk profile;
- reviewed presentations on risk and its identification, management and control with senior management;
- reviewed, at each scheduled meeting, a report on any material litigation involving Group companies;

## Corporate governance continued

- reviewed management of fraud risk and incidences of fraud; and
- reviewed arrangements by which Group employees may, in confidence, raise concerns about possible improprieties in financial reporting, dishonesty, corruption, breaches of business principles and other matters.

One of the primary responsibilities of the audit committee is to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors. A number of factors were taken into account by the committee in assessing whether to recommend the external auditors for re-appointment. These include:

- the quality of reports provided to the audit committee and the Board and the quality of advice given;
- the level of understanding demonstrated of the Group's businesses and the retail sector; and
- the objectivity of the external auditors' views on the controls around the Group.

The committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides. Audit fees paid to the Company's auditors, PricewaterhouseCoopers LLP, in respect of the period under review, exceeded non-audit fees. The committee has established control procedures to safeguard the objectivity and independence of the external auditors and to ensure that the independence of the audit work undertaken by the external auditors is not compromised.

The committee has established a policy covering the type of non-audit work that can be assigned to the external auditors. The auditors may only provide such services provided that these do not conflict with their statutory responsibilities and ethical guidance. These services are:

- further assurance services – where the external auditors' knowledge of the Group's affairs means that they may be best placed to carry out such work. This may include, but is not restricted to, shareholder and other circulars, regulatory reports and work in connection with acquisitions and divestments;
- taxation services – where the external auditors' knowledge of the Group's affairs may provide significant advantages to the Group's tax position and, where this is not the case, the work is put out to tender; and
- general – in other circumstances, the external auditors may provide services, provided that proposed assignments which exceed financial limits set out in the policy are put out to tender and decisions to award work are taken on the basis of demonstrable competence and cost effectiveness.

However, certain areas of work are specifically prohibited, including work related to accounting records and financial statements that will ultimately be subject to external audit and management of, or significant involvement in, internal audit services.

The committee chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out in the policy. The committee receives half-yearly reports providing details of assignments and related fees carried out by the external auditors in addition to their normal work. Fees in respect of such assignments carried out in the period under review were:

	£m
Further assurance services	0.1
Taxation services	0.1
All other services	0.2

### Accountability and audit

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of the key procedures which have been established to provide internal control.

The Board confirms that the Company has in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, including risks relating to environmental, social and governance matters. This process was in place throughout the period under review and up to the date of approval of this annual report and meets the requirements of the guidance issued in October 2005 entitled 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull Report). The audit committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board.

As part of the process that the Company has in place to review the effectiveness of the internal control system there are procedures designed to capture and evaluate failings and weaknesses, and to ensure that necessary action is taken to remedy any failings that may be categorised by the Board as significant.

## Corporate governance continued

The key procedures which were operational in the period under review were as follows:

### **Risk assessment**

- risks were reviewed by management and updated as part of a bi-annual process. The risks identified were then reviewed by a risk committee chaired by the finance director and comprised of all divisional finance directors and the company secretary. The head of internal audit also attended its meetings;
- those risks classified as high-level risks by the risk committee were then reported to the Operating Board and audit committee. The schedule of high-level risks was used as the basis for a programme of internal audit and assurance;
- the audit committee has delegated responsibility from the Board for considering operational, financial and compliance risks on a regular basis and received its annual report on the controls over these risks. This included risks arising from environmental, social and governance matters.

### **Control environment and control activities**

- the Group has established procedures for delegating authority, which ensures that decisions that are significant, either because of the value or the impact on other parts of the Group, are taken at an appropriate level;
- the Group has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include internal controls, insurance and specialised treasury instruments;
- the Group sets out principles, policies and standards to be adhered to. These include risk identification, management and reporting standards, ethical principles and practice and accounting policies.

### **Information and communication**

- the Group has a comprehensive system of budgetary control, including monthly performance reviews by the Operating Board. The Operating Board also reviews a range of financial and non-financial performance indicators. These indicators were regularly reviewed to ensure that they remain relevant and reliable;
- the Group had whistleblowing procedures in place for employees to report any suspected improprieties.

### **Monitoring**

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

### **Going concern**

The directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### **Relations with institutional shareholders**

The Company recognises the importance of communicating with its shareholders and does so through a variety of channels, including the annual report, the Annual General Meeting and the processes described below.

Although the majority of shareholder contact is with the chief executive and the finance director (supported by management specialising in investor relations), it is the responsibility of the Board as a whole, led by the chairman, to ensure that a satisfactory dialogue with shareholders takes place. During the year, the chairman has also held meetings with a number of investors.

Meetings with investors have been held following the full and half-yearly results announcements. A monthly summary of all important or relevant issues raised by shareholders during the course of meetings and discussions is circulated to the Board and reviewed as appropriate at scheduled Board meetings.

Additionally during the year, the Board (and, in particular, the non-executive directors) received a presentation from the Company's joint brokers on the UK equity market and the market perception of the Company.

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

All directors, including the chairmen of the audit, nomination and remuneration committees, intend to be present at the Annual General Meeting and be available to answer shareholders' questions. Voting at the Annual General Meeting will be by way of a poll by members present at the meeting and, following each vote, the level of proxies lodged on each resolution, the balance for and against the resolution and the number of votes withheld, will be displayed. The results of voting at the Annual General Meeting will also be available on the Company's website at [www.homeretailgroup.com](http://www.homeretailgroup.com) as soon as possible after the meeting.