

Factors affecting performance

Consumer spending

The biggest factor affecting the Group's short-term performance is likely to be UK consumer spending.

Retail market conditions are likely to be challenging in the short term. The rising costs of essential household bills, driven by inflationary pressures, mean that discretionary spending will be squeezed. The current instability in the credit markets is also likely to constrain consumer spending and confidence, which may affect bigger ticket, home-related purchases in particular.

However, while volume and value growth rates are likely to be impacted in most product markets, consumers will still want new products as tastes and technology change, or they need to replace many existing household items.

Market growth

Although retail conditions are likely to be challenging in the short term, the longer-term outlook for market growth is positive. We expect continued growth in the general merchandise and home enhancement market due to the following factors:

- Population growth and an increasing number of households
- Rising overall household disposable income
- Technology change and new product development.

Market consolidation

The UK retail market is undergoing significant change. This is in part driven by the slowdown in consumer spending but is underpinned by an overall structural shift in favour of more general and large scale retailers like Home Retail Group.

The market remains competitive. In the current trading conditions, factors such as scale, value and cost management are likely to be some of the key determinants of long-term success.

Where product markets are fragmented, an element of consolidation is inevitable. The most successful retailers will be those who can offer the consumer a differentiated service or shopping experience at a competitive price.

Home Retail Group's position

The Group's key strengths mean we are well equipped for the future.

Our strong retail brands, multi-channel and multi-format offering, extensive product choice and competitive pricing, mean we are well positioned to trade through any downturn and benefit from renewed consumer confidence through the cycle.

We have leading positions in multiple product markets yet with substantial headroom for growth in many categories. Fragmented markets provide growth opportunities and we expect to take market share from weaker competitors and to benefit from any market consolidation that ensues.

Our retail brands are well established but continue to evolve to meet changing customer preferences. Our product range is constantly expanding. Our supply chain is highly efficient and cost effective.

With all the key determinants for success in place, we expect to emerge in the long run as a stronger competitor in a more consolidated market.

Group's key strengths:

1. The market leader
2. Two strong retail brands
3. Great choice and value
4. Integrated multi-channel capability
5. Purchasing, sourcing and supply chain strength
6. Shared infrastructure and logistics expertise
7. A winning team