

Chairman's statement

I am delighted to report that it has been an excellent year for the Group.

+13%

Growth in **dividend** per share
(2008: 14.7p – 2007: 13.0p).

+£114m

Increase in **closing net cash**
(2008: £174m – 2007: £60m).

In our second year as an independent company, we have again achieved double-digit earnings growth, with benchmark profit before tax up 15% to £433m.

Continued progress

We have made good progress in a number of key areas.

At Argos, we have brought greater value to our customers through our ability to provide highly competitive prices across our product ranges. Argos has also maintained its long track record of retail innovation with a number of initiatives that have helped to improve both the customer shopping experience and operational efficiency.

The Argos catalogue is a true icon in UK retailing. This year has seen the 69th and biggest-ever edition, containing over 18,000 product lines. The catalogue is the heart of Argos and the business model is truly unique in its integration of customer order and delivery channels.

The home enhancement positioning of Homebase gives the brand competitive advantage and differentiation compared to more traditional DIY outlets at the 'heavier' end of the market.

We are extending within Homebase the same retail principles that sustain the success of Argos. The introduction of a home furniture and furnishings catalogue and the expansion of the product range available online are helping to attract more consumers to the full choice of home enhancement products and services that Homebase offers.

Improved product ranges are displayed to great effect in the newer store formats. Over half of Homebase stores have a mezzanine floor for displaying kitchen, bathroom and furniture ranges, with the strong homewares offer displayed beneath the mezzanine.

A valued contribution

The Group's success is very much a team effort. I am always impressed by the professionalism of our colleagues when I visit our stores and other operations. I would like to take this opportunity to thank them for their commitment and willingness to generate and take on new ideas and deliver innovations in what will continue to be very challenging conditions.



Oliver Stocken
Chairman

Terry Duddy
Chief Executive

New developments

The Group continues to identify and develop new businesses with the potential to enhance our long-term growth. This year saw the launch of trials of Argos in India and HomeStore&More in the UK. We also purchased a number of sites from Focus DIY to expand the reach of the Homebase brand.

Prudent financial position

Given economic conditions, our financial position and net cash balance mean that the Group is well placed to continue the developments to drive long-term growth in all of our businesses.

Dividend growth

The recommended final dividend is 10.0p, which is to be paid to shareholders on 23 July 2008. This creates a total dividend for the year of 14.7p, which represents an increase of 13% and is covered 2.31 times by basic benchmark earnings per share.

Outlook

While the outlook undoubtedly looks more challenging from here, the outstanding performance delivered this year is testament to the underlying strength of the Group. I believe that we are in excellent operational and financial shape going into the next financial year.

Thank you for your continued support.

Oliver Stocken
Chairman