

## Chief Executive's statement

# We have in place a clear strategy to deliver long-term profitable growth.

Although the short term may be challenging, we are confident that we have everything in place to be a winner in the long run.

### Strong financial foundations

Our sales grew to £5,985m, an increase of 2% on the previous year. Benchmark operating profit rose by 11% to £398m and benchmark profit before tax by 15% to £433m. Basic benchmark earnings per share of 33.9p represented an increase of 16%. Benchmark pre-tax return on invested capital improved by 70 basis points to 12.7%. A net cash position of £174m reflects the strength of our profit performance and overall financial position.

### Combined strength

The Group's performance shows the advantage of having two complementary retail brands. Where Argos and Homebase operate in the same product categories, we can reach a broader range of customers while leveraging a greater combined scale. We can also transfer new retail innovations and practices to strengthen our customer propositions.

We maintained or increased our market share in a number of key categories, including the respective growth areas for Argos of consumer electronics and for Homebase of fitted kitchens. Installation services are proving an important sales driver for Homebase among a broader customer base.

Argos delivered record profits. Sales were driven by a wide selection of merchandise, including the new Argos Value Range and premium branded ranges, as well as by continuing to offer highly competitive prices. Over 15 million customers used Check & Reserve to order goods for in-store collection, with internet Check & Reserve increasing by over 40%. The gross margin increased by approximately 50 basis points during the year. Argos operating cost efficiency was perhaps the key success in the year.

Although the home enhancement market deteriorated through the financial year, Homebase performed well operationally. The gross margin increased by approximately 250 basis points, driven by ongoing sourcing and supply chain benefits. The repositioning of Homebase from DIY to broader home enhancement leader continues to progress well.

However, improving the level of profit and return from the Homebase business will be a key area of focus and effort over the next few years.

Financial Services makes an important contribution to our business, working on behalf of Argos and Homebase to offer our customers more and better ways to afford our products. The expertise and experience of our team ensures that we manage our credit offering to the benefit of the whole Group.

### A strong team

The Group's financial performance reflects well on our team. It's very powerful to have 53,000 colleagues who give the Group their full commitment and who are passionate about our success. I would like to thank everyone for their effort and hard work through the past year.

### Focused on the future

Our long-term outlook remains positive and we are excited about our many opportunities for growth.

Any near-term consumer slowdown should see Home Retail continue as a clear market leader and emerge in an even stronger competitive position.

I believe we have the right business model and strategy to deliver superior long-term performance. We are delivering well now and have the capability to be even more successful in the future.

### Terry Duddy

Chief Executive

53,000

Total number of **colleagues** across the business.

+15%

Growth in **benchmark profit** before tax (2008: £433m – 2007: £377m).