

Chairman's statement

This has been a challenging year for the UK retail industry.

While profit performance in the short term cannot be immune from the economic back-drop, the Group's underlying strengths will secure our continued longer-term success. Delivering another year of net cash generation has been an excellent result and ensures we are well placed for the future.



Oliver Stocken
Chairman

After two years of double-digit earnings growth, this year has seen benchmark profit before tax reduce by 24% to £328m. This has been a direct result of the significant worsening in the economic environment. Household discretionary expenditure came under pressure from rising bills and food prices, while the global financial crisis turning into recession, coupled with a falling housing market, has clearly compounded deteriorating consumer confidence and their willingness or ability to spend.

While underlying demand in our product markets has clearly weakened, the strength of Home Retail Group's position has not.

Advancing and adapting the customer offer

The overall customer offer continues to improve. We've further expanded the Argos catalogue, and the development of internet-only ranges is the next stage of offering even more choice. Leadership in multi-channel has seen more customer enhancements to our Check & Reserve and home delivery services. Meanwhile, Homebase has seen its installation offer and its in-store service and presentation drive forward its market share in areas such as kitchens.

The customer offer has also adapted to changing customer needs in challenging times. The 'Argos Value' range and its 'WOW' deals have been substantially increased. As well as Homebase strengthening its own value position, it has also led market development in areas such as energy-efficient products, and in other customer cost-saving trends such as 'grow your own' produce.

Cost action and cash focus

Our businesses have responded with necessary cost action, given the weakening demand environment. Operating and distribution cost growth was contained to a 1% or £14m increase in total,

with the approximate 3% or £60m of underlying cost inflation therefore being largely offset by excellent cost management in all other areas.

The Group's financial position has been strengthened by maintaining a clear focus on cash. From £200m of pro forma net debt ahead of demerger in 2006, we ended this financial year with a net cash position of £284m after generating a further £110m.

Dividend maintained

Our cash generation and our overall prudent financial position have led to the Board's recommendation of a 10.0p final dividend, which is to be paid to shareholders on 22 July 2009. This represents shareholder dividend income maintained at the level of the prior year. The total dividend of 14.7p for the year is covered 1.76 times by basic benchmark earnings per share.

Responsible retailing

There has also been further progress in corporate responsibility – something that remains in our focus irrespective of the difficult trading environment. Waste sent to landfill has reduced by 46% this year, with the Group now recycling over 70% of the total waste it produces. We've met our stretching targets on supplier audits, with 856 factories audited over the last two years. And our colleagues and customers raised £1.8m for our charity partners, which together with the value of the Group's own charitable giving takes our contribution to £2.7m for the year.

Commitment and support

The actions and commitment of our colleagues in stores, distribution and customer contact centres, sourcing operations and head office functions have all contributed to the strengthening of Home Retail Group's position. The Group's success is very much a team effort and I would like to thank the Board, the management team and all our colleagues in every part of our business. Equally important are all our other stakeholders and I also thank them for their continued support.

Oliver Stocken
Chairman