



THE MARKET

For 28 years, The Home Depot has been a leader in providing innovative products, services, and expertise to general consumers and professional customers alike. The company is the world's largest home improvement retailer and one of the most recognized and respected brands in the global marketplace. The retailer employs approximately 364,000 associates and operates more than 2,000 retail stores in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, 10 Canadian provinces, Mexico, and China. In fiscal 2006, The Home Depot had sales of \$90.8 billion and earnings of \$5.8 billion.

The company's operating strategy is to offer a broad assortment of high-quality merchandise and services at competitive prices using knowledgeable, service-oriented associates and strong marketing and credit promotions. The company believes that its associates' knowledge of products and home improvement techniques is very important to its marketing approach and its ability to maintain and enhance customer satisfaction.

The Home Depot stores serve three primary customer groups:

- **Do-It-Yourself ("D-I-Y") Customers:** These customers are typically homeowners who purchase products and complete their own projects and installations. To complement the expertise of its associates, The Home Depot stores offer "how-to" clinics taught by associates.
- **Do-It-For-Me ("D-I-F-M") Customers:** These customers are typically homeowners who purchase materials themselves and hire third parties to complete the project and/or installation. The company arranges for the installation of a variety of its products through qualified independent contractors.
- **Professional Customers:** These customers are professional remodelers, general contractors, repair people, and tradespeople. The company offers a variety of programs to these customers, including delivery and will-call services, dedicated staff, extensive merchandise selections, and expanded credit programs.

The Home Depot empowers its customers to achieve the home, condo, or apartment of their dreams. That belief is inherent in the company's tagline, "You can do it. We can help."

ACHIEVEMENTS

In 28 years, The Home Depot has grown to become:

- The world's largest home improvement retailer
- The third-largest retailer in the world
- The second-largest retailer in America



- The largest home improvement retailer in Mexico and Canada
- The youngest retailer in the Fortune 50

Giving back. Taking care of one another. Doing the right thing. Respect for all people. Building strong relationships. Since 1979, these values drive volunteer and philanthropic efforts in our communities, and these are the values that drive The Home Depot. These values encompass our Community Affairs' mission of "We Build CommUnity."

The building community efforts focus on four key areas: play spaces, community gathering spaces, affordable or transitional housing, and natural disaster preparedness and relief. Programs bring together volunteerism, do-it-yourself expertise, product donations, and monetary grants to meet critical needs and build affordable communities.

Giving back is a fundamental value of The Home Depot and a passion for its associates. Volunteerism is embraced collectively and individually, as associate-volunteers collaborate to build community. Building community is the foundation upon which The Home Depot was built and what differentiates the company from the rest of the field. Working side-by-side, The Home Depot believes in the power of unity — life-long relationships that are created between The Home Depot store associates and the neighbors who shop in its stores.

HISTORY

The do-it-yourself home improvement concept may not have been born 28 years ago, but few would dispute that it took flight with the opening of The Home Depot in Atlanta on June 22, 1979. The bright orange warehouse opened an entirely new world to people wanting to do things for

themselves, but without deep pockets or in-depth "how to" knowledge.

The vision of The Home Depot's founders, Bernie Marcus and Arthur M. Blank, was to give customers everyday low prices with experienced tradespeople offering straight advice on how to get projects off the ground. Consumers immediately warmed to the idea, and the concept quickly took off.

THE PRODUCT

The inventory in the company's stores consists of 40,000 to 50,000 different kinds of building materials, home improvement supplies, and lawn and garden products, as well as 250,000 products that can be special ordered. In addition to basics, ranging from lumber to lightbulbs, The Home Depot offers a range of proprietary and exclusive brands in its stores, including Hampton Bay® fans and lighting; BEHR Premium Plus® paint; Thomasville® cabinetry; Pegasus faucets; Vigoro® lawn and garden products; Veranda™ composite decking, fencing and railing; and Husky® and RIDGID® tools. The in-store appliance showroom also features General Electric® and Maytag® products.

In April 2007, The Home Depot expanded its long-term commitment to the environment and sustainability with the launch of its Eco Options program in the United States. Eco Options is a classification that allows customers to easily identify products that have less of an impact on the environment and empowers them to help make a difference in their own homes. The Home Depot has identified more than 2,800 Eco Options products, including all-natural insect repellents, cellulose insulation, front-load washing machines, organic plant food, and vegetables in



biodegradable pots. The wide array of Eco Options also includes compact fluorescent light (CFL) bulbs, programmable thermostats, and certified wood. As The Home Depot works with vendors and independent experts, the identified Eco Options products will be continuously expanded to include scores of innovative products that reduce the impact on the environment.

These innovative and low-priced products are offered in stores that are increasingly tailored to meet the style and needs of local neighborhoods. While the average size of The Home Depot's warehouse-style stores is 105,000 square feet, the company has developed new formats to allow it to enter or expand in areas with high barriers to entry and areas that are too small to support a typical store. In the Bay Area of California, the company opened five YardBIRDS stores in 2007. These stores range from about 30,000 to 55,000 square feet and feature higher-end home décor items; they do not stock a large assortment of building materials. On the other end of the spectrum, the company opened its first small-market format stores in 2007. These stores average about 48,000 square feet. The first two opened in Manchester and Winchester, Tennessee.

Other services and products available in the company's retail stores include the following:

- A design center staffed by professional designers who offer free in-store consultations, including computer-assisted kitchen and bath design.
- Tool and Equipment Rental Centers in more than 1,000 stores for those who want to try before they buy.
- Load 'N Go™ truck rental to bring merchandise home.
- A Commercial Desk staffed with associates whose top priority is to help get the job done on time and on budget.
- Home Services®, featuring 23 national programs, including kitchen and bath, flooring, and roofing and siding, for customers who would rather have someone else do the work.

In addition to its home and garden improvement stores, The Home Depot also operates EXPO® Design Center locations. EXPO is a one-stop interior design showroom offering full design and installation services as well as leading-edge products for the whole house. Each showroom provides consumers with access to an incredible selection of upscale designer products in lighting, soft and hard flooring, bath design and hardware, kitchen design and appliance, décor, and patio living.

A dedicated Contractor Services Desk is available in each store, designed and staffed to help contractors get what they need. The desk offers professionals expanded services including a Bid Room for processing large competitive quotes, larger inventory, on-time pickup and delivery, extended hours, fast contractor checkouts, and commercial credit accounts.

RECENT DEVELOPMENTS

In 2006, The Home Depot entered China with its acquisition of The Home Way, a chain of 12 home improvement stores. The Home Way is a strong brand already established as a value and price leader

among Chinese consumers. The company believes that The Home Way provides the right entry platform upon which to build a business model that meets the needs of Chinese home improvement customers, while delivering profitable and sustainable growth. China is one of the fastest-growing economies in



the world, and its home improvement market holds similar growth potential for the company.

PROMOTION

After years of spotlighting its expert associates and the in-store experience, The Home Depot turned around its advertising lens to focus on consumers and their amazing home improvement stories. The retailer unveiled its new "True Stories" customer-centric branding campaign in the form of new 60-second documentaries in February 2007. "The insight driving this new campaign is the strong emotional connection our customers have for achieving the goals of their home improvement projects," said Roger Adams, chief marketing officer and senior vice president of marketing for The Home Depot. "While past campaigns have featured our associates, products, services, and corporate promotions, we're shifting the strategy so we can showcase our customers and the rewards of the home improvement process as well as the end result."

Sports Sponsorships. Sports sponsorships like NASCAR (Official Home Improvement Warehouse and primary sponsor of The #20 Home Depot Chevrolet), National Football League (Official Home Improvement Warehouse), the U.S. Olympic Team (leading employer of U.S. Olympic and Paralympic athletes), and college football (ESPN College GameDay Built by The Home Depot) help link The Home Depot brand with weekend activities. In addition, the qualities that propel athletes to greatness — highly motivated, dedicated,

achievement-oriented — fit perfectly into The Home Depot's passionate, orange-blooded culture.

At the 2006 Winter Olympic Games in Torino, 35 associate-athletes from The Home Depot competed in the Games and won 11 medals: two gold, three silver, and six bronze.

Marketing Alliances. The company also sponsors numerous home improvement television programs, including *Trading Spaces*, *This Old House*, and *Take Home Handyman*, which empower customers to go from spectator to participant in tackling their home improvement projects.

"Over the last year, we have significantly increased our efforts in production and content integration," said Adams. "In addition to strong branding, we were able to effectively communicate our empowerment theme, which is inherent in our message — 'You Can Do it. We Can Help.'"

Digital Marketing. Homedepot.com is both an online store and a research tool, for customers planning a home improvement project or a trip to their local store, with step-by-step know-how instructions on a wide variety of subjects.

Customers today have more choice in the products and services they buy, more choices in how and where to purchase those products and services, and more choices in the media they consume. As a result, power has really shifted to the consumer. Therefore, The Home Depot believes that the key to success lies in understanding those needs better than anyone else and then delivering on those needs in its stores.

BRAND VALUES

The Home Depot is a company built on a strong set of core values. The company is working to empower its associates to be their best and to provide its customers great products with excellent service and earn their loyalty. The company makes sure those core values thrive so that customers know The Home Depot is best place to shop for home improvement products, the associates know it is the best place to work, and the shareholders know it is the best place to invest.

The Home Depot has hundreds of thousands of associates who understand, believe, and live these values. That is The Home Depot's competitive advantage.

To continue to unlock that competitive advantage, The Home Depot has invested in its retail business in 2006 and 2007 and will continue to invest around five key priorities:

- **Associate Engagement:** Staffing stores with available, knowledgeable, and helpful associates.
- **Product Excitement:** Providing innovation products and everyday low pricing.
- **Product Availability:** Keeping the right quantities of merchandise on the store shelves.
- **Shopping Environment:** Providing a welcoming shopping environment in safe, clean, and uncluttered stores.
- **Own the Pro:** Becoming the No. 1 destination for pro customers, primarily repair and remodel professionals.

THINGS YOU DIDN'T KNOW ABOUT HOME DEPOT

- The Home Depot has a successful track record of international expansion. The company entered Canada in 1994, Mexico in 2001, and today holds the No. 1 position in these markets. The company successfully entered the Chinese market in 2006.
- More than 320 athlete-associates from the Home Depot have competed in the Olympic and Paralympic Games and have won 204 medals: 91 gold medals, 66 silver medals and 47 bronze medals. (Note: Not all athletes were in the program when medals were awarded.)
- The professional contractor has been an important customer of The Home Depot since its early days. Many local contractors begin each day at their local store, picking up the supplies they need for the job site.

