

First Quarter Trading Update – 12 July 2006

David Tyler, Finance Director, GUS plc

Good afternoon. With me this afternoon is Peg Smith and Fay Dodds as usual. They will help me to answer questions in a few minutes. First of all, I have a few words from our lawyers:

“This presentation is to discuss and answer questions on GUS’s financial performance for the first quarter of its financial year and the trading update issued this morning. As you will understand, due to legal and regulatory restrictions, we will be unable to discuss or answer questions about the planned demerger of ARG and Experian beyond what has already been publicly stated and made available previously.”

1. ARG and Experian

Overview

I will now briefly review the performance of ARG and Experian. As John said this morning, we are pleased with the progress of both ARG and Experian in the first quarter of the year, both of which are trading in line with expectations. Looking first at ARG, although we remain cautious on the outlook for a recovery in the rate of growth in consumer spending, we were pleasantly surprised by the strength of the non-food, non-clothing market in the first quarter.

Argos

This was reflected in the performance of Argos, which again increased its market share. Total sales at Argos were up 14% of which 7% was like-for-like growth. Argos was obviously helped by very strong demand for flat-panel TVs and set-top boxes during the World Cup, but we also saw good growth in other areas such as furniture, photography and video games systems.

There was an impact on gross margin from this product mix and from greater popularity of our promotional offers in the first quarter, such that gross margin for the quarter was down year on year.

We are very pleased with the way Argos consumers are using our multi-channel capabilities. Sales made through the Check and Reserve service were up by 69% year on year, and they now account for 10% of sales. In addition, a further 8% of sales were ordered over the Internet for home delivery.

Homebase

Moving on to Homebase, the DIY market remains challenging, and against this background total sales fell by 1%, including a 5% decline in like-for-like sales. We have, however, increased the gross margin compared to the previous year because, in line with what we indicated early this year, we reduced the level at Homebase of our promotional activity.

While that has been going on, Homebase continues to make good progress with its strategic initiatives, which will stand it in good stead when the DIY market recovers. Certainly, improvements in kitchen and furniture sales will promote confidence in this.

Experian

Experian reported yet another period of double-digit sales growth. For continuing activities, sales were up 21% at constant exchange rates, of which 8% was organic growth. In North America, sales in dollars for continuing activities increased by 26%, with organic growth of 9%. Credit sales there were slightly ahead year on year, which was a pleasing performance given the strength of the comparatives. Marketing was in line with last year, as advertising spend continued to move away from direct mail to the web. This is a key factor behind the very strong growth in all interactive businesses in the quarter. In fact, our interactive sales for the quarter now account for about 40% of total North American sales.

For Experian International, sales from continuing activities increased by 15% at constant exchange rates, including 8% from acquisitions and 7% from underlying growth. The performance of the UK remained robust despite a subdued UK credit environment, with strong decision-solutions growth, in particular, around the world.

Overall, Experian continues to make good progress with its three key stated strategies. It is building on its core businesses, with recent wins in French outsourcing, credit services in China, and fraud and Scorex for a leading US bank. It is selling new solutions, with, for example, more clients testing the new Vantage Score in the US. It is continuing to acquire complementary businesses, such as Eiger Systems, which fits nicely with the QAS business.

That is the end of my presentation; we will now take questions.

Questions and Answers

Brad Eichler, Stephens Inc.

Good afternoon David, Fay and Peg. I have three quick questions. First, you mentioned the VantageScore. Could you provide an update on what is happening there?

Peg Smith, President, Experian North America

At this point in time, we have several hundred clients either buying, testing or billing clients, which is surprising only 90 days after the launch of the product. It has been received well by all clients, from small credit unions to major card issuers. As you know, they have to custom-validate the VantageScore against their existing portfolios, which accounts for most of the work currently being undertaken.

Of course, we announced about three weeks ago that we are also making VantageScore available to consumers directly.

Brad Eichler

Are clients buying it as an add-on or are they looking at it in terms of replacing their existing scoring?

Peg Smith

It varies across the board. Some are using it as their score of choice; others are using it in addition to other scores. As you would expect, the larger the credit risk, the more opportunity they have to examine every piece of data they can in order to arrive at the best decision. Therefore, some will use it as supplemental and others will use it as full data to make decisions.

Brad Eichler

The second question relates to mortgage trends. These have clearly deteriorated throughout the second quarter. Can you comment on what you are seeing in your core US credit business?

Peg Smith

We definitely have a headwind in the whole industry on mortgage-related sales. In North America, our growth rate was depressed by about 2% as a result of a slower mortgage market than in previous years. The rate of growth would have been higher had it not been for mortgages.

Brad Eichler

The third question is on the Fair and Accurate Credit Transactions Act (FACTA) and the surcharge. It seems that there is an added cost with the credit freeze process. I am curious to know whether the customers that you are charging a surcharge for are willing to continue paying that surcharge to help offset some of those costs. Could you provide us with a quick update on that?

Peg Smith

That is a great question. We see credit freeze very much in the same vein as FACTA, in that it is a regulated change to our cost structure. In those cases, we think the surcharge is the appropriate way for us to recover costs for regulatory compliance. We are leaving the FACTA surcharge, and are explaining it to and discussing it with clients. For the most part, they understand why it is needed and what it is about.

Jamie Isenwater, Deutsche Bank, London

Good afternoon everyone. I have a couple of quick questions for Peg. As yet, there has been no real mention of Asia Pacific. I wondered if you could give us an update

on that. Also, within North America, do you see any shift in the mix of vertical industries that are particularly strong or weak at the moment?

Peg Smith

We are doing well in the Asia Pacific region. We have sales and business development resources in place in the region, and are beginning to sign contracts. We have had our first Experian forex win there. Therefore, it is moving in the right direction, although growth will be long, slow and steady. There will be no overnight spurts of growth in that region, but we are pleased with where we are.

In North America, with regard to the shift in the mix of vertical industries, the only weakness that we could point to is the mortgage market. There has been a general slowdown by consumers in terms of the take up of credit. However, the credit side in the vertical sector is more or less steady except for mortgage. Also, we are seeing pressure in the traditional direct mail business in what we referred to as marketing information with some of our marketing solutions. That business is going to different channels, primarily to the Internet but also to different consumer communication channels. That is why we have invested in the interactive business with businesses like CheetahMail. We are ahead of the curve on that and well positioned.

Jamie Isenwater

Can you hint at the sort of growth rates you are seeing in CheetahMail at the moment? I know you have provided broad guidance in the past.

Peg Smith

I can say that we are seeing strong double-digit growth in CheetahMail at the moment; it has been a great acquisition for us.

Andrew Hughes, UBS

Good afternoon. I know you tend not to give absolute numbers, but if you were to provide some guidance on gross margins for Argos, how much of it was the mix effect and how much of it related to the popularity of promotions?

David Tyler

I will be neutral about the margin changes, both for Argos and for Homebase. However, in terms of the impact within Argos, both of the two factors you have mentioned had substantial effect within the total margin reduction. I will not say which was bigger, as both were significant. To be clear, one is the product-mix change and the second is that a higher proportion of what we sold to the consumer this year was on promotional items.

Andrew Hughes

Was that part of your plan or is it to do with the pattern of spending?

David Tyler

It was part of the Argos plan this year, which, clearly, will change from month to month and from season to season depending on what we think the right approach is for the trading environment. Argos has been very competitive, and that is one of the reasons why its share is significant this year. We are seeing that in a number of different sectors of the Argos business.

Andrew Hughes

I have one other question on a separate topic. Should you soon be receiving the last £140 million for the agency disposal?

David Tyler

We received that ahead of the announcement at the end of April.

Andrew Hughes

Is that already taken into account in the debt split?

David Tyler

Yes. When we were talking about that in May, we said that our year-end net debt at the end of March was about £2 billion, but it had already come down by about £140 million, because of the final payment for the Home Shopping sale; you are quite right.

Kevane Wong, JMP Securities, San Francisco, USA

Good afternoon. In the press release you pointed to some client wins you had with regard to application processing and identification. I wondered if you could give a sense of the competitive landscape for Experian in North America. Also, with regard to those wins, are they coming from particular competitors?

Peg Smith

There are nice winds in the Experian Scorex business in the US. As you said, they are across the board on products including application processing. We are also broadly distributed across our customer base, from large credit firms to smaller firms, who are signing up to our product offering. We have converted a few other competitors to our system. The only one that allowed us to announce this was HSBC, and we installed Strategy Manager on a worldwide basis with them. We are pleased with the progress in the US and globally in terms of sales.

Kevane Wong

My third question is on a separate topic. In the identity theft market in North America, there have been some big events in the announcement on Equifax, which makes me think that pricing might be lower. You have had an interesting play

around the whole Veteran Affairs (VA) data loss episode. I would like to know how pricing has been in that market. Is it generally more competitive recently?

Peg Smith

We do not compete on pricing in our consumer direct business, because, frankly, we do not have to. The product stands up to its own merits, as it is a high-quality solution for people interested in both credit monitoring and in protection against ID theft. It is not a price-competitive environment at least for Experian in terms of attracting that business.

Michael Meltz, Bear Stearns, New York

I am trying to get a better sense of interactive growth in the quarter. You have reported 75% growth. What was organic growth in the quarter, and can you explain what you mean by that?

David Tyler

In the interactive sector, the organic business is, for the most part, consumer direct. That is still growing at substantially more than 20% for the period. In addition to that, LowerMyBills was acquired in the middle of May last year, so it has gone organic for half of the quarter. That business continues at strong rates of growth, and that is what is contained in the organic mix. The rest of the 75% comes from the fact that we are still in our first year of PriceGrabber.com.

Michael Meltz

In consumer direct, are you seeing more subscription pick-ups or is that offsetting one-off declines?

David Tyler

We are seeing more subscription pick-ups, and that is the dominant reason. We still have lots of one-off business with people buying one-off reports, but we are continuing to see a pick up in the subscription business, and are continuing to improve our retention rate. That is where the revenue improvements start.

Michael Meltz

Have you taken MetaReward out of these numbers?

David Tyler

Yes.

Michael Meltz

Second, in terms of credit in the US, you posted slight growth. I am not sure what that means.

David Tyler

It means less than 5% in our terminology.

Michael Meltz

That is better than I would have expected. What was the sense towards the end of the quarter about that slight growth going forward?

David Tyler

We never give forward-looking statements. However, you should be aware that we had an extremely strong comparative here last year, something that we have been flagging to investors for some time, in the form of the mortgage and credit card markets. They were strong this time last year, and there was the benefit of FACTA changes mentioned a moment ago. We would not like to give you any indication of what our sales would be apart from making you aware of those facts and of what was previously said about expectations in an environment where the mortgage market is detracting.

Michael Meltz

However, comparatives do ease.

David Tyler

The comparatives will ease from October onwards. We had a particularly strong period with 18% growth in this sector in the first half last year. If my memory serves me correctly, it was 9% in the second half.

Michael Meltz

I have one last question. Can you differentiate between credit and information solutions growth?

Peg Smith

We do not usually distinguish between the two on a quarterly trading statement. I am afraid we cannot help you much on that.

David Tyler

Obviously, we have the figures, but we do not believe that it helps investors to provide these, whatever you might think. Inevitably, there are untoward movements

in relatively small areas of the business, on a quarterly basis, that do not provide helpful guidance on the longer-term trend. We tend to look at these things with investors only on a half-yearly basis.

Luca Solca, Sanford Bernstein, London

Could you please provide me with a sense of home-improvement sales and the trend in this quarter for Homebase? Has there been any pick up since the initial part of the quarter? For example, has trading been negatively impacted in the run up to the World Cup?

David Tyler

We cannot comment on individual month-by-month trading within Homebase. Inevitably, week by week and month by month, there are changes, and much of that is weather related. We do not think this is a relevant factor to report on. I do not think that Homebase benefited from the World Cup. It could possibly be the reverse, but we do not want to lay too much emphasis on it. What we are seeing is a DIY market that is flat on its back. Obviously, that affects Homebase. On the other hand, Homebase's strategy of enhancing its offer in the area of furniture and kitchens, particularly with the mezzanine strategy, is working, and we are seeing improvement in these areas.

Luca Solca

Are you seeing any sign of a possible recovery?

David Tyler

We still think that the DIY market will be difficult. There are no particular signs today that we will see a recovery during the course of this calendar year. Again, we do not like forecasting too specifically, but we are in an environment where we do not see any signs, as yet, of an improvement in that market.

Nick Bubb, Evolution Securities, London

I would like to go back to a couple of things that David mentioned in his presentation on the UK and ARG. You said that you were pleasantly surprised by the strength of non-food sales overall for the quarter. I wondered what your reasons were for this. Second, do you have any sense of how flat-panel TV sales have been since the end of the World Cup?

David Tyler

There are a couple of reasons why we thought that the non-food market was more dominant than expected. First, Easter was in April this year rather than in March. This did not have a large effect on Argos's sales, as it is not an Easter-related business. However, the market, as a whole, was impacted, and that is one of the reasons why April's figures are stronger. Certainly, that is one of the reasons why, when we are judging Homebase, we go back to the beginning of March. Thus, the

period is comparative, as it always includes Easter regardless of the year. By the time we got to May and June, there was a World Cup factor, which has been one of the strengthening factors in the market.

Any of us can look at the figures and debate what the reason for the improvement was. We are not clear that there is a sustainable reason, at this stage, for consumers feeling more confident about the future and spending more than in the previous year. They are still suffering from over-indebtedness, from interest rates at their current level, and from fuel tax and council tax increases. Thus, the environment is such that we are still cautious looking forward. Within that environment, we will continue to try to ensure that Argos and Homebase outperform that market just as we have done in the quarter.

With regard to your point on what has happened since the World Cup on flat-panel TVs, I cannot provide you with an answer. Even if I had precise figures in front of me, it would be far too short a period to discuss.

Luca Solca

It does not seem like it has ground to a halt, but we shall see.

Richard Chamberlain, Goldman Sachs, London

Good afternoon. I have a couple of questions on Argos and Homebase. On the new autumn/winter catalogue, it looks like you are planning to sell up to 700 fewer lines. Can you say which product categories you are downsizing slightly and how the product mix has changed over the last year?

David Tyler

I do not have the information in front of me to provide you with a specific answer. Effectively, we examine the productivity of each product and each page in the catalogue to decide whether items are generating a good enough return to justify us including that product. There is a continual reviewing process, which is in place to slightly reduce the number of lines in the catalogue. I do not think there is much mix change, but Fay is checking that out now.

Fay Dodds, Investor Relations, GUS PLC

It is a small reduction across major categories. As David said, it is much more about increasing the productivity of the database and the catalogue.

Richard Chamberlain

Therefore, there is no one particular category that is being withdrawn?

David Tyler

No.

Richard Chamberlain

Could you comment on Homebase and how the seasonal garden products category has performed over last year?

David Tyler

It obviously goes up and down as the weather changes from period to period. The area where Homebase has done very well has been in horticulture generally, in both indoor and outdoor plants. It has a strong position and has seen good sales. In the area of seasonal gardens, we are down in the quarter, but we have benefited as the sun has been out in more recent weeks, as expected.

John Baillie, Société Générale, London

Good afternoon. I have a question on PriceGrabber as one of the biggest acquisitions of last year. It is not something you mentioned in the press release or comments. Can you say how it is performing and whether the growth rate has slowed down since acquisition? How much do you have to reinvest in that business which historically made up 40% plus of the margin?

Peg Smith

Actually, it is performing very well and even slightly ahead of our plans for PriceGrabber. When you look at the acquired growth for North America, approximately a third of that was LowerMyBills, another third was PriceGrabber, and the last third was all other acquisitions made last year. Therefore, PriceGrabber is performing ahead of plan for us, and we are happy with that acquisition.

John Baillie

In terms of how much of that will flow through to the bottom line, how much are you reinvesting?

Peg Smith

The business continues to operate with strong margins. Again, it is very much about organic traffic going to the PriceGrabber.com site. That has underpinned the high margins in that business, and it is the business model that we were hoping for.

Mal Patel, Merrill Lynch, London

Hello everyone. David, on the new Argos catalogue can you give us an idea of what you have done in terms of pricing on re-included lines?

David Tyler

We cannot. It is normally information that Argos releases at the private launch of the catalogue, which should be two and a half weeks from now. You will be aware that the dollar has changed in comparison to this time last year. That means that there is

less ability for as much deflation as there was before. However, that will apply to all other retailers.

Mal Patel

When you look at the gross-margin progress of Argos in the last few years, there has been a dollar benefit. There have also been ongoing supply-chain initiatives. Looking forward, excluding the dollar impact, do you still expect those initiatives to deliver the same level of benefit?

David Tyler

We certainly see significant further supply-chain benefits. Supply-chain benefits have driven this over the last three or four years. The dollar has been a peripheral benefit, which we obviously never bank on over the long term. Therefore, we see lots more potential benefit going forward in our supply-chain activities, both at Argos and Homebase.

Peter Tester, One Investments, Switzerland

Could you give a qualitative or quantitative assessment of the importance of initiatives within Argos, such as Argos Direct?

David Tyler

That is a good question, as Argos has positioned itself over the last five years with heavy investment in its distribution capability, warehousing, Internet systems and call centre systems, in order to provide first-class service to the customers. I am sure that all of that is underpinned with the growth in Argos Direct. We are currently the largest retailer on the web apart from Amazon in the UK. One of the reasons for out-performance in terms of total sales in this and previous quarters is the success of that programme. Argos benefits from more and more consumers directing that retail spend through the web. This is part of the reason for the success of furniture and consumer electronics over recent years. In particular, the Check and Reserve service has stood out as being beautifully integrated by the business in the context of those programmes. It is a fair question, and part of it does come from that investment and the change in consumer behaviour.

Peter Tester

Would you say that improvements in performance for this quarter, compared to the last two, are driven by the bedding in and broadening of that programme?

David Tyler

Argos has improved in many ways, and I do not think we can easily distinguish between factors. It is certainly one factor. Another would be the fact that this is the April to June quarter, and we have 17,000 plus products available for the Argos Extra lines throughout the country. Also, our competitive pricing has helped along with

many other initiatives. Although there are many factors, I agree with you that Argos Direct is an important part of that.

Peter Tester

In the past, you have commented on gross margins for Argos and provided a review with regard to the year-end. Is there anything that would threaten your comment on the year-end?

David Tyler

I am not so familiar with the comment you are referring to. We tend to be fairly cautious with regard to how we talk about the future. Sometimes we talk about our aspirations for growth margins, but I would caution you about taking too much from a comment made several months ago.

Peter Tester

Is it possible, in terms of interactive, to indicate what the pro forma sales growth would have been?

David Tyler

We do not have it to hand, but it would not be as high as 75% and would not be as low as 20%, which is the level of sales above which consumer direct is performing. I am giving you a wide range, and you can choose a number between these figures. We will think about providing that in future, but all these businesses will move into organic growth shortly, and it will not be a necessary figure for the future.

Peter Tester

Could you comment on anything you have seen in the market that would have impacted margins positively or negatively within Experian?

David Tyler

There are always factors that impact profits. We are currently investing seriously in Asia. We are investing in information security and the like. We are always investing in new products and developments, which helps to charge our sales growth. All those factors impact sales margins on one side. The key is to grow the top line, apart from the general level of inflation, and use it to enhance the earnings before interest and taxes (EBIT) margins taking one year over another. That is our aspiration, and we continue to be in a position to achieve it. I would not like to comment specifically on it, although you can make your own assumptions for this year. We will update you further on it at the right time.

Closing Comments

David Tyler

As that is the last question, I would like to thank everybody for joining us today. Goodbye.