

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

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).