

## **Preliminary Results - 24 May 2006**

### **Chairman's Welcome**

#### **Sir Victor Blank**

Good morning, ladies and gentlemen, and welcome to the presentation of our preliminary results for 2006, which, if all goes according to plan, will be our last as GUS.

This has been another year of real progress for GUS, both operationally and strategically. Experian has delivered its fourth consecutive year of double-digit sales and profit growth, while Argos and Homebase have again both outperformed their markets in a challenging retail environment. At the same time, we have undertaken significant disposals, acquisitions and organic investment as part of the Group's continuing transformation. Most importantly, we successfully demerged our remaining stake in Burberry last December and, in March this year, we announced the separation of our two remaining businesses, subject to shareholder approval. We would expect the demerger plans to be completed in October.

The demerger of Argos Retail Group (ARG) and Experian marks the end of a journey, a journey on which we have sought to build quality, growth businesses out of our conglomerate base and to create value for shareholders. Since 2000, we have created over £8 billion of shareholder value, and we have been the third best performing company in the FTSE 100. Our shareholders now have the opportunity to own shares in three high-quality businesses. Today, those businesses are well positioned in their chosen markets, with clear strategies for long-term growth and strong management teams. Continuity of management, when you have a winning team, is key, and I am delighted that the management teams at Experian and ARG will continue to lead these businesses after separation.

Other members of the GUS Board, as you know, will also be joining the two businesses to provide further continuity of management. Oliver Stocken and John Peace will become the chairmen of ARG and Experian respectively, and they will be joined as non-executive directors by John Coombe and Andy Hornby at ARG, and Sir Alan Rudge and David Tyler at Experian. We are also seeking additional non-executive directors to complement their experience and abilities and will keep you updated on this.

John Peace will talk further about the demerger, as well as our operational and strategic progress. David Tyler will take you through the Group's financial performance.

## **Financial Review**

**David Tyler**  
**Group Finance Director**

### **1. Preamble**

Sales from continuing operations in 2006 were £7.3 billion, up 9%, and EBIT was £745 million, up 7%. If we then allow for our discontinued businesses – Burberry, Wehkamp and Lewis – the reported benchmark profit before tax (PBT) for the Group in the year was £829 million, which is 9% down on the previous year because of the dilutive effect of these disposals.

Please note that the comparative figures for 2005 are slightly different from those we originally reported under IFRS, as we and all other companies have received clearer guidance on various issues over the last 12 months. The one change of any significance is to do with Homebase, which I will speak about in a moment.

### **2. Profit by Business**

ARG's underlying profit was £85 million lower than in the previous year, but Experian's is up by £91 million. Central costs are slightly down on last year, but interest costs were up significantly – indeed, by £13 million, largely because of the effect of the major acquisitions that we have made and our other investments. We spent £820 million on acquisitions in the year and invested a further £365 million of capital expenditure. Together, that is a £1.2 billion investment in the future of Experian and ARG in the last 12 months.

### **3. Argos Retail Group**

Drilling into ARG, the first point to underline is the resilience of the Argos profit performance, which is only down 9% in a really tough year for retailers, and its EBIT margin was 7.5% in this tough year. On the other hand, Homebase saw its profit halved. Our Financial Services business made a robust £6 million profit.

#### **Argos**

Argos' sales were up 7%, largely because of the impact of new space. Like-for-like sales were 1% down, but that meant they had outperformed the market for the seventh consecutive year, this time aided by the nationwide launch of Extra in July. Sales in consumer electronics and white goods were particularly strong, and gross margin was held in line with the previous year despite competitive pressures. Note also that this profit is struck after £11 million of one-off costs relating to the Index acquisition and to staffing changes in the Argos stores.

Argos' costs in total were up by 11%, reflecting these one-offs and the high level of underlying inflation at 4%. Costs were also raised by 6% in the year because of the

investment programme stores and distribution capacity, as well as the impact of sales growth.

## **Homebase**

Let me explain here the IFRS change to comparatives. Until recently, we have assessed whether there needs to be any impairment charge made to the fixed assets in our stores by examining the net present value (NPV) of the expected future cash flows of the stores on a regional basis. On that basis, NPV in every region exceeded the fixed assets in the stores; therefore, there was no need to make an impairment provision.

It has now become clear, however, that we have to assess our estate on a store-by-store basis. Therefore, we have had to go back and make a provision for impairment of £36 million at the IFRS transition date of 1 April 2004. As a result, there is a reduction in our depreciation charge in 2005 of about £7.5 million, which is partly offset by an onerous lease provision of something over £2 million, which was triggered by the store impairment charge. Carrying out this impairment review again at the end of this financial year, at a time of serious difficulty in the DIY market has obliged us to make a further impairment charge of £13 million. This non-cash charge is taken below the benchmark profit line. I will leave it to you to assess the relevance of that charge given that we are obliged to calculate it under prescribed accounting rules that do not represent the way we, or indeed other retailers, assess the economic value of stores.

Homebase's trading year, of course, was marked by a sharply deteriorating DIY market. The positive feature was that Homebase gained share again and did particularly well in kitchens and furniture, but the negative features were the 4% like-for-like decline in sales and the high level of promotional activity, which was not as successful as we might have liked in stimulating additional sales. Gross margin was in line with last year but cost pressures and the high operating leverage of Homebase meant that profit was sharply down. Homebase suffered the same 4% underlying inflation on its cost base as Argos, and it also saw an additional 4% growth in its costs because of its investment programme in new stores, its mezzanine programme and projects like Furniture Extra.

## **4. Experian**

With a 29% growth in profit, Experian achieved record results this year. This caps a wonderful track record over the last four years, during which EBIT has risen around 85%.

## **North America**

In North America, sales were up 36%, and the EBIT of our direct business was ahead by 44%. Of the 36% sales growth, 13% came from underlying growth, and the other 23% from acquisitions. We achieved particularly strong growth in Credit, our largest business, and Consumer Direct continued to grow sales very rapidly; sales there were up by over 30%. EBIT margins in our Direct business overall grew 1.3% to 23%. FARES profits were unchanged, despite the decline in the mortgage market.

## **International**

Experian International continued its long unbroken track record of double-digit sales growth at 16% this year, of which 7% was underlying and 9% came from acquisitions. Our performance in the UK was robust, especially given the slowdown in consumer credit. We were pleased with our progress in continental Europe. EBIT margins for International as a whole rose, even after growing investment in Asia Pacific.

## **5. Other Group Results**

### **Discontinued Operations**

The balance of Group profit, after allowing for ARG and Experian, of £119 million came from the discontinued businesses.

### **Income Statement**

Looking at what is below the benchmark PBT line, we deduct the £37 million amortisation charge for intangible assets acquired as part of companies we have purchased and the store impairment charge of £13 million. These are offset by an £18 million exceptional profit on businesses sold and a £3 million fair value re-measurement related to hedge accounting on our derivatives.

Most importantly, we have to deduct tax. This year, our effective tax rate was 25.6% which, I am happy to say, is significantly lower than our previous guidance. We believe this rate in particular provides a reasonable guide for the current year for the GUS Group as a whole, with ARG's future rate expected to be in the order of 30% and Experian's in the low 20s.

### **Earnings per Share (EPS)**

Although our benchmark profit figure was down by 9%, our benchmark earnings per share were, in fact, up by 0.3 pence. Apart from a lower tax rate, this is because of a 14% reduction in the number of shares which took place in December when we carried out a share consolidation at the time of the Burberry demerger.

### **Dividend**

With a proposed final dividend of 21.9p, our annual dividend will be 31.5p, which is 2.0p above last year. However, because of the share consolidation, dividends are effectively in line with those of last year if shareholders retained their Burberry shares. Cover is in line with our historic long-term objective of two times.

### **Cash Flow**

We generated exactly £500 million of free cash, despite our continuing substantial capital expenditure programme. Capex exceed depreciation by over £100 million. Working capital was also kept under firm control. Please note that we only paid out £108 million of tax, which is £62 million less than the previous year and about £60 million less than what we charged through our P&L.

We spent over £800 million of this cash on acquisitions, predominantly, of course, for Experian. We put a further £100 million into our pension funds, which, I am pleased

to say, are now in surplus on 31 March 2006 for the Group as a whole on an AISLE basis to the tune of £18 million. Our net cash outflow in the year was thus around £550 million, and net debt was just shy of £2 billion at 31 March.

### **Group Balance Sheet**

The bulk of our assets are invested in fixed assets, working capital and goodwill; £2 billion of our balance sheet is financed by debt. The last £140 million owed to us for the sale of our home shopping business was paid to us in full at the end of April, which is another piece of the tidying up complete ahead of the demerger.

## **Strategic and Operational Review**

**John Peace**  
**Group Chief Executive**

### **1. Further Strategic Progress**

As Sir Victor said in his introduction, the year under review has seen further major steps in the transformation of GUS. Since January 2000, we have pursued a strategy of focusing the Group on fewer activities. The separation of ARG and Experian later this year marks the final step in this strategy. During the past year, we have disposed of our remaining stake in Lewis Stores, sold our last home shopping business Wehkamp, and completed the demerger of our 65% stake in Burberry. We have also continued to invest both organically and by acquisition in ARG and Experian, investing well over £1 billion in 2006.

### **Transforming the Group**

In 2000, seven business units generated profits of £520 million. Last year, profits of £766 million were generated by just two businesses. Over the same period, profit from ARG and Experian has more than doubled.

### **Update on Demerger**

In March, we announced our intention, subject to shareholder approval, to separate ARG and Experian by means of a demerger, with both businesses being independently listed on the London Stock Exchange. Today we are updating investors on our progress since that announcement. In summary, we are currently on track to complete the demerger in October, subject to any unforeseen delays.

We have made a decision about how the Group's existing debt will be allocated to each business. About £1 billion will go to Experian, which we believe is consistent with a BBB+ credit rating, and about £200 million will go to ARG, which already has substantial leasehold commitments. The balance will be repaid from the proceeds of the equity-raising in Experian. As a consequence of this, the Board now expects to raise about £800 million from issuing new shares in Experian, subject to any major changes in our financing requirements between now and the demerger. These shares will be offered to existing GUS shareholders and new investors. New

investors will be offered up to 5% of Experian's ordinary share capital, with the balance offered to existing GUS shareholders.

The dividend policy will be determined by the separate Boards following demerger, but we anticipate that ARG will have a cover of no less than two times and Experian no less than three times. David has already commented on the tax rate of the separated businesses. Other points to note are that we have proposed certain amendments to the terms and conditions of our outstanding bonds. Finally, since the majority of its profits come from the US, Experian will be reporting in US dollars after the separation. We will continue to update you on the separation as and when further decisions are made. Today, I would like to concentrate on the prospects for ARG and Experian.

## **2. ARG in 2006**

### **A Successful Year**

ARG is one of the largest general merchandise retailers in the UK, with sales of over £5 billion and EBIT of around £350 million. As everyone is aware, retail market conditions in the UK over the past 12 months have been very difficult. Against this background, ARG successfully delivered significant operational improvements in terms of people, new infrastructure and new space. We have continued to invest in a wide range of strategic initiatives while effectively controlling costs, and both businesses have benefited from the synergies created by leveraging the ARG infrastructure. As a result, both Argos and Homebase again outperformed in their markets.

### **Argos – Greater Choice**

Key to the success of Argos this year has been the roll out of Argos Extra from July 2005 to all our stores and channels in the UK and Ireland, offering customers around 30% more choice. Argos Extra is trading in line with expectations and contributed an estimated 2% to sales growth in the year. The Autumn/Winter 2006 catalogue will again offer about 17,000 product lines, as we continue to optimise the product range and mix. We are also currently trialling a Home catalogue in 100 stores, which offers over 3,000 product lines. This will help us establish the investment case for standalone catalogues in selected high opportunity markets.

### **Argos Integrated Multi-channel Model**

Integrated multi-channel retailing is at the heart of Argos' business strategy. All of our products can be ordered through the store, by phone or via the internet for subsequent collection in-store or delivery to home. 68% of sales are for products that are ordered and collected in the store. The remaining 32% use a combination of different channels and represent a growing proportion of Argos sales. For the first time ever in 2006, orders taken over the internet exceeded those taken over the phone, and we expect our internet business to continue to grow significantly.

Throughout the year, we continued to invest in all these different channels. We opened 65 Argos stores during the year, including the 33 acquired from Index. The integration and refitting of these stores was completed on plan and contributed 2% to sales growth in the year. This year we plan to open about 30 new stores.

Self-service kiosks are now in over 300 stores and account for about 10% of sales in these locations. We also opened a 730,000 square foot home delivery warehouse in Darlington. The new advertising campaign is reinforcing the message about how convenient it is to shop from Argos.

## **Homebase**

Trading in DIY has been difficult, particularly in the second half, in the face of challenging retail market conditions and very aggressive competitor activity. We responded to this by promoting more heavily in the second half, at a cost to gross margin. However, this failed to generate the targeted volume uplifts. We therefore intend to pursue a less aggressive promotional stance in the current year in order to improve our gross margins. We have also been looking beyond the current market downturn and continuing to invest in Homebase in line with the strategy developed at the time of the acquisition.

## **Rationale for Acquisition**

GUS acquired Homebase in December 2002 for three reasons, all of which hold good today. Firstly, we were attracted to the large and growing DIY and home furnishings market, which have a combined value of over £30 billion. Secondly, the Homebase brand is well positioned in these markets. Thirdly, we identified significant synergies between Argos and Homebase. Both businesses have benefited from combined sourcing and supply chain initiatives, as well as from direct savings in other areas such as home delivery.

## **Key Initiatives**

We therefore continued to pursue initiatives during 2006 that differentiate Homebase further from other players. All major product groups have now been reviewed and repositioned since Homebase was acquired. Customer service measures have continued to improve. The Furniture Extra catalogue was rolled out to all stores by last Christmas and has significantly improved sales performance in furniture. A new 200-page home furnishing catalogue has been on trial in 30 stores since Easter 2006, and new merchandising techniques for textiles, cookshop and home accessories are currently being trialled in 11 stores. Finally, Homebase opened a net 10 new stores during the year, bringing the total at the end of February to 297, of which 144 stores have a mezzanine floor. In the current year, Homebase plans a net increase of 15 stores and 10 additional mezzanines.

Recent consumer research makes us confident that the changes and investments made in new store formats and product ranges are very much in line with changing consumer trends in the DIY and home enhancement markets. This is evident from the performance of those stores where we have made investments, be it in mezzanines, new layouts or refits. Their like-for-like sales growth is significantly better than the 'uninvested' stores, which make up about one-third of our chain.

## **ARG Summary**

Many factors have combined to subdue consumer spending. We are cautious about market conditions for retail in the short term, but we remain confident about the prospects for ARG in the longer term, especially as market conditions start to

improve. Argos and Homebase are both well positioned in their markets – Argos as a leading multi-channel general merchandise retailer, and Homebase as a strong brand in the most attractive part of the DIY and home enhancement market. ARG has a first-class management team with clear strategies for growth, which you will hear more about in the coming months.

### **3. Experian in 2006**

#### **An Excellent Year**

Experian once again had an excellent year. This was the fourth consecutive year of double-digit sales and profit growth, and also the fourth consecutive year where about 100% of EBIT was converted into operating cash flow. We believe this performance further reinforces Experian's position as a leader in the global information solutions market.

#### **Introduced New Products**

We have been investing in new products, which have contributed significantly to organic growth. These include Triple Advantage in Consumer Direct and the anti-fraud system Hunter, which recently won the Queen's Award for Innovation. More recently, Experian launched VantageScore, a product that it developed jointly with the two other national credit-reporting companies in the US. VantageScore gives clients and consumers a more consistent and predictive credit score. Although it has only been 60 days since the product was launched, several hundred clients are already buying VantageScores. Because Experian's products and services have natural lifecycles as markets change, product innovation is key to Experian's ability to drive consistent sales growth.

#### **Strengthened Presence in Emerging Markets**

We have also been investing in emerging markets during 2006. For example, in Asia Pacific Experian now employs nearly 200 people, an increase of more than 50% on a year ago. We have over 150 contributors signed up to our Russian credit bureau, which was launched last April. Experian's global business model enables it to better serve both local and multinational clients looking to expand in these fast growing new markets.

#### **Acquisition Activity**

Throughout the year, Experian made a number of strategic acquisitions at a cost of around £775 million. These included two large acquisitions in the Interactive business: LowerMyBills.com, a leading US online generator of mortgage leads, and PriceGrabber.com, a leading US provider of online comparison-shopping services. Both of these businesses are performing very well. We also strengthened our business in other areas with acquisitions including ClarityBlue, specialists in marketing databases; Baker Hill, enabling lending to small businesses; and FootFall, helping retail and property clients.

At the same time, we have announced our intention to withdraw from two markets, the MetaReward incentive marketing websites in the US and large-scale account

processing in the UK. These moves reflect how Experian continually seeks to reshape its business portfolio in anticipation of changing market trends.

### **Transforming the Portfolio**

Experian's business portfolio has changed over the past five years, particularly with the development of Experian Interactive. This broad range of products and services across many sectors helps Experian when economic conditions deteriorate. For example, UK consumer lending slowed last year, but Experian in the UK was still able to grow its sales and profits organically. It did this by selling different products to financial services companies and by selling more into non-traditional sectors, such as telecoms and direct-to-consumer.

### **A Broad Portfolio: Cross Selling**

This broad portfolio of products and solutions also enables Experian to deepen its relationships with existing major clients. One example is HSBC, already a major global client for Experian. We have recently signed a multi-million pound, multi-year contract with HSBC for our strategy management software, a direct win from a competitor. HSBC will roll out the software initially to 22 countries and eventually to over 60, using it to make up to 50 billion customer decisions each year.

### **Accelerating Growth of Acquired Companies**

We are seeing good progress in companies that have been recently acquired. Experian can often accelerate the growth of acquired companies by providing them with access to our information, extensive client base and presence in many countries around the world. For example, since becoming part of Experian in 2004, QAS has strengthened its presence in markets such as the US, France, Holland, Australia and Singapore. This year, we expect the proportion of its sales from outside the UK to double to about 20%. Another good example is Baker Hill. Since acquisition in August 2005, Baker Hill has signed some of its biggest ever contracts with clients such as Fifth Third Bank, a top 20 US bank. Large financial institutions are generally much happier buying business-critical software from a company of Experian's stature than from a small standalone software business.

### **Experian Summary**

Experian has become the leader in the increasingly global market for information solutions. The company achieved another strong financial performance last year and is well positioned to capitalise on future opportunities in areas such as growth in credit around the world and growth in Internet usage by consumers and businesses. Experian also has a strong management team, which is well capable of capitalising on these future growth opportunities.

## **4. GUS Summary**

Experian once again had an excellent year, while both Argos and Homebase have outperformed in their markets, despite difficult market conditions in the UK. The October demerger of ARG and Experian is the final step in the strategy we have been pursuing since January 2000. Since then, we have created over £8 billion of

shareholder value, and we will have given shareholders the choice to invest directly in what I believe are three exceptionally well positioned and highly profitable businesses – ARG, Burberry and Experian.

## **Questions and Answers**

### **Andy Hughes, UBS**

We saw a much bigger increase in the EBIT margin for Experian North America in the first half than in the second. Can you give us some guidance on the outlook for 2006-07? Secondly, I think the contribution from acquisitions of £16 million post-tax is a little bit less pro rata than we saw in the first half. Is there any seasonality in those acquisitions? Finally, you did not mention the Amex deal, which I thought was a big contract for you. Was there any reason why you did not mention it?

### **Don Robert, Chief Executive Officer, Experian Group**

We announced a deal with Amex involving our Consumer Direct portfolio through which we are beginning to roll out our Consumer Direct product to Amex cardholders in the month of May, but beyond that, they have not authorised us to say much more. It is a great relationship, but we cannot comment too much more on that.

You are right: there is a full-year margin improvement at Experian North America of about 130 basis points. It was very much affected in the front half of the year by the exceptional collection of the Fair and Accurate Credit Transactions Act (FACTA) surcharge, which also led to very strong growth in that high-margin consumer credit segment. You therefore had a bit of a mix issue and a bit of an exceptional issue with the FACTA surcharge, which led to the kind of margin improvement you will probably not see recur. We are going to keep investing in the business, as we have been, in products, markets, systems and data security, so we would not expect that kind of margin improvement to repeat. However, we do expect very modest margin improvement when sales are increasing because there is operating leverage in the business.

### **David Tyler**

We are asked and obliged under IFRS to estimate the contribution to revenue and profit after tax to the Group of the acquisitions we have made from the time we acquired them to 31 March 2006. The figure for the first half of £16 million is after tax; I believe it was £10-12 million in the second. The key point to mention is that it is an estimate. If we were doing it again, the estimate in the first half would be lower than it is today. I would particularly point out that this figure is profit after tax – you therefore have to estimate the tax rate – and it is also after the amortisation of intangibles. I would suggest you use that number with care in your estimates going forward.

## **John Peace**

It is worth reinforcing Don's problems here. We try to be helpful by giving examples like HSBC. Naturally, however, many clients are reluctant for us to use them as examples, particularly where it is very successful for them. They do not really want to share that with anyone else. That is the problem Don has in getting approval from clients.

## **Andy Hughes**

On the basis that Homebase profits will start to rise at some stage, particularly given what you have said about promotional activity, will you have to write up the value of the assets on a store-by-store basis? Will the depreciation charge then go up?

## **David Tyler**

Surprisingly, yes, you do. If you impaired an asset, a particular store, because the NPV looks in difficulty and later on it looks better, and therefore the NPV is greater than the fixed assets, you put the fixed assets back on your balance sheet; depreciation would therefore rise. It all sounds a little bit puzzling the first time, but those are the rules. It is worth saying that if you look at the total Homebase estate, there is a massive positive NPV. We are talking about the difficult stores we knew about, even right back at the time of acquisition. Those are the ones we impaired in the figures.

## **Mal Patel, Merrill Lynch**

Can you talk us through the margin outlook for the Experian International businesses, especially following the exit from the very profitable UK account processing operations?

## **Don Robert**

It is not that much different from the North American margin story. We would expect the margin to remain fairly stable, and with reasonable sales increases, we would look for a little bit of operating leverage in the business going forward. I do not see it being that affected by the exit from the account processing business.

## **Mal Patel**

Could you talk us through the cost outlook for ARG next year on the basis that last year you saw a 6% contribution from investments? Where do you see that going?

## **Terry Duddy, Chief Executive, ARG**

The cost outlook for underlying is approximately +4%. Investments going forward would likely be at a similar level on a year-to-year basis, although we have to be careful as to where this would be. We are talking slightly more stores as far as Homebase is concerned and slightly less in terms of Argos because of the Argos Extra and the Index purchase. We will be around the same as last year, or probably a little lower.

## **Mal Patel**

Does that include any increasing capacity utilisation at the warehouses?

## **Terry Duddy**

We are at a point where we opened two warehouses last year, and so we are probably running under utilisation. In the forthcoming year, we are likely to reduce the amount of infrastructure we have; we had two temporary warehouses that we will be closing, one in Coalville and one in Telford, so there will be some slight improvement. That is unlikely to be the case in Homebase, where we are getting good results from availability in store, and therefore there is likely to be more investment in warehousing in Homebase as we try to improve that availability going forward.

## **Bruce Hubbard, Citigroup**

Could you give us more detail on the £35 million difference between cash and P&L tax and the extent to which that is ongoing? Secondly, what lessons have you learned from MetaReward that are applicable to the rest of the Experian business? Does that influence your acquisition strategy?

## **David Tyler**

The dominant reason is the way that we are obliged to account under IFRS for the amortisation of goodwill in the US on previous acquisitions. We get tax relief on that, but it is pre-ordained; it is certain we will get it, and so under IFRS we are obliged to put it on the balance sheet as an asset. However, we are getting the cash benefit each year because we pay less tax. If you like, therefore, you get the benefit through the cash, but you have already had the benefit in the balance sheet, so it does not go through the P&L. You are always going to get some difference, but that is the dominant part of it.

## **Don Robert**

In terms of our acquisition strategy, we look for strategic fit, financial performance, and great people, and when we made the MetaReward acquisition three years ago, it certainly had all those characteristics. You had an incentive lead-generation business that used a business model where consumers could earn prizes – say, a television or an iPod – for filling out applications for things or responding to marketing offers. Fairly suddenly within this past year, that market moved away from us and we saw the traffic migrate to pure lead-generation businesses, more like our LowerMyBills.com business, where the real prize is a lower rate on a loan or credit card. That is really a higher-value business proposition for the consumer. We have salvaged a lot of great technology and assets out of MetaReward, for which we are grateful, and we largely recouped our investment. We are also grateful that we have the LowerMyBills.com business, which is performing ahead of plan.

You have seen us exit businesses where the market changed in the past – I might remind you of our acquisition of our lettershop businesses as part of the Metromail acquisition. When the communications channels changed more to electronic media, we shifted out of that lettershop business. You will therefore see us go in and out of

businesses and adjust our portfolio as business conditions change. I think we got some great assets out of MetaReward and we are glad that we have them.

### **Matthew Taylor, UBS**

On Homebase pricing and promotion, you say you are not going to engage in unprofitable promotion, which we can obviously understand. Where do you sit in terms of comparable pricing on like-for-like products with the industry? Has that moved much in the last year? What do you expect to happen in the coming year?

### **Terry Duddy**

It is important that we clarify this point. The less aggressive promotional stance does not mean that we are not providing good value to our customers, and therefore year-on-year on an everyday pricing basis will be around the same level. We have reduced the number of promotional activities – incremental promotional days – that we put in. One of those would be a reduction in 10% days; another one would be the reduction in what we call third-party offers, which are discounts that we provide to organisations to get further discounts in store. If you look at it on a year-on-year basis, outside of promotional days, Homebase will be about the same. This means that on 10% days, the very best deal there is available in DIY is when you are a Spend & Save customer and you are spending on a 10% day in Homebase. Very, very big discounts are available. Those numbers of days will be less by the end of this quarter.

### **Simon Irwin, JPMorgan**

How far can you push the store estate at Argos in the medium term, and more particularly at Homebase in the light of what looks like an over-spaced industry? How much more space do you think is appropriate on a five-year view? In terms of the mezzanine conversions, is the change in planning going to lead to a slowdown in mezzanine additions over the next year or so?

### **Terry Duddy**

For Argos we had talked about 750 stores, a number with which we are very comfortable, and we are opening about 30 stores per year. Going forward, there is an opportunity for us to review that number, but I am quite comfortable with what we are doing with Argos. You need to go back and look at the proposition that Argos provides. We have an opportunity to be both in town and out of town in many towns, and there are very few retailers who have the opportunity to do that. When you look at the total number of stores, you therefore have to compare it to the number of high street stores that we have and the number of out-of-town stores we have. We believe there is an opportunity to keep pushing that. That is working well, and we are getting very good returns on our Argos new stores.

Likewise, we are getting good returns on our Homebase new stores, and so we are not going to open any new stores that do not make strategic sense or good financial sense. We have very clear investment hurdles that we have to meet, very clear ones that we look at going forward, and everything that we are opening beats those viability plans, which are rigorous, and the ones that we have opened so far continue to do so. We are comfortable in terms of the financial basis.

With Homebase we have said we would probably get to about 350 stores by 2009, which I think is going to be more difficult for us to achieve, though not a lot. We said we would open 15-20 stores per year, but we are more in the range of 10-15 per annum as it is right now. That is about pipeline of stores being available. It is as simple as that. I still see us heading towards that kind of number, though maybe not by March 2009; perhaps a little later. I still think there is an opportunity for us to review that number as an overall number that we could do in the UK.

The mezzanine legislation has finally arrived, and I do not think that is going to change significantly the number of opportunities we have for mezzanine. There may be half-a-dozen in it. It is likely to mean that we will have to wait a little longer to achieve planning permission for the stores that we have done. However, that has not prevented us from getting to the number at which we are today: we have a reasonable run of mezzanines, and preparations are in store for further mezzanines that come prior to the legislation being effective.

### **Simon Irwin**

Is it fair to say that you have got quite a lot where you have stuck one bolt in the ground and grandfathered in, as it were?

### **Terry Duddy**

I would not use that expression myself, but there are a few where we had already made preparations prior to the legislation becoming effective.

### **David Jeary, Credit Suisse**

What impact will your proposals on bondholding have on the demerger process, particularly if you do not get the requisite majority given that there have been fun and games in the bond activity? What are the practicalities and contingencies of that?

### **John Peace**

There is no way at all this will delay or derail the demerger.

### **David Tyler**

That is the key point. There is a question mark about whether or not the demerger itself could be interpreted as an event of default on the bonds, and there are some people who have piled into the bonds in the hope that will mean they will need to be paid out. That is the background. Our lawyers do not believe there is an event of default, although we are accepting there is some question mark.

The proposition we put to bondholders was to say that we wanted to clear up this lack of clarity. We want to make very clear in future there will be a change of control over the three bonds that we have outstanding, which will protect the bondholders in the event of there ever being a leveraged buyout in the future of Experian. That is the first thing we are offering the bondholders. Secondly, we are ensuring that the credit default market will work effectively in these bonds on a go-forward basis. Finally, we are offering a fee of 50 basis points to most bondholders to agree their

consent. We believe it is a fair proposition, and we expect it to be accepted. If it is not, it does not make any difference as far as the demerger process.

### **Participant**

If the equity markets did deteriorate to the extent that you did not feel it was appropriate to raise capital for Experian, would that derail the demerger entirely, or would you just go through the demerger with a different capital structure?

### **John Peace**

We would demerge. Experian is perfectly capable of taking the debt for a period of time, and then we would review it again once the capital markets recover. We have thought about that from a contingency point of view.

### **David Tyler**

There is nothing else to say: the demerger will take place. In those very unlikely circumstances, Experian would go back to the equity markets later rather than in October, which is what we are currently flagging.

### **Participant, Sanford Bernstein**

How do you see strong housing and mortgage data impacting sales at Homebase going forward in the year?

### **Terry Duddy**

There have been some early signs of improvements as far as housing numbers and mortgages numbers coming through, and given the impact that this had on us in the downturn, you would expect us to start to see some upside. However, I do not think that is coming through so far. This is not just about mortgage and housing data; it is just as much about house prices, mortgage equity withdrawal, and the overall confidence of the consumers themselves. We are still cautious in our view, particularly for the Homebase business and in the DIY market. We are cautious in our views going forward in the forthcoming view.

### **Richard Ratner, Seymour Pierce**

Two companies against one; one and one make two. Presumably one and one are not going to make two in terms of central costs. Could you give us some estimate going forward on what the central costs are likely to be in each operation?

### **David Tyler**

It is a fair question, but it is a bit early to say what the central costs of each business will be. We will give some indications about that, or the individual businesses will, a bit later.

**Richard Ratner**

Would it be sensible to factor in a 25% uplift and then split it between the two?

**David Tyler**

I do not want to give you any guidance. Within the overall valuations you might want to make of each business, this is small potatoes.

**Rob Whitehead, Deutsche Bank**

How much was the gross margin down at Homebase? How much are you expecting it to recover this year with less promotional activity?

**Terry Duddy**

We expect some recovery, although I cannot tell you how much that will be. We had a very good promotional programme that we put in for our quarter four January sale, and we thought we had realistic expectations for the sales that would come off that promotional programme. It was a very competitive market in January, with the market leader doing a large number of promotional days compared to the ones that we did. However, the result was that we did not hit the sales number that we expected; we were most negative on a like for like in that quarter versus any other quarter during the year. Our margin was lower than we expected, and we gained market share. So, on that basis, it is hard now to go back and ask what we would have done differently. We have been less aggressive, as we said, and we think overall that will drive us to a better cash position margin than we would have had by being more aggressive. So, we are looking for margin improvement, but I am not going to give you any guidance as to how much that will be.

**Rob Whitehead**

Can you tell us how much it fell last year?

**Terry Duddy**

For the year it was flat. In the second half it was down. That effect was mainly taken in the fourth quarter.

**Rob Whitehead**

PriceGrabber.com seemed a slightly different type of acquisition and did not have the same level of synergies with the credit operations. What has been your experience of that now that you have had it for a few months? Would you acquire further things in that area, or will it remain an outlier?

**Don Robert**

It is actually a highly synergistic acquisition from two perspectives. It provides consumers with important information about comparison-shopping experience when they are looking to make a purchase, whether large or small, and that is kind of what we are all about. We are all about helping consumers make important decisions.

Secondly, it affords our retailers, retail clients who are served out of the business to business side of Experian, the ability to have another lead-generation channel. It is a double play in that sense. We will not comment on our acquisition strategy and whether we would make another acquisition in that space, but PriceGrabber.com is performing to the investment plan, and we are very pleased to have it in the portfolio.

### **Rob Whitehead**

Now that you have done your NPV of Homebase on a store-by-store basis, how does that compare with what you paid for it?

### **David Tyler**

If you add up all the good stores, which are the vast majority of Homebase, and do it on an NPV basis, it is comfortably in excess of what we originally paid. If it was not, we would be obliged to take a goodwill impairment, and there is no goodwill impairment in the accounts today. You no doubt will look at your own numbers and say what you think the value is, but we are very comfortable that we bought Homebase and we believe the strategy is working. We are just in a tough DIY market at the moment, so you do not see the results.

### **Michael Posnanski, Merrill Lynch**

Are you currently intending to do the equity issue before the actual demerger of the Group? Could you give us indication of the gross debt as opposed to net debt levels of the two businesses?

### **David Tyler**

It will take place at exactly the same time. Experian will not trade before the equity issue has taken place, there is some legal activity that will go on at the same time. Secondly, there will only be a very modest amount of cash to help make the flows work around the business, the same as in any company. Assume gross debt is only slightly above net debt in each case – say, in the tens of millions.

### **Robert Miller, Redburn**

What are the pro forma continuing profits of Experian Interactive – so, on a 12-month basis, taking out the MetaReward business?

### **David Tyler**

The sales numbers are in the pack, and you can then make an assumption about margins. We do not provide this information because we do not feel it is competitively appropriate to do so. We have certainly given guidance that the Experian Consumer Direct business, which is still the biggest part of that business activity, has margins that are now modestly in excess of the Experian North America business as a whole. We also gave you guidance when we acquired PriceGrabber.com and LowerMyBills.com of the sort of margins they had at the time; since then, the business there is developing well. With that, you can make some assumptions.

## **Robert Miller**

What about the long-term tax rate of the business? Do we still make the adjustment on the 2010-11 from the original tax shelter on the goodwill?

## **David Tyler**

It does not affect the tax rate because we do not take the benefit through the P&L line now. We have the cash benefit right through 2011 and a bit beyond, but we have no benefit now going to the effective tax rate, which we have guided today for Experian to be in the low-20s. That will not change, other things being equal, but, of course, other things will not be equal by 2011.

## **Mark Charnock, Investec**

What are the effects of the closure of Index? How have the stores you acquired performed against your expectations? In those locations where you did not take on the Index store and it closed, have you seen much of a benefit in the nearby Argos stores? Does the lack of a direct 'big book' competitor help you perhaps hang on to prices going forward?

On the Experian side, there has been press coverage about identity theft and, to some degree, the whole industry is being questioned about how reliable it is for users of your credit-checking services. How do you see things going forward? Does this affect the way that you do business?

## **Terry Duddy**

Clearly, overall we are very pleased with the effect that is provided through the year. We did see a benefit in those stores where Index closed; I am sure the whole high street saw that. That was a good position for us.

In terms of the Index stores that we opened, overall they are okay, although there are some mixes within them. They work well through peak season, but, on either side, we just need to follow through the year and make sure. That will mean that there are some stores we ended taking up because they could make sense for us; we had to take a bundle of stores. There are some around the periphery about which we are going to have to ask whether we should keep the Argos store or the Index store, which depends on where those sales fall and which stores can best take the proposition going forward. We will go on and review the stores that are in there. It is not that all 30 are fantastic and it is all okay. From the start, we knew we were taking a bundle and that some of them would work and others would not.

We will go back to review the whole lot, and it could mean in the future that we decide that we do not think that an Index store we took is the right store for us to keep going forward and that we will stay with the Argos store, and there could be a few where we will look at them and say the Index store is better and is actually taking business the Argos store had. Again, this is around the periphery; overall, the core was good.

## **Mark Charnock, Investec**

What is the impact from the pressure on prices?

## **Terry Duddy**

We have not seen that factor. The overall market is so broadly competitive, anyway, and it has been a long while since Index were a price leader in that respect. I have not seen anything in particular and, as you know, we do it product category by product category, and there are good specialists within every category we are in.

## **Don Robert**

Identity theft is certainly a big issue and a big problem in many countries, and Experian is obviously in the business of protecting sensitive consumer data in many countries. We do a good job of it, although we ourselves are not immune from identity theft. A lot of what you have seen recently in the press involves retailers, banks, credit card issuers, and government agencies, and we help people in all of those vertical markets prevent identity theft with a lot of the products we have. Sad to say, it is a growth driver in our business, but we like to think that we are part of the cure and not part of the problem.

## **Bruce Hubbard**

The US property market is showing signs of rolling over, long-bond yields have been moving out for three months, the rates of UK unsecured credit have cratered, and you are up against really tough comps. Would it be realistic to hope that you could do underlying growth this year in your core credit business?

## **Don Robert**

We do expect a modest amount of underlying growth in the core credit business against challenging conditions, both in the UK and the US. I would point out that I believe the contribution from the FARES joint venture will be lower next year. The US Mortgage Bankers Association's latest forecast is that originations would drop 15-20%. FARES has performed better than the market, and we hope they will continue to do so, but for the first year in a long time you have seen flat results year on year from the joint venture, and I think it will be down a little bit this coming year.

## **Bruce Hubbard**

Should we be worrying about margins in the aggregate credit business if the revenue line is struggling?

## **Don Robert**

I do not think the margins are under threat.

## **John Baillie, SG Securities**

Can you help me understand why Argos needs more stores given the orders coming through on the internet and from the phone?

## **Terry Duddy**

Half of the orders that we get are Direct; 12% of sales are from the internet and the phone. It happens that as you open new stores the business keeps growing. In addition to that, half of the orders that take place for Direct – the 20% that we do Direct – also take place at the stores. Taking all those things into account, when we open an Argos store it makes very good financial sense.

## **John Baillie**

What is the scale of the business now going outside the store portfolio and the rate of growth of that?

## **Terry Duddy**

Let me come to it from a different view, and perhaps you will be able to work out these figures for yourself. If you look at the store numbers that we had five years ago, the average store sales we were doing then were roughly £3.5-4 million. Since then, we have opened about 150 stores, and those average store sales are now closer to £6 million. Overall, the average store sales keep growing. If you take out the effect of both the internet and Argos Direct and look at it over the same period, the average store growth is still there; average store sales are still growing over that period. We have a track record of being able to grow average store sales exclusive of Argos Direct and the internet, even though we have opened new stores and dealt with the overlaps. Therefore, we pick up the benefit of opening new stores on top of that. That, to me, would say it is a pretty strong track record of store openings.

## **John Baillie**

With respect, that is historic. I suppose the internet is in a very different position now. Where do you think the internet on Argos will be three years from now?

## **Terry Duddy**

You have 12% internet sales, of which 6% is delivered to home and 6% is pick up in store. You have an integrated multi-channel business where the customers want to order over the internet but pick up in store because we have the capability for the customers to check line by line product availability on the internet. The fastest growing part of our internet sales happens to be pick up in store. The 6% pick up in store is growing by 50-60% per annum; the order to home is growing by 30%. I think that we have an integrated model where if you try to take the sugar out of the tea, you are going to end up with a difficult situation. We are giving an overall convenience with an integrated multi-channel approach, which is allowing our stores to grow at the same time as we are allowing our Direct sales to grow. Therefore, we would like the internet sales to be as high as they can be. The higher the better. We think we will be the beneficiaries of that. At the same time, we think we have the opportunity to open stores because we are growing our average sales.

## **David Tyler**

Remember what the average return on capital is pre-tax for Argos, which is close to 50%. Think about the impact of these new stores, even with all those points you

made, and we make very substantial post-tax returns in all the modelling we do. If we did not, we would not be opening those stores.

**John Baillie**

Where do you think the internet will be in the mix three years from now?

**Terry Duddy**

I do not know. It is not even worth trying to think about it in that sense. I would have hoped for a much bigger consumer landslide in terms of internet sales growth over the last four or five years, but it did not happen. If you look at us versus other countries or the US, our Wehkamp business used to get 25% of its sales from the internet. Yet, at that point, we were probably doing 6-7%. We are at 12%, but the industry is at 2-3%. Unfortunately, people are not getting that growth. We are ahead of the curve because of the type of business that we are in.

**John Peace**

Thank you for coming, and thank you for your support.