Interim Results – 18 November 2004

Chairman's Welcome

Sir Victor Blank

Chairman, GUS Plc

Good morning, ladies and gentlemen, and welcome to the presentation of GUS interim results. We have had another excellent first half, with double-digit growth in sales and profits in each of our three businesses. The plan this morning is that David Tyler will take you through the financial performance for the period; John (Peace) will then talk about the strategic and operational progress, and Terry (Duddy) will talk about the exciting progress that we have been making at Homebase.

The common theme this morning will be how we have been investing in all our businesses to drive growth. At the same time, we have continued with the restructuring of the businesses, and we have continued to return cash to shareholders. As you will remember, in May, we announced that we were actively going to review all strategic options, and that process is well under way. We are taking this exercise very seriously, and we will seek to make sure that we maximise shareholder value and ensure the future growth prospects of our businesses. We will give you further information as soon as we have reached a conclusion.

Financial Review

David Tyler

Group Finance Director, GUS Plc

I. Preamble

Good morning. We are pleased, today, to be able to speak to you about another excellent performance by GUS in the first six months of the financial year. Sales remain at the £3.7 billion level recorded last year, but, for continuing businesses, sales are up 8%, or 10% at constant exchange rates. Profit before exceptional items, at £406 million, is up £52 million, which is a growth of 15%, or 18% at constant exchange rates. Earnings per share (EPS) were 28.9p, which is up by 11%, or 15% at constant exchange rates, slightly slower than profit growth, largely because of the impact of higher minority interests. We are declaring this morning another substantial rise in dividend, taking the interim from 8p to 9p. This rise of 12.5% reflects the board's confidence in the future.

II. Continued Momentum

There is continuing momentum in the business; both profits and EPS have more than doubled over the last four years, and it is pleasing to record further good growth this year in addition to last year's very significant rise. At the same time, we continue to grow our return on invested capital substantially, with the post-tax return now moving well into double figures.

III. Profit Growth in All Businesses

At constant exchange rates, each part of the business shows strong progress, and the bottom line also benefited from a substantial reduction in interest costs. Last year's first half profits were £354 million. We adjusted, first, for, £16 million of discontinued businesses, being the BL Universal property joint venture that we sold last November. We have also included here the £1 million in Central activities. On top of this, the fall in the value of the dollar, and other currency movements, reduced profits by £14 million in the half. However, interest costs have been cut very significantly in the six-month period, by £24 million, largely because of the three major disposals over the last year: BL Universal, the 11.5% stake in Burberry that we sold last November, and the home shopping sale, which took place in May 2003. This leaves us with an adjusted base from last year of £348 million.

From this base, the profits of our continuing businesses have grown by 17% in the first half, with strong double-digit contributions from each division. ARG's profit were up £20 million, and Experian's by £19 million, both showing 13% underlying growth; Burberry profits grew by £15 million, which is a growth of 22%; and South Africa's by £4 million, or 20%. This is how we arrive at the half-year figure of £406 million.

IV. P&L Account

We recorded an exceptional gain of £16 million in the half, the key item clearly being the £20 million profit we made from the successful partial IPO of the Lewis Group, our South African subsidiary. The charge for goodwill amortisation in the period was £99 million, as was the tax charge. The effective tax rate is in line with our expectations for the year, at 24.4%, so we are on course for our tax rate to be below 25% for the seventh consecutive year. Minority interests are up to £19 million, because of the greater minority holding in Burberry after we sold a further 11% of the equity last November.

V. Cash Flow

Operating cash flow in the period increased by £30 million, to £343 million. Capital expenditure, at £164 million, was only slightly ahead of last year's spend, but we still expect, for the year, that capital expenditure will be close to £400 million, well ahead of last year's £306 million. Free cash flow continued to be strong, at £218 million, slightly lower than last year, largely because of the higher tax payments that we had in this period. These tax payments were entirely in line with our expectations. They are partly due to a higher level of profits in the last 18 months, and partly associated with a catch-up from previous years. £36 million was allocated for various modest-sized acquisitions in Experian. More significantly, over £250 million was returned to shareholders in the form of dividends or share repurchases, which is about

£100 million more than the same period last year. Net debt, as a result, is up by about £58 million in the period, to just over £1.25 billion.

VI. Group Balance Sheet

There has been relatively little change during the half year to trading assets. The change in transaction consideration here arises from the disposal from the Lewis Group at the end of September, where funds were outstanding across the period end.

VII. Lewis Group

The Lewis Group IPO went very well. This was another important step in reshaping the GUS portfolio. We sold 46% of the business. In addition, we have allocated a further 3% for employee share schemes, which means we now retain a 51% stake in the Lewis Group, and we anticipate that the impact of this sale will be to reduce the EPS of GUS, in a full year, by about 2%. In the mean time, the South African business had a very strong half year. Profits were up by 20% in rand. It benefited from buoyant consumer spending in the South African economy, and excellent control of its debtor book.

VIII. GUS Share Buyback

As you know, GUS announced a share buyback programme six months ago, for about £200 million. By the end of September, we were about one third of the way through this, having spent £67 million in the six-month period. We are on track to complete the rest of this programme in the second half of the year, and this should enhance EPS by about 1.5% in a full year, if we buy the shares at today's share price. We will review again, at the end of the financial year, what scope there might be for any further balance sheet management.

IX. Burberry Share Repurchase

On Tuesday, as you know, Burberry announced a share repurchase programme of approximately £250 million, over the period from now until March 2006. This follows their review of balance sheet strategy. For GUS, this will mean we will maintain our existing 66% share in Burberry, but benefit by an increase in the cash available to us of about £165 million. At the same time, group consolidated net debt will increase by about £85 million, to reflect the payments made by Burberry to their external shareholders. Overall, their programme will be earnings-neutral for GUS.

X. IFRS

Finally, a presentation by any finance director today is not complete without a mention of IFRS. You will be aware that this is the last year that we will be presenting our results under UK GAAP, but I would stress that the move to IFRS will not change how we at GUS will manage our business or evaluate our investments. It will not change our cash flows, but clearly it will cause greater volatility in the P&L and the balance sheet. Areas of significant impact to our P&L could be in:

- Accounting for financial instruments, some of which, in future, will be marked to market through the P&L.
- Remuneration costs, which are likely to rise modestly, as they will for most companies, because of the accounting policies for pension costs and share-based remuneration.
- Amortisation of goodwill will no longer take place, but the amortisation charge for intangible assets is likely to increase.
- The effective tax rate will change because of the way tax liabilities and assets will be calculated under IFRS.

Please note that we do not expect that our rental and lease costs will change materially under IFRS, nor will our operating leases appear on our balance sheet at this stage.

In terms of communication of IFRS, in May we will present our preliminary results to March 2005 under UK GAAP. Shortly afterwards, we will provide the market with a full restatement of these figures under IFRS and give a reconciliation of them to the UK GAAP figures. We will also restate the six months to September 2004 at the same time. This time next year, we will be presenting our interim results in IFRS format.

Operational Review

John Peace

Group Chief Executive, GUS Plc

I. Preamble

GUS has, once again, achieved record profits in the first half, with double-digit sales and profit growth at constant currencies in each of our three main businesses. David talked about how we have unlocked further value in the first half through our share buyback programme and the Lewis Stores IPO in South Africa.

II. Strategic Review

I would now like to update you on the strategic review, which we announced in May. The review is centred on a comprehensive look at the future growth prospects of ARG, Experian and Burberry, taking account of economic and market trends in each of their sectors. We are also assessing the future investment needs of all three businesses, as well as the potential future acquisition opportunities. Other factors, such as balance sheet structure, tax planning, risk and future dividend policies are also being carefully considered. Importantly, we are listening to the views of our shareholders and considering the impact on them of any changes to the group structure. Clearly,

this is a complex issue, and we will update you on the progress of the strategic review in due course.

III. Another Half of Progress

This morning, with Terry Duddy's help, I would like to tell you about the very good progress being made in ARG, Experian and Burberry, as we continue to invest in our three main businesses to deliver further growth.

1. ARG (Argos Retail Group) – Outperforming its Market

Let me start with ARG, where sales grew by 10%, and profit by 13%. ARG, today, is the UK's largest general merchandise retailer, and is driving significant benefits from the business model that it operates. Growth in UK consumer spending slowed during the first half, as we had anticipated, but both Argos and Homebase outperformed in their markets. Financial Services increased its loan book to over £400 million, and has moved into profit after funding costs.

2. Argos

a. Performance

Argos again delivered premium growth. Sales were up 13%, or 7% like-for-like, and 6% from new space. New stores continued to trade above expectations. There were share gains in most major product categories, with particularly strong performances from consumer electronics, photography, white goods and recently extended ranges, such as leisure. Gross margin was in line with the first half of last year, as Argos reinvested its supply chain benefits in the form of lower prices to consumers. Operating profit increased by 16%, and operating profit margin by 10 basis points, to 5.5%, which was after investment in the rollout of Argos Extra and additional distribution capacity.

b. Increased share

The success of Argos is due to its clear strategy of improving choice, value and convenience for customers. Further progress was made against each of these in the first half. Argos Extra is currently our main focus for a range extension. It is currently in about 146 stores, about a quarter of the chain, and continues to deliver high single-digit sales uplifts where the additional ranges are stocked in. Progress over peak will be evaluated to assess the next stage of rollout.

c. Improved value

Consumer perception of the value offered by Argos is a key performance measure for the group, and we improve our value proposition in a number of ways. When a new catalogue is launched, we reduce many base prices and run promotions such as our 'WOW' offers. We also reduce prices after the catalogue launch; this is sometimes in response to competitors, but is more often the result of planned promotions through TV and press advertising, and through flyers such as the current Christmas brochure.

3. Homebase

Terry will update you in a moment on the strategic and operational progress. First, however, let me touch on the financial performance. Excluding 29 February, sales were up by 6%, of which 4% was like-for-like growth. This was driven by more mezzanines, continued strength in kitchen and bathrooms, and encouraging sales uplifts in certain core DIY areas, where new ranges have been introduced. In what was a difficult trading period, gross margin was in line with last year, as product sourcing gains funded lower prices and increased seasonal promotions. Operating profit grew 7%, which was after increased investment in marketing and mezzanines.

4. Experian

a. Continued strong growth and positioning

Experian delivered its fifth consecutive six-month period of double-digit sales and profit growth at constant exchange rates. Over the past five years, we have built Experian into a powerful global business. No other company today offers the breadth of products and solutions, or operates so successfully in so many countries. Experian sells information and solutions in over 60 countries, serving over 40,000 clients. Time and again, we find that when a client trusts Experian to provide a product or solution in one field, we are asked to deliver services in additional areas. With some clients, this means the relationship is extended into other countries. Looking forward, as with ARG, we believe the Experian business model has the potential to consistently outperform in its markets.

b. Experian North America

Sales at Experian North America grew by 15%, despite a 4% hit from lower mortgage-related sales. 8% of this 15% sales growth came from acquisitions, which are going well. In Credit, despite rising interest rates, sales grew by 6%, driven by Consumer Direct, and by recently launched products in Credit Solutions. In Marketing, underlying sales increased by 11%. This reflects some pickup in the industry, but, more especially, it represents our repositioning of the business, which I will expand on in a moment. Experian North America continued to deliver operating margins in excess of 20%, and saw a further margin advance, despite an adverse mix impact, and several million dollars of FACTA-related setup costs.

The requirement to provide a free report to consumers under FACTA begins on 1 December. As you are aware, we introduced a cost recovery charge in October, which we believe distributes the burden of these costs fairly among the financial services industry. It also looks likely that we will be able to charge a market rate for any credit scores that we sell to consumers. Clearly, we will be better placed to update you further next year on the impact of FACTA on our sales and costs.

c. Experian International

Experian International accounts for around 45% of Experian revenue. Experian International had another excellent first half, growing sales by 16% and profit by 21%, building on its long-standing track record of strong double-digit growth. 7% of the 16% sales growth was from acquisitions, with Credit and Marketing both demonstrating good underlying growth. Beyond our core UK business, we are seeing

good growth in operations in mainland Europe, as well as early success in emerging markets such as Russia, Bulgaria and Korea. In the case of Korea, we are now working with four of the top five banks in this market. Operating margin at Experian International grew by a further 100 basis points, as a result of a better product mix and tighter cost control.

d. HBOS contract

The recently announced HBOS contract demonstrates some of the strengths of Experian's powerful business model; for instance, Experian's ability to win and service large contracts. This one is worth over £40 million over a five-year period. Secondly, the unique combination of services that Experian can provide to a major financial institution like HBOS. Next, the ability to upsell, even to those clients with whom there is already an extensive relationship. The HBOS contract includes a number of new products, particularly in the important area of fraud prevention that HBOS is buying for the first time. Finally, Experian's ability to support clients across many lines of business, including, in this case, mortgages, personal and business banking, and credit cards.

e. Consistent global strategy

As you know, Experian, has a clear strategy for growth. Let me illustrate some of the progress we are making under each of these headings. We continue to be delighted with the performance of our Consumer Direct business, which now accounts for 17% of North American sales. The number of US subscribers has grown from 600,000 at the time of the acquisition in 2002, to over two million today. This is a fast-growing market, where Consumer Direct is taking share, through new products such as the national credit score indices, and through our skills in attracting customers to our websites using broadcast, web and portal advertising. The Consumer Direct team are consumer marketing experts, not simply credit bureau experts. They help connect organisations to consumers over the web, and we believe their skills will enable them, over time, to sell other relevant personal data and services to consumers.

f. Repositioning US marketing

In Solutions, we have made good progress in repositioning our US Marketing business. We are now selling more marketing solutions than pure information. For example, Meredith Publishing, which publishes *Better Homes and Gardens* and over 165 other special interest publications, awarded Experian a multi-million dollar contract for advanced data management solutions. While we used to be mainly in direct mail, we can now help clients across many communication channels. For example, the CheetahMail acquisition has given us an industry-leading email delivery platform, winning contracts with companies such as LL Bean. Finally, we have been able to diversify our client mix away from our traditional dependency on catalogue companies, to many other sectors, such as financial services, travel, entertainment and charities. This has included expanded relationships with three of the top 10 US credit card issuers, and success with major retailers such as Brooks Brothers.

g. Growth by acquisition

Finally, let us look at growth through acquisition. Experian has continued to acquire businesses across a wide range of activities, which are providing new products, new

data, and enter into new vertical or regional markets, whilst leveraging our core assets. These businesses now enjoy improved access to market, as part of Experian's portfolio of products and services and global network. Experian has a proven track record of managing the integration process, and these acquisitions are all proceeding well, with returns well ahead of plan. Acquisitions are a key part of Experian's strategy, but they have to make strategic sense and to meet our financial target of generating double-digit returns on capital over time.

5. Burberry

Burberry continues with its excellent track record of growth. Sales increased in the last six months by 14%, and profits by 22%. Burberry also continued to increase its operating margin, up by almost 2% on last year, to 22.7%. As you heard on Tuesday, Burberry continues to make good strategic and operational progress on its priorities by product, channel and region. We highlight here the growth initiatives currently under way.

Homebase

Terry Duddy

Chief Executive, ARG

I. Preamble

Thank you and good morning. At ARG, we continue to deliver our multi-brand, multi-channel businesses, with separate customer-facing brands. Our central infrastructure leverages sourcing advantages, order and delivery capability, and financial services, and is driving benefits for both Argos and Homebase. The benefits would not be available as standalone businesses. At the time of the Homebase acquisition, we identified at least £20 million of ARG integration benefits. Further benefits have now been identified, principally driven by joint sourcing coming through in greater quantity and faster than originally envisaged. These benefits are expected to broadly double to £40 million per annum by March 2006, allowing reinvestment and value for our customers.

II. Homebase – Strong Market Position

However, this morning I will concentrate on the progress we have made at Homebase, and the opportunities that we have to drive further growth. We are very confident in the ambitions that we have for Homebase. The strategic rationale for acquiring Homebase is as strong as ever. The business operates in the growth markets of DIY and home furnishings, and is the number two brand in UK DIY. We continue to differentiate Homebase from its competitors, aiming to make it the UK's leading home enhancement retailer. Even against a backdrop of tough trading conditions and a volatile and increasingly-competitive market, we have made significant progress and we have a clear strategy for further growth.

III. Growth Initiatives

I will summarise our progress to date on our strategic business initiatives and future plans aimed at driving like-for-like sales growth by improving our customer offer, increasing new space through new stores and mezzanines, and increasing profitability, especially by leveraging the ARG scale and expertise.

1. Improve Customer Offer

Since acquisition, one of our main priorities has been to improve the in-store experience for our customers across the Homebase chain. The key areas that we have addressed in detail are the processes and standards of execution, the level of on-shelf availability, and the service delivered by our in-store colleagues. We have made real and identifiable improvements on all fronts, as evidenced by our constantly-reviewed internal measures. We mystery-shop every Homebase store every month. Homebase is obsessive about improving its in-store experience, targeting and providing bonuses for store staff based on these measures. We believe that these improvements that we have made in these areas have been fundamental in supporting our underlying like-for-like sales growth to date.

2. Strengthen Core Ranges

Whilst the point of difference at Homebase is based on home and garden enhancement, we are equally focused on ensuring that we remain a credible destination for the DIY enthusiast for all interior projects. During the last year, we have increased our focus on range development and management in the core DIY and decorating product categories. We have seen good sales uplifts as a result of introducing new entry price point products, by lowering prices, improving price architecture, and reducing SKUs and adding new ranges. Where appropriate, these range management changes have been completed jointly with Argos buyers and ARG sourcing support.

3. Improve Home Furnishings

As well as our focus on core DIY and decorating, we are improving our home furnishings offer. We continue to improve this offer through the rollout of mezzanines. The latest stores, which have our best offer to date, incorporate improved displays, dedicated sales consultants, kitchen and bathroom computer-aided design support, and increased promotional finance. These new formats deliver the best performance in the kitchen and bathroom ranges, as well as generating better improvements in related areas, such as tiling, flooring and bath accessories. Although the trial of miHome as a separate part of the store has not delivered adequate returns to support rollout, we are now using the miHome product to improve our own brand offer in home accessories across the chain.

Let me also mention an important trial that we call Furniture Direct. This furniture catalogue is currently in 15 stores, of which 12 display an edited range. Over 600 furniture lines come from both the Argos and Homebase product pools, and are delivered to home via the Argos Direct infrastructure. The trial has shown good customer reaction and encouraging sales performance.

4. Open New Stores

Homebase currently operates 283 stores, giving selling space of around 12.7 million sq ft. Having opened five stores in the first half, we expect to open a net four stores in the second half. Thereafter, we plan to open about 45 stores over the next three years. Our trial format for smaller markets such as Sudbury, Stamford and Honiton has been trading above expectations, and we would expect about half the new openings to be in smaller catchments or second stores in larger towns and cities. To date, new stores have contributed around 2% of our sales growth, and this will rise over the coming years, as we increase selling space by about 12% in the three years to March 2008.

5. Add Mezzanine Floors

As you are aware, Homebase has been rolling out mezzanine floors into stores, giving extra selling space at low cost, and improving the display of kitchens and bathrooms. At the half year, we had 88 mezzanines and, in the second half, we will add up to 25, bringing the total to over 110. We have been refining the presentation and layout of mezzanines as the rollout has progressed. The latest versions, such as Telford and Plymouth, moved lighting and bathroom accessories upstairs to an overall larger mezzanine, which allows us to increase the space allocated to our core ranges of DIY and decorating on the main floor. We are making these mezzanine refinements at the same cost of about £1 million per store, but they are delivering sales uplifts well in excess of 15%. We expect to achieve our target of over 200 mezzanines, although impending regulation may slow our rollout. The rate of mezzanine rollout has historically been providing about 2% uplift in like-for-like sales growth. At this stage, we anticipate this to continue over the next three years.

6. Leverage ARG Sourcing

Since acquisition, we have analysed in greater detail the sourcing gains available to us, by product group and by the extent of supplier overlap. Our latest view is that we have a total product overlap between Argos and Homebase of around £2.1 billion. I have already told you that joint sourcing gains are driving the overall ARG benefits, which are doubled to £40 million per annum by March 2006. An important point is that these savings would not have been available to Homebase as a standalone business; being part of ARG has undoubtedly strengthened Homebase's competitive position.

7. Value Chain

Our initial focus on joint sourcing has been with supplier overlap, where savings can be driven by terms harmonisation. Future savings will come largely from negotiation that we call 'value chain'. Argos and Homebase buyers work together to develop strategic plans for cost price reductions. This includes a better understanding of costs, joint sourcing, joint development of own brand products, and more direct importing and sourcing. A good example to demonstrate this is the progress that we have made in the power tools product group, with combined ARG sales of over £80 million per annum each year. The overlap is one of the biggest opportunities available to us at a product category level.

We established a product buying strategy based on analysis of our comparable sales between Argos and Homebase, the profitability of each line by linear foot or by cubic metre, by brand and supplier, and we look at the cost prices achieved over time. As a result, in power tools, we have reduced our reliance on branded suppliers and increased the proportion of our own brand product. We are now jointly sourcing entry price point own brand products, called Argos Challenge and Homebase Powerbase, from a single supplier in China. We have also introduced a new exclusive brand called 'Worx' to both Argos and Homebase, and we have undertaken a tender on accessory products, reducing the number of suppliers and improving our cost prices. As well as giving customers lower prices and better quality products, leading to pleasing sales uplifts, we have also reduced ARG cost prices for power tools by over 10%.

IV. Conclusion

In summary, we are confident of delivering sustainable, profitable sales growth from our plans. The focus on retail basics is paying off in improved customer experience. The Homebase repositioning on home enhancement includes improving our credibility in core DIY and decorating product ranges, as well as the growth in home furnishing products. There is a substantial opportunity from new store and mezzanine space growth, and Homebase is now firmly established in gaining real benefits from ARG ownership that could not be delivered as a standalone business.

GUS Summary

John Peace

Today, GUS has considerable momentum in all three of its main businesses. We have delivered another strong financial performance in this first half, while continuing to unlock value in the group and investing for growth in our three main businesses. As we said in the Stock Exchange announcement this morning, whilst we are not underestimating the current challenges in some of our markets, we are confident about the strength of the competitive position of our three main businesses.

Questions and Answers

Tony Shiret, CSFB

Where is the DIY market now in terms of year-on-year growth, and what do you think its prospects are in terms of overall growth in the next year? You talked about price positioning at Homebase; what overall movement have you made in the architecture relative to the competition?

Terry Duddy

Overall growth is low single-digit, but it is growing, and we see that growth continuing. However, the DIY market, as we look at it, does not necessarily represent all the products that we sell; it is an ever-expanding market. Therefore, we also have to look across into the furniture market, which also has good growth. The outlook is for continued growth, but potentially slowing. In terms of our price positioning in Homebase, we have clearly been reinvesting gains that we were achieving from better buying into price. We have had to - you have seen the competitive nature of the market, particularly looking back over the first half. From that point of view, we have been able to afford to be promotional and, therefore, in a better position than we would have been a few years ago.

However, we have not really made a major impact in terms of our overall price positioning. There are a number of areas that we have taken down in price, particularly focused on a number of products where we thought that the pricing was clearly too far ahead of the market. In general, we are trying to keep our pricing competitive with the market, and we have used the Homebase 'Hammering Down Prices' campaign to support that. An important issue for Homebase is not necessarily one of exactly where its prices lie, but of the price perception of our customers. Even though we may be very well-priced in a number of product groups, our customers perceive us to be more expensive. Over time, we will have to address that issue, which is one we will come back to.

Tony Shiret

Can you conclude from that, then, that the pricing environment in the rest of the DIY market is stable at the moment?

Terry Duddy

That was not what I was alluding to. I would say that pricing is coming down and we are following it. A lot of that is in promotional activity. Rather than seeing general average sales prices being lowered, we are seeing an amount of on/off promotion related to the market. Overall, the customer is seeing better value.

Tom Gadsby, Williams de Broe

At Experian, In terms of the 8% recovery charge that you are implementing due to the FACTA, are you trying to exactly compensate for the business you imagine you will lose, or are you actually sharing the pain? On ARG, if you were to make any acquisitions, what criteria are you applying? Are you looking for earnings enhancement and, if so, over what kind of period? What proportion of supplier overlap are you looking for?

Don Robert, Chief Executive, Experian North America

We have endeavoured from the start to simply recover our costs of implementing and operating the free credit report provision of FACTA. We went out with the cost recovery fee on 1 October and have been proactively talking to clients. We sent out our first bills a few weeks ago and are optimistic that everyone will pay us. We are

looking at it as a breakeven proposition and, so far, we are encouraged and we are sticking with the plan.

David Tyler

The priorities for GUS and ARG in the retail space are to continue the fabulous momentum we have had for many years in Argos, and to gain the benefits of pulling together Argos and Homebase in many ways. Those are our priorities, but that does not mean that we would rule out further acquisitions, because there would clearly be a benefit in using the skills we have in various areas. The skills that came out of Terry's presentation are supply chain, home delivery, back office, Internet, and financial services. All those are parts of the skill set that the ARG central infrastructure could potentially offer in the future to another business. I stress, however, that our focus today is on our existing businesses.

John Peace

Would you like to restate the criteria for assessing any acquisition in terms of the returns?

David Tyler

We do not do this unless we believe there is an opportunity for our investors to achieve an excellent return. We are looking over a period of time for double-digit post-tax returns. We certainly see that as our expected return on Homebase, and everything that has happened in the two years has underlined that. Any future acquisitions, as far as we are concerned, would have the same criteria. That does not mean you achieve a 10% post-tax return in year one but, over a period of time, we would expect the IRR to be post-tax double-digit.

Simon Irwin, Exane BNP Paribas

In terms of Argos, you cut prices fairly aggressively in Vision and some other categories last week. Were these were planned or related to competitive pressure? How weak is the CRT market? Are these broad enough to avoid any concerns over gross margin?

Terry Duddy

I will not be able to comment on some points in detail, because it might sound like a trading update, which I am not going to do. I heard this question earlier around planned promotions, and I think John covered it in his presentation. We cut our prices in TV last week, and the question, I think, was whether we had planned to do that. It was an event that was published in-store with millions of leaflets; it was on TV and, in order to build stock, put it on TV, and plan a promotional campaign of that size takes weeks and months of planning. We looked at the market and spoke about it in October. We said it would be tough. We have planned to deal with a tough and competitive market, and that was in our plans as we approached this quarter. Those promotional campaigns will continue. If you like the look of our 20% on TVs last week, you might like the look of our 20% off camcorders this week.

Mal Patel, HSBC

What was the underlying cost growth in Argos on a like-for-like basis?

Terry Duddy

If you look at the first half, we have clear inflationary costs that relate to wages and inflation. As you know, we pay that money but we do not gain any extra resource. We have grown our sales by 13%, so there are volume-related increases. There are a few areas with incremental investment year-on-year, which relate to establishing underlying growth in our business. One is greater distribution capacity; we opened an RDC in Moss End and we began opening the Argos Direct warehouse in Darlington. In addition to that, we have invested in Argos Extra. We are now in a lot more stores and we are investing in the distribution infrastructure for that.

Mal Patel

When do you expect the incremental investment to begin to fade?

Terry Duddy

I think it is showing through in terms of the incremental investment. The incremental investment that you are seeing is in Argos Extra, and we are already seeing the benefit of that in terms of our like-for-like.

Mal Patel

I did not mean the benefit; when do you expect the absolute costs in terms of the incremental investment in Argos to begin to peak and then fall away?

Terry Duddy

I do no think we will see that. We are about driving sustainable, profitable sales; we are growing our sales base. That, as a result, means it is a never-ending circumstance. We are also seeing a change in the model in Argos, with substantially more direct import – over 20% of sales. That is a different infrastructure from where we were four or five years ago. There are many containers pouring into the UK; we deal with them, and that is going to grow. We are seeing benefits, in terms of buying further up in the P&L, but we are also seeing competitive pressures giving customers the advantage, and we are driving value. However, there are costs below that. One of the things we have to deliver for you and our shareholders is a healthy operating margin relative to our sales growth.

Mal Patel

In which specific areas in Experian are you seeing cost inflation, in terms of IT, data and wages?

Don Robert

I would answer that almost in the same way Terry did. Wages, insurance, legal and regulatory costs, and data security costs are probably four big buckets. This is not a new story, it has been going on for the last few years, and despite all of that our margins continue to improve. We see a great deal of further opportunity to keep the margins improving.

John Saunders, Chief Executive, Experian International

In the international business you can see the progress we made on the margin. That is down to the improved mix and the focus on cost control. Our main cost areas are the same as Don's. People are our biggest cost. We have just invested in a wonderful new computer facility that will raise service levels. We are pleased with the progress made on margin and we are pleased with the focus that we have on cost control.

John Peace

I think the consistent theme, though, is ongoing investment in the businesses.

Eithne O'Leary, Oriel Securities

Can you tell us, of the £193 million increase in stock at the end of the half, how much of that is driven by direct sourcing and what the increased stock levels are in Argos and Homebase at the moment?

David Tyler

The great bulk of that is indeed in ARG and the great bulk of it is indeed associated with two things. The first being direct imports (DI), which does mean that you tend to run on higher levels of inventory than you would previously on the old model, as Terry was just noting. Secondly, the development of Argos Extra, a wider range of stock and more stock holding to ensure that we can offer customer serviceability there has also added to our stock levels. Those are the two main drivers there.

Fraser Ramzen, Lehman Brothers

What opportunities do you see to sell additional solutions with the Free Credit Report? I think you did refer to it in a sideways way during the presentation, so perhaps you could expand a bit on that.

Don Robert

The Federal Trade Commission, when they signed FACTA, gave the credit bureaux the authority to cross-sell off the free report. We have been experimenting with some different ways of doing that. It is still early days, but as you know we have got a little bit of time before the free report provision rolls out. Accordingly, the plans that we have to up-sell off the site will roll out about the same time. We are hoping that there

will be a net benefit in that part of the business. We will have a full report for you in May.

Fraser Ramzen

Can you just confirm what kind of market share you have in Consumer Direct in North America?

Don Robert

It is ridiculously high.

Charles Nichols, Citigroup Smith Barney

Firstly, can I just check what impact on US revenues you expect from the cost recovery charge, both at the reduced rate and the full rate? Secondly it looks like you have got some uncovered costs in the first half, and I guess at the reduced rate again you would be uncovered. What is the likely uncovered cost for the financial year ending March?

Don Robert

Net-net, when we close the books on the financial year I do not think there will be a net cost to the business related either to the reduced recovery fee or the full recovery fee. I would be hesitant to predict a revenue impact. This is not designed to be a revenue item; it is truly a cost recovery fee.

Nathan Cockrell, CSFB

On the list of skills you gave for acquisitions, supply chain, back office, Internet, financial services and so on, you did not really mention capital. Can you give us an update on how much capital investment and working capital investment you have put into Homebase since you bought it? As an academic issue, can you tell us what the total supply chain investment has been in Argos since you took over, because I sense that there has been a strategically transforming investment there?

David Tyler

Firstly, overall Argos investment has been well over £100 million in supply chain in various different forms, particularly the IT investment, the investment in our warehousing and logistics. About three years ago we talked specifically about a project, which was then talked about being £140 million and we are close to completing that part of the project. At the time we talked about giving £50 million of annual benefits and we feel very comfortable with that figure today. That was before we acquired Homebase and we have the additional opportunities that Terry talked about today. That does not include additional stock if that was in your mind. We are increasing the levels of stock that goes alongside this sort of investment, so that has to be added in. Indeed that is in our equations all the time when we are looking at the return on the investment.

Terry Duddy

Homebase investment, if we are talking about capital investment, is running at £70 million per annum. I do not think that has changed for the last couple of years.

Nathan Cockrell

And what about working capital?

Terry Duddy

Hardly anything. One of the issues there as it sits now is that the proportion of DI stock is about 10% of sales. As we drive DI into Homebase you would probably see working capital rise but it is pretty well controlled.

John Baillie, SG Securities

On Experian North America, can you talk a little about the profitability of Consumer Direct and where you are on the curve and if the margins now being achieved are below or above the overall level?

Don Robert

The Consumer Direct business has always had attractive margins and that remains the case. We do not get much more specific than that.

David Tyler

I am happy to say it is now above the average in the Experian Group in North America. We started in the first year being below, we predicted we would move ahead and we have indeed moved ahead. To the extent of precise numbers I am afraid we are not going to give you the detail, John.

John Baillie

Is that including the ongoing heavy recruitment?

David Tyler

Absolutely. We take that on the nail. All the recruitment costs are charged against P&L as we spend it.

John Baillie

What is the churn rate?

David Tyler

I am not sure that we want to give that for competitive reasons.

Don Robert

No, I think that is commercially sensitive.

David Tyler

We are comfortable with it and it has been moving in the right direction.

Andrew Hughes, UBS Warburg

Do you think that Homebase is at a long-term competitive disadvantage because it does not have any access to the trade, and a number of your competitors are leveraging off trade volume to roll back into the core business? Secondly, on the acquisition front, you have talked about a lot of the possible returns from acquisitions and the upside; can you take us through what you see as the main risks, and particularly the risks to your existing businesses, if indeed you did make another large retail acquisition?

Terry Duddy

I see the growth that there is. There has been some good growth in trade and you are seeing many people who were previously trade merchants actually moving into the retail space a little bit more. Clearly there is a good market there. We are not represented in it but I do not think that that is a disadvantage at all for the standalone Homebase business. As I said earlier we look at the market on that broader basis and think that we have established a differentiated position, which clearly would not include a trade element. However, it is a good, growing market, as I understand it, though I do not have much experience.

In terms of risks and the returns to acquisitioning specifically around Homebase, clearly one of the obvious risks is that which we see in the consumer demand over the next year or two. We are still expecting our markets to grow, although that growth is slow, but if that changes substantially then that is the biggest risk across all of our businesses.

Andrew Hughes

Do you see Homebase as strong enough now in terms of management and development of that business to actually add a third leg to ARG?

Terry Duddy

It is not something that I am looking at, in terms of adding a third leg. I am focussed on the issues that David has told me I must be focussed on. However, Homebase is absolutely well-established; we have a terrific board and have done some great recruitment. Paul Loft, the managing director is here and he has done an outstanding job pulling together that business. It does not mean that we are not working at it day in and day out, trying to improve it and dealing with issues that we want to improve upon. However, I think over the last 18 months we have moved beyond some of the tough issues that we had when we first took on the business, so we are in a good

position. It is not ideal, but it is good and we are pleased with the progress that we have made. Paul has done a terrific job to-date and has promised another terrific job for the second half.

Geoff Ruddell, Deutsche Bank

Could you see yourself making another strategic acquisition for ARG before your group strategic review is completed?

John Saunders

We did say in May, when we talked about the strategic review, that it was a continuation of the things we had been doing for the last four or five years. I said this morning that the strategic review is about looking at the growth prospects for ARG, Experian and Burberry looking forward. We have, indeed, in recent weeks, made further acquisitions for Experian in the shape of the Simmons and QAS acquisitions. Therefore, do not be surprised if we continue to make acquisitions during this two-year period that we are undertaking this strategic review. View it as a continuation of what we have been doing for the last four or five years.

John Peace

Thank you very much for coming and we will see you again shortly.

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