GUS plc
Interim Results
17 November 2005

Chairman's Introduction

Sir Victor Blank

1. Agenda

Good morning, ladies and gentlemen. Welcome to the GUS interim results for the six months to the end of last September. Our programme will involve David Tyler taking you through the numbers in some detail, and then John Peace will take you through the operational and strategic review.

2. Two Businesses

Burberry Demerger

As I have said here before, the principal and immediate job of the Board is to ensure the continuation of the strength and the growth in value of our businesses. After completion of the Burberry demerger, expected to be on 13 December, GUS will comprise two businesses of roughly equal size in terms of profit generation: Experian and Argos Retail Group (ARG).

Experian

Experian has continued to perform very strongly, with an exceptionally good first half. It has a unique range of services and wide geographic coverage. We continue to acquire related businesses, and to expand geographically. Massive opportunities remain.

ARG

For ARG, it was a tough climate. Here, also, we have two good businesses, each of which has improved its market share. Argos has unique strength in its range, and in its special combination of good value, quality service and exceptional convenience. Homebase continues to make progress in its market, with its targeted product ranges and its improved customer service. ARG cannot entirely duck the effects of weak consumer confidence, but we continue to invest in and to plan for growth and the strengthening of our businesses.

Loss of Burberry

It is right that Burberry now becomes truly independent, and the GUS shareholding should be distributed to our shareholders. Burberry is a great company, still developing its offer by product, channel and region. We at GUS wish the fine Burberry team all success, and we thank them for their contribution to GUS.

Financial Review

David Tyler
Finance Director, GUS plc

1. Reporting Standards

Good morning, everybody. The interim results we are presenting this morning will take a little bit more explaining than normal, because of the accounting and business changes that have taken place. In particular, this is the first time we have announced our figures in International Financial Reporting Standards (IFRS) format. There are a number of complicated items in the financial presentation, including the impact of divestments. To help you, we have given you additional detail: first of all, in our IFRS statement released on 14 June; secondly, in the appendix to the slide pack; also, in terms of the appendices to today's announcement we are providing a pro forma of GUS going forward, excluding Burberry, Wehkamp and Lewis, which I think you will find helpful later.

2. Summary Results

As you can see, first-half sales were £3.9 billion, up 4%, or 6% from continuing operations. Benchmark profit was £376 million in the period, which was 7% below the same period last year, giving benchmark earnings per share (EPS) of 25.5p. Let me remind you that benchmark profit is the key measure of underlying profit in GUS today; it is a similar kind of underlying measure that we used under UK Generally Accepted Accounting Principles (GAAP) in the past – in other words, pre-tax profit before exceptional items and goodwill amortisation, which we used previously. I will describe later the way this number reconciles to our statutory numbers.

3. Profit Bridge

Last year's benchmark profit for the first half was £407 million. If we exclude the EBIT from Lewis and Wehkamp, which are now discontinued operations, and if we allow for a relatively modest adjustment in central activities, interest costs and the FX impact, year on year, we arrive with an adjusted base of £366 million. From our adjusted base, we can see two major changes in EBIT, which roughly offset each other. ARG is down by £59 million; this includes £20 million of one-off and IFRS-related costs, as I will explain later. Experian, on the contrary, is up £52 million in the half year. Burberry is slightly down, which was entirely caused by spending about £3 million on their infrastructure project, Project Atlas. This gives us profit from continuing operations of £358 million. If we add back to that the EBIT of Lewis and Wehkamp in the first half of 2005, there is the £376 million that I just mentioned.

4. Pre-tax Profits by Business

Note the record profits of Experian – above £200 million for the first time. Before looking at Experian, ARG and Burberry in any detail, let me comment on interest costs. Interest costs are roughly £13 million, up £3 million on last year, reflecting acquisitions and capital investment and higher interest rates, predominantly on US dollar borrowings. These factors now lead us to expect that, for the year as a whole, our interest charge will be £30-35 million.

Argos

Sales increased by 4% in the half year. We continue to see very good performance from our new stores, which contributed nearly 7% to sales growth. However, like-for-like sales were down 3%. As you are no doubt aware, we continue to outperform the non-food, non-clothing market in which Argos is competing. The sales performance was achieved at the same time as holding gross margin in line with last year, despite adverse mixed factors. However, EBIT at Argos fell by over £30 million in the half year.

More than half of that downturn can be attributed to a number of factors, which total £20 million. Some are one-off costs – these have a quick pay-off – such as: the store staff restructuring costs of £4 million, and the transitional costs associated with the acquisition of Index. We would expect the Index stores, for the year as a whole, to be broadly profit-neutral. In the second half, you will see a pick-up in profit, as a result of that important acquisition. Other items relate to higher IFRS costs, notably a £5 million timing hit on catalogue costs in the first half, which will largely reverse in the second half. Also, there is an incremental increase, under IFRS, for pensions and share-based payments.

To help you better understand the performance of Argos, we have set out the make-up of its cost increase in the half year. Our total cost increase was 13% in the period, from which about 5% came from the one-off costs and IFRS-related factors. Underlying inflation averaged about 4%, mainly from payroll, rent, rates and utilities. We expect this sort of rate of increase, going forward. The balance of 4% of our cost growth reflects our investments in major initiatives, such as Argos Extra, new space, new distribution and so on. All of that has then been offset, in part, by productivity improvements and cost savings.

Homebase

Here, sales were 1% down in the half year. The business continued to gain share in what was a deteriorating market. There was a 4% like-for-like decline in sales, offset by a gain of 3% from our new stores. The gross margin in Homebase was up slightly, benefiting from the supply chain gains that we have engineered in conjunction with Argos, since the acquisition almost three years ago now. However, the EBIT dropped by £27 million.

As with Argos, Homebase also saw underlying inflation of around 4% in areas such as rent, rates and payroll. Its total costs grew by as much as 7%, with the additional 3% reflecting our investment in new space, mezzanines and Furniture Extra, offset again by cost savings and productivity improvements.

Like its competitors, Homebase naturally has a relatively high structural level of operating costs, as a percentage of sales. This led to a decline in EBIT to £48 million. Short term, with a depressed market, and increased promotional activity in that market, we are cautious about the outlook for Homebase. We have said that before. However, over the long term, as we have also said before, we remain confident that Homebase will gain share and grow sales and profits as its strategy in DIY and home enhancements continues to be successful.

Experian

Experian clearly had an outstanding first half. Sales were up 29%, and profits were up 36%. Although this performance of course benefited from some one-off factors, this is the seventh consecutive half year where we have had double-digit sales and profit gains. In North America in particular, we had an exceptionally strong half year. Sales grew by 37%, 18% of which was organic growth with 19% from acquisitions. Acquisitions should contribute a similar amount in the second half.

When we look at the organic growth in the business, we are particular pleased about how widespread that has been. Credit Information and Solutions, our largest business, was very strong with 18% growth, although 5% of that came from a direct result of the Fair and Accurate Credit Transactions Act (FACTA) cost recovery charge, which started to annualise from October. In this period, the Credit business also benefited from a very strong market. Many of our other activities also did well, from our business information operation to our Scorex solution activity. Our Interactive business in the US continued to show electric growth – nearly 40% organically – in the half year.

As mentioned before, MetaReward, part of Interactive, is expected to slow in the second half, when it anniversaries some of its large one-off client wins. Returning to the first half again, as a result of all this, our EBIT in North America grew by as much as 43% benefiting from operational leverage and the recovery of last year's FACTA set-up charges.

Outside North America, Experian International also had a good half with growth in sales of 19% and EBIT growth of 24%. Of this sales growth, 14% came from acquisitions, where we have been particularly pleased with the performance of QAS, our new address management software business. This business has now been owned for a year, so we currently expect minimal contribution from acquisitions, in International, in the second half of this year. Organic growth in the first half was 5% in International, with growth in the UK despite our difficult current economic conditions here. International was also buoyed by strong double-digit growth in Spain, Italy and eastern Europe. Our EBIT margin advanced in the business again, benefiting from mix and our continued emphasis on cost control. Note that our level of investment, through the P&L account, is now picking up in emerging markets, particularly in Asia. That might make it a little more difficult to achieve a margin advance in the second half of this year.

Burberry

Briefly Burberry announced their figures on Tuesday. There was an underlying rise in EBIT of 2% on 3% sales growth, but that was offset, as I have previously mentioned, by their £3 million investment in Project Atlas.

5. Income Statement

I will discuss the items that take us from those benchmark profits before tax (PBT) to statutory profits. First, we have to deduct the amortisation costs of intangible assets arising from acquisitions. This amounted to £9 million in the half year. We then have to add the exceptional profit of £36 million we achieved when we sold our Lewis stores stake earlier in the financial year. We also have to allow for fair value re-measurement on our financial instruments, which clearly arises from our switch to IFRS this year. This only showed an adverse movement of £1 million in the first half, but, as you know, this may swing positive to negative, from year to year, which was why we put it below the line.

Taxation was £104 million. We currently expect an effective tax rate, this year, of 27.7%, higher than last year's 26.5% under IFRS, because of new tax legislation. The good news today is that this is a little lower than the guidance we gave you last May. Allowing for minority interest, we arrive at a profit attributable to GUS shareholders, in the period, which ties back directly to the group income statement.

6. Cash Flow

The key story here is that we continue to generate good free cash flow, despite our continued significant investment. Capex was £208 million in the half year, and our guidance is that it will approach £400 million for the year as a whole. It remains significantly ahead of depreciation. Working capital outflow, this half year, largely reflects growth in Experian and Burberry in their working capital balances.

Acquisitions, predominantly in Experian, amounted to nearly £400 million in the half year. John will take you through some of those. The £127 million inflow from divestments arose from the sale of our remaining stake in Lewis. Net cash flow was -£354 million. Net debt rose to £1.77 billion at the end of September.

7. Balance Sheet Summary

Note the fall in working capital, in the half year, which largely arises because of the sale of our South African business, and the pending disposal of Wehkamp in the £222 million net assets held for sale. Also, there was an increase in goodwill arising from the acquisitions in the period.

8. Burberry Demerger and Share Consolidation

We are announcing the demerger of Burberry today. For every 1,000 shares of GUS that an investor holds, that investor will receive 305 Burberry shares, going forward. In addition, we propose to carry out a share consolidation for GUS shares, so that after the Burberry demerger, each GUS share will have roughly the same value as before. As an illustration, although this is subject to final pricing this evening, GUS shareholders will receive about 859 new GUS shares for every 1,000 existing GUS shares that they own. There will be a shareholders' meeting for both Burberry and GUS, on Monday 12 December, to approve the plans. Subject to those going through, dealing in the demerged Burberry shares and the newly consolidated GUS shares will begin on the morning of Tuesday 13 December.

9. Dividend Payout

This is a little bit more complicated than normal, because as a Board we have considered the total dividend our shareholders will receive from both Burberry and GUS. Shareholders who take Burberry shares will be entitled to their interim dividend to be paid at the beginning of February, at 2.5p. The value of that, which is £7.63 for every 1,000 shares that you currently have in GUS, together with the value of our interim dividend of 9.6p on those newly consolidated GUS shares, will give you about the same value, in total, of about £90, as you would have had from the 9p interim dividend we announced last year.

10. GUS without Burberry

After the Burberry demerger, GUS will be a much more simplified and much more focused business. Roughly 50% of the pro forma Group EBIT, for the last 12 months comes from each of Experian and ARG. As detailed in the appendix, pro forma net debt is about £1.6 billion taking into account the removal of Burberry and its net cash, and the proceeds we expect from the sale of Wehkamp in December.

Operational Review

John Peace
Chief Executive, Gus plc

1. Strategic Progress

Good morning, everyone. Once again, GUS has made good strategic and operational progress in the first half. We have continued with the strategy of focusing on fewer activities, with the sale of our remaining stake in the Lewis group and agreement on the disposal of Wehkamp. Today, we are providing details of the demerger of our remaining 65% stake in Burberry.

As we announced in May, the GUS Board remains committed to a separation of ARG and Experian, at a time and in a manner that benefits our businesses and creates further value for shareholders. We will obviously keep you informed of any decisions we take about the separation. Today, I would like to concentrate on our continued commitment to investing in both ARG and Experian.

A lot has been happening in the first half, resulting in a great deal of operational change. It is a credit to our management teams that these changes have been managed with so little disruption to our businesses.

2. People

At the beginning of April, we announced our intention to move approximately 500 Homebase roles – in buying, merchandising and other functions – to Milton Keynes, alongside Argos. This move has gone very smoothly. In July, nearly 700 people joined ARG following the acquisition of the Index stores. At Experian, a total of 500 people joined the business, as a result of their recent acquisitions. The new Experian global organisation structure, put in place earlier this year, is operating very effectively, enabling our teams around the world to work together more closely.

3. Infrastructure

We have continued to invest in our infrastructure, with capital expenditure in the first half at around £200 million. At ARG, we added distribution capacity in Argos Direct and Argos Extra. We opened 14 new stores in Argos and six in Homebase. New stores continue to generate returns above our return on capital hurdle rates. We also invested in the ARG infrastructure to support the successful launch of Argos Extra, which offers our customers 30% more choice, with 17,700 lines in all stores. At Experian, we have been investing in new database platforms to provide increased integration and efficiency across a number of key product areas. We have further been enhancing our information security.

4. Acquisitions

In the first half, we spent around £400 million on acquisitions. This included: Argos' acquisition of the 33 Index stores for £44 million; the acquisition of three internet businesses in the further expansion of Experian Interactive; and other Experian acquisitions, in Credit and Marketing, which total around £120 million. Acquisitions are a key part of the Experian strategy, and over the last three years, they have together generated double-digit post-tax returns.

5. First-half Operational Progress

Argos

As has been widely reported, the UK retail environment remains very challenging. The non-food, non-clothing market has been in negative territory for a year now, on a like-for-like basis. This has been driven by many factors, including higher fuel and utilities bills, a subdued housing market, falling consumer confidence and, most importantly we believe, consumers spending more of their income on servicing the interest and capital repayments of higher debt levels.

Against this background, both Argos and Homebase have outperformed their markets. As we have said before, we remain cautious about the outlook, and are planning on the assumption that like-for-like sales in the non-food, non-clothing market will remain in decline for the next 12 months. Nonetheless, we still believe that the appropriate strategy for ARG, in these difficult times, is to continue to invest in growth initiatives, which will enable it to emerge from this downturn in a much stronger, competitive position.

We have talked about many of these initiatives in the past. Let me update you on a few of them now.

- The national launch, in July, of the new Argos Extra catalogue necessitated a great deal of operational change, including: re-binning all the stock rooms; developing new computer systems; training staff; and introducing new transport and distribution processes. The launch has been successful. We still expect Argos Extra to add 2-3% to sales in its first full year of availability

- We have refitted and reopened the 33 stores purchased from Index, which was completed on plan, and in time for peak trading. These stores are similarly expected to add 2-3% to total Argos sales in the first full year of operation. Combined with our normal store opening programme, the new space contribution in the second half will be about 8%, which will help spread the overhead cost.

- We also successfully opened two large new warehouses in the first half, creating around 1,000 jobs in Darlington and Corby. This is a step change in our distribution capacity, adding about 20% to our warehouse space. Both of these warehouses are currently running below capacity, but they will support future growth in Argos Direct, Argos Extra and Direct Importing.

Homebase

As David has already said, this business was impacted by a very tough DIY market. Again, we are pushing forward with our key strategic initiatives. Since the acquisition of Homebase, in December 2002, we have reviewed and changed the vast majority of its product ranges, which has been one of the factors contributing to our share gains in DIY. In the first half of this year, following major reviews, ranges were revamped in lighting, bathroom accessories and laminated flooring, offering customers wider choice, greater availability and better value, as well as increasing the range supplied through ARG's buying offices in Asia. Mezzanine floors were added to 19 existing stores in the first half. A further four are planned in the second half.

The sales uplift achieved by the latest mezzanine format continues to track ahead of plan, and has helped sales of bigger ticket items, even in this difficult market. Finally, Homebase continues to differentiate itself by emphasising home enhancement – a move that is being accelerated by ARG's scale and expertise. For example, Furniture Extra, a catalogue offering over 700 lines, is now available in all stores, with product displays in 126 stores. Appliances

Extra, which offers 400 lines, sourced via Argos, was rolled out nationally in Late October. Both these initiatives have been brought to market more quickly, and more efficiently, than Homebase could have achieved as a standalone business thanks to the infrastructure and supply-chain capabilities of Argos.

6. Experian

Continued Strong Growth

In this first half, Experian has clearly maintained the momentum of the last few years, with a good balance of organic growth and successful acquisitions. In terms of organic growth, Experian signed a number of valuable new contracts in the first half. Importantly, these are across a wide range of geographies, sectors and products, illustrating the breadth and depth of Experian's capabilities.

Strong Organic Growth

Product innovation and improved execution are also driving growth throughout Experian. In North America, credit sales grew by 18% in the first half, excluding acquisitions. This performance was undoubtedly helped by the FACT Act, cost recovery charge and buoyant market conditions. We believe that approximately two-thirds of Experian's growth in credit in the first half was driven by the market and one-third by our own initiatives.

Experian also continued to invest in building its presence in the emerging markets of Asia Pacific and Eastern Europe, where strong growth in consumer spending, consumer credit and the internet is creating demand for a wide range of Experian products and solutions. During the first half, we have continued to strengthen the local management teams, and we are seeing increased success in these markets.

We are also pleased with the way that acquisitions are benefiting from being part of Experian. Take Cheetahmail. This email delivery company was acquired in March 2004. Since then, its sales have more than doubled. Growth has come from a variety of factors, including strong market demand for permission-based emails and the strength of the Cheetahmail technology and analytics. Just as important has been the ability of other parts of Experian to cross-sell Cheetahmail services and take them into other countries. In the UK, Cheetahmail now has over 100 clients, compared to just 15 at the time of the acquisition.

Experian Interactive

In the first half, Experian Interactive accounted for approximately one-third of Experian North America's sales. A little less than half of these sales came from Consumer Direct, the market leader in online credit services for consumers, and the remainder from online lead generation. As Don Robert explained in May, by continuing to invest in Experian Interactive, we are well positioned to capitalise on the rapid growth in internet usage by both consumers and advertisers. Our internet businesses are also being strengthened through access to Experian's existing data, analytic skills, and major clients. Furthermore, many of these capabilities are scalable and can be transported internationally. Witness the success of CreditExpert in the UK.

7. Burberry

Burberry announced its interim results on Tuesday. This is very much a year of transition for Burberry. Looking forward, we believe that Burberry is well positioned to deliver sustainable returns for existing and new shareholders, and we wish them well as a fully independent company.

8. Summary

GUS has continued to make good strategic and operational progress in the first half. We have maintained our strategy of focusing on fewer activities, including selling our remaining stake in Lewis Group and agreeing the disposal of Wehkamp. Today, we are providing details of the Burberry demerger. The GUS Board also remains committed to the separation of ARG and Experian at a time and in a manner that benefits our businesses and creates further value for our shareholders. In the meantime, we have continued to focus on driving sustainable growth in our two main businesses. We have further invested in ARG and Experian, with capital expenditure of nearly £200 million in the first half and a further £400 million on acquisitions. Experian has delivered exceptional underlying sales and profit growth, while Argos and Homebase have both continued to take share in their markets in a very difficult UK retail environment, a robust performance in the circumstances.

Questions and Answers

Bruce Hubbard, Citigroup

What criteria would you use to restart dividend growth? What is the run rate of capex you might expect once you have exited Burberry?

David Tyler

As far as dividend is concerned, the board has a policy, which has not changed, to pay out roughly on a cover of two times. This year, given the dilution effect from the sales of both Lewis and Wehkamp, I think we are going to be struggling to get two times cover – it is likely to be a bit less than that – but ongoing that is broadly the direction we would see. If your question is disguised as 'When is our profit going to increase', I am not going to forecast that, but I will repeat the confidence we have in both of our businesses. If you can look through the retail downturn, you will certainly see some growth in the future of our businesses. Clearly, the Experian business is motoring along, so we do not believe it will be too long before dividends would actually increase in pounds and pence.

The capex figure for Burberry in the period is a few tens of millions. Without Burberry this year, it would be roughly £350 million; that is the broad guidance we are giving for this year. Remember: we were spending quite a lot more than average in the first half in Argos and Homebase. You have seen the warehouses and other things on which we have been spending, so that would not necessarily be the guidance for future years. You will have to wait for that in a future conversation.

Simon Irwin, JP Morgan

Can you talk us through the Homebase relocation? Judging by your number, 300 of the 500 elected not to move. Obviously, you have had to replace a huge number of people. Does that provision simply cover the cash cost, or is there is a disruption element within the provision? Are we now back on track and fairly seamless on that front?

Can you be a bit more specific about the impact first half on first half on the FACTA cost recovery, and remind us of the impact going into the second half?

In terms of acquisitions, are you still open to acquisitions within ARG, broadly speaking?

Terry Duddy

We are very pleased about the progress we made on the relocation in Homebase. We have been more successful with it than we expected, mainly because more people elected to move than we expected; around 40% of the people moved, and we expected 20-25% of them to move. I am pleased to say that most of those people were senior managers, so we managed to keep some sort of consistency in terms of management in the business. It is still not clear whether there has been any disruption. We are not through it yet, but we will see how we manage in terms of continuity.

One of the things you may not see in the way we described it is that we elected to move 500 roles. We actually did not fill 500 roles when we got to Milton Keynes; we filled closer to 400 roles. We also took the time and opportunity to downsize in Argos and the Argos ARG central office, and we were able to transfer people out of Argos and ARG into roles that would have been Homebase roles. By doing that, in actual fact we managed to take a cost saving in the business, yet still within the level of exceptional that we identified. That exceptional is a cash cost and does not take into account any upheaval other than that. The costs are in line with the way that we looked at them; in actual fact, the result of people relocating is that it becomes more expensive, although better for us in terms of continuity, but we managed to save on some of our recruitment costs. Overall, we are pleased with where we have got to so far.

John Peace

If I could make a general comment about acquisitions rather than specifically ARG, we certainly do not think of GUS as having a bucket of money and can be out there looking willy-nilly at acquisitions. We will look at acquisitions, either from an ARG point of view or from an Experian point of view, and when we think it makes both strategic and financial sense to make that acquisition, we will do it. Clearly, we review acquisitions from time to time when they come along, as we did in the first half when we made 11 acquisitions.

Don Robert

The FACTA surcharge represented 3% of North American revenues in the first half and 5% of the organic growth. It anniversaried from 1 October, and we will continue to collect it because we have not recovered our investment yet. That is about all I can tell you.

Rod Whitehead, Deutsche Bank

Can you update us on the work you are doing on the tax implications of the split of ARG and Experian and whether you perceive there will be different implications depending on how you split it?

Secondly, you mentioned that mezzanines in Homebase are coming above plan. What is the planned uplift from mezzanines?

David Tyler

We are not going to go through any future potential means of separation of ARG and Experian with you today. However, as you can imagine, we will be working extremely hard to minimise any tax leakage, and we believe, irrespective of any route we choose, there will be virtually no tax leakage.

Terry Duddy

In terms of Homebase, I think we have said that we see a 15% uplift in sales across the store. We are doing better than that. They are returning nicely.

Andy Hughes, UBS

Could you update us on the criteria you are using to gauge the timing of separation and whether there is any change to that?

On an operational front, we see Tesco pushing quite hard on developing its own Argos-look-alike catalogue. What do you think will happen there, and how would you respond?

John Peace

We have no more to add today to what we said in May, when we said three things, which we confirmed today. It is our intention at the right time to separate the two businesses. We do not intend today to elaborate on either when or how. However, in May we indicated that at some point we would separate the businesses, but we also talked about continuing to invest in the businesses and drive growth. Hopefully what you can see from the first-half results is that is exactly what we have done.

Terry Duddy

I have not seen the evidence of the Argos look-alike catalogue yet. I know there has been some comment in the press regarding it, but I have not seen anything. This would not be the first time that Tesco has been in catalogues; it has a number of catalogues it uses, and I think it uses the Grattan facility in order to do that. Clearly, however, they are a serious competitor in non-food, as are the other grocers as they start to grow, and they have made a lot of advances in non-food in the last five years or so. At the same time, we have doubled our sales over that time, and from that point of view we have a bit of confidence that we can come back to them with whatever they want to come with next. What is really working well for us is being multi-channel, and that is very hard to replicate. We are very big in our markets, so we are quite confident about being able to combat them in the future, but we do take them seriously.

Andy Hughes

Do you see any particular impact on product categories where the markets are ramping up either space or range?

Terry Duddy

We have not lost market share, so it is hard to really identify where we would have seen that impact. Clearly, we follow them absolutely both in terms of the way they develop their ranges and the way they price. On the fact that we are maintaining our market share in markets where we are often number one and number two, that is pretty good news.

Bruce Hubbard

You have given us new guidance on the group tax charge. Could you give us more guidance on the tax charge ex-Burberry?

David Tyler

There is very little difference. Burberry's estimated tax charge is 31-32% this year; it is 27.7% for the group for this year, incorporating something like eight- or nine-twelfths of Burberry's profit, so the 27.7% will come down on a pro forma basis to roughly 27.5%. There is not much difference.

John Baillie, SG Securities

On the North American side in Experian, could you give us a breakdown of that margin improvement of 220 points between the mix, the FACT Act and the operation leverage?

Don Robert

I do not know that we break it down into much more detail other than to say that mix was part of it. A lot of the improvement came from the core credit reporting business, which has high fixed costs and high margins. We have talked about FACTA already, which was a significant part of it. Acquisitions played into it as well. There were a lot of moving parts.

John Baillie

In terms of understanding some of that trend, looking forward how much of that is sustainable?

Don Robert

I think it is sustainable. In terms of the coming half, we would be pleased just to hold the margin improvement, but over time one of the main financial emphases in the business is to make sure we harvest operating leverage from the model.

David Tyler

I think we are always a bit cautious about forward-looking statements, but I would repeat what Don has just said. There is a core fixed overhead in the business, and as we gain revenues, we should be able to gain operating leverage. We have our internal targets that, taking one year over another, we would expect to see EBIT margins continue to increase based on the current model. We would be a bit cautious about putting absolute numbers on that; that is for investors to come to their own conclusions about.

John Baillie

On retail, could you give us some feel for the impact from the furniture and appliance catalogues, or what you anticipate in terms of the sales impact?

Terry Duddy

When we started to roll it out, we said that the sales impact from Homebase would produce a 1-2% like-for-like sales improvement as it began to mature. So, as it begins to mature in a full year, it should add roughly 1-2% on Homebase. It does not make money in this year by any means, which is something that you need to take into account. You should see a bit of a sales improvement in the second half, but there is an investment in terms of setting it up. We will think about how we move forward in the next year. We think it is a great opportunity, although the furniture market has gotten more difficult for some. We have a very good infrastructure to support it; it is cost efficient; and we are pleased with the stock we have.

Mark Charnock, Investec

On the marketing front, could you give us some idea how marketing expenditure has trended in the first half for the two retail businesses? What are your expectations for next year, given your view of the retail landscape? Secondly, on buying, could you give us your thoughts on the buying synergies of putting the two departments together, particularly as you have indicated that it has gone rather more smoothly than you would have expected? What might the timing of the benefits going forward be? Has that changed from your original guidance? Finally, on Argos, given that you have done the Index acquisition, you have obviously brought forward some of the space growth. Could you give us some idea of what space we would be expecting from 2007 onwards?

Terry Duddy

Marketing expenditure is actually slightly up in the first half for Argos; that is around the Argos Extra launch and starting up with Index. That is a one-off, so there is no intention that should go on. As we look out, we are not looking for particular increases in marketing expenditure, and we are about flat on a year-on-year basis as I look at what we are planning for Christmas. Wherever the competitors are listening in, that is not necessarily true.

On buying synergies, clearly we are going to expect some benefits, but there is no change in the guidance; we talked about £40 million in that sense on an annual basis shared over the whole of ARG. Clearly, we are going to look for a return out of the £18 million that we spent, and we think we will get that; otherwise, we would not have spent it. It does not take a lot for us to think through how we are going to get it by making those teams work together, so we will see a better return from that.

On space, I think we have said before that the Index stores add 2-3% in terms of space growth. On the basis of 35 new stores, Argos has seen about 6%, so this year it could be up to 9% in terms of space. Going forward, it will not be at that rate; we are still planning 35 stores, and that kind of rate will be 5-6% retail sales growth coming out of that, particularly as the sales grow. That percentage will then drop a bit going forward.

Robert Miller, Redburn Partners

Can you talk about product trends for Argos going into Christmas? Is there anything within the key toy, jewellery and electrical areas that will hinder or help you compared to last year? What is the overhead and scale of the home delivery network and the sort of capacity you have in that going forward?

Terry Duddy

Going into Christmas, there are a number of hot products, particularly in toys, that are there. I will not go into detail, but things like the Robot Raptor and PSP. I am seeing a move towards electronics – there are a lot of good electronics around. MP3s are going very well; if you ever pick up a red top, you will see that there are several ads from several retailers for satellite navigation “Sat Nav”, which is going very well. LCD TVs are also going very well.

However, at the same time, whilst that may be helpful on a year-on-year basis, nearly everything I have talked about, with the exception of the toys, is in shortage, so it is usually allocated into the market in some way or the other. If you thinking about buying toys for your kids, or particularly buying your child "Sat Nav", my advice would be to get into the stores quick, because they are going.

I do not have a number I can give you on the total overhead for Argos Direct. In terms of scale, we have shown particularly with that fantastic aerial view of Faverdale in Darlington, that we have now created incredible scale there, which is important because it helps as far as drop densities are concerned on a national basis. By adding those extra warehouses, we are reducing the stem route times to home, and as a result of that, with 100,000 deliveries we are doing per week, that helps as far as our efficiencies are concerned. Having said that, we have opened the warehouse at a time where, as always, when you move into the warehouse for the first time, you cannot fill it and you cannot optimise it. We do see that the growth in Argos Direct will help us optimise, but remember that is also supporting the growth in Furniture Extra. We have headroom in Argos Direct to grow.

Terry Duddy

How much headroom, depends on what your view is of the sales; so, several years without any doubt, depending on what your view is. As always in these things, we start thinking about when we are going to open our next warehouse a couple of years in advance. There may be several years' growth, and there is, but we will start thinking soon about whether we put down a fourth.

Andy Hughes

In the past with Experian, you have given us figures on the percentage of sales that are from clients who operate in more than one country. How has that trended in the first half, or is it an outstanding US-to-US business performance that has been coming through?

John Peace

Clearly, we are getting more international and multi-national clients. I am not sure that we have ever given a figure for that level. It works two ways because it is not just the sales you get that are across different markets; credit scoring is a good example of that where you might sell a particular software product and license it to be used in a dozen different countries. It also strengthens the relationship that you have with a major client to increase your sales domestically in that country, as well. It is a double whammy. However, I do not think we have ever quantified it, and I do not think we are going to today.

Simon Irwin, JP Morgan

Can you talk about the dollar? Presumably you are hedged for the next six months or so, but with Argos sourcing up to 27%, can you tell us where you think the medium-term target on that is? Are you confident that you are going to be able to pass those increases through once the hedging comes off? Secondly, this time last year we were seeing a fairly substantial increase in competition within electrical. Do you see the same signs of that coming in this year? Finally, can you talk about promotional activities, particularly within Homebase? Obviously, the market is becoming a lot more promotional. Are you seeing the same kind of pick-up on promotional activity as you did before, or are you thinking about changing the stance there?

Terry Duddy

You are right: we are hedged forward on the dollar about six months or so, and clearly we can do that as far as the catalogue is concerned and where we pitch it. I am not going to give you a forecast for where we are hedged, as far as that is concerned, only to make the point that the strengthening of the dollar puts that gross margin under some pressure. I think we are going to see two things happening: the strengthening of the dollar and increasing raw material prices as a result of oil prices. Those two things will put pressure on our buying prices. We have good supply chain gains, and we have a history of holding or maintaining our gross margins; in the first half for Homebase, we moved slightly ahead. Our aim is to go on doing that, but the dollar is a pressure, without a doubt.

Electrical has been as competitive as it has always been; I do not see it being any less or more competitive. One point that I might say – and this is a bit of a guess for others, so if they are listening, please send me an email telling me whether I am right or wrong – I actually think that Retail has probably got the stocks better this year. I think there have been a couple of Christmases where stocks have been off, probably overbought, and what you saw last year in the market were a number of one-day and two-day sales and I think there was a bit of stock clearance.

I do not think everyone is in that position, so I will move on to what B&Q are doing. The promotional activity that they are doing is clearly having an effect in the market. When you have a market leader of that size running 10% off for four days, as they will do this weekend, and 15% off over £50, we will see an impact. It has not changed our promotional stance in the way that we are running our 10% weekends in the same way. We see some impact on proximity stores, but I have a feeling that it is affecting others in the market more than it is affecting us. If I look at what Travis Perkins have to say about their performance, I would say that it is hitting in some other areas a little bit more than we are being hit.

Eithne O'Leary, Oriel Securities

Can you give us a guideline of what the fixed charge cover might look like ex-Burberry?

David Tyler

You can see from the pro forma on page 19 of the pack that we are talking about a pro forma based on last year's profits, so a benchmark PBT of just under £700 million and net debt on a pro forma basis of £1.6 billion. That will give you it on a pre-fixed charge basis; our fixed charges are obviously largely associated with rental, which are going to be somewhere in the order of £300 million, if I am not mistaken. You can adjust for that and come up with your own number.

Nathan Cockrell, CSFB

There is a comment about Experian International's margin progression suggesting that as you invest more in Asia, there will be some pressure on margins. Can you give us a feeling for the kind of returns profile of setting up new bureaus in fast-growing markets? What is the potential versus what the P&L profile would be?

Don Robert

I think the key is that the investment activity is going to take place steadily and slowly, probably over a period of years, until the returns are big enough to affect or standout on the P&L. It takes a long time to get bureaus started, to sell analytical solutions and decision solutions, and set up staff and sales forces in emerging markets. We are having a lot of success right now in Asia; in particular, Korea, Japan and also China is just getting started, but the dollar impact will not be significant for quite some time.

Nathan Cockrell

When I have discussed the notion of ARG acquisitions in the past, you have historically suggested that prices were too high and you were going to sit and wait for capitulation. I imagine the prices have been coming towards you recently. Are you more or less hungry for acquisitions in this downturn?

Terry Duddy

You are right: I have often said that the prices have been too high, and I am sure in this downturn, as you can see, they are getting better. Unfortunately, the risks are going the other way. Therefore, I am not hungry at all for acquisitions. To the point that John made, you have seen us do an opportunistic acquisition in terms of what we did with the Index stores over this year; it has worked for us and has been good. We are keeping our eyes open.

John Peace

Thank you very much for coming. As Terry reminded me, we do have some competitors listening to this, so I hope you do not have too happy a Christmas!