Financial review

Group cash flow

12 months ended 31 March	2003 £m	2002 £m
Profit before goodwill, exceptionals and tax	**642**	552
Exceptional items	**–**	(45)
Corporation tax	**(141)**	(82)
Change in working capital	**201**	163
Capital expenditure	**(329)**	(322)
Depreciation	**245**	212
Free cash flow	**618**	478
Dividends	**(220)**	(213)
Acquisitions and divestments	**(1,037)**	(35)
Net cash flow	**(639)**	230
Securitisation repayments	**(201)**	(380)
Foreign exchange movements	**38**	(4)
Movement in net debt	**(802)**	(154)

Sales
The Group's turnover grew by 11% from £6,457m to £7,146m, including £375m from acquisitions. Excluding acquisitions and at constant exchange rates, Group turnover from continuing operations was 10% higher than last year.

Profit
Group profit before amortisation of goodwill, exceptional items and taxation increased by 16% to £642m. Return on sales before exceptional items and goodwill amortisation rose from 8.6% to 9.0%. The improvement reflects a focus on our core businesses where profitability has risen. The goodwill charge increased to £162m from £127m, largely as a result of acquisitions made during the year and £19m relating to impairment of goodwill following the closure of Innovations.

Taxation
The Group's effective rate of tax for the year, before goodwill charge and profit/loss on sale of businesses, has fallen from 23.8% to 22.7%. This continues to be lower than the UK standard corporate tax rate, mainly because of efficient structures for the Group's overseas activities.

Shareholder return and dividends
Basic earnings per share before goodwill amortisation and exceptional items were 47.8p in the year ended 31 March 2003 compared to 41.7p last year. The Board has proposed a final dividend of 16.4p per share, a rise of 1.2p (8%) on last year. The dividend for the year as a whole of 23.3p is covered 2.05 times from earnings before goodwill amortisation and exceptional items.

Shareholders' funds
Shareholders' funds amount to £2,543m, a rise of £126m in the year. This is equivalent to 253p per share compared with 240p last year.

Share price and total shareholder return
The share price of GUS ranged from a low of 440p to a high of 700p during the financial year. On 31 March 2003, the mid market price was 487p, giving a market capitalisation of £4.9bn at that date.

Total shareholder return (the increase in the value of a share including reinvested dividends) was 44% over the three years to 31 March 2003. This compares favourably with the total shareholder return for the average FTSE 100 company which was minus 40%.

Cash flow and investment in the business
Cash flow before acquisitions, disposals and dividends amounted to £618m compared to £478m in the previous year. Cash flow benefited from the growth in profits in the year and from tight control over working capital which was £201m lower despite the growth in the Argos store card loan book. Capital expenditure grew by £7m to £329m and was equivalent to 134% of the depreciation charge in 2003.

With the £902m purchase of Homebase, there was a net cash outflow of £802m for the year after the payment of dividends, the repayment of securitised loans and acquisitions and disposals.

Liquidity and funding
At 31 March 2003, the Group had net borrowings of £2,086m. This shows an increase of £601m in net borrowings which were £1,485m at 31 March 2002, including securitised loans of £201m. The securitised loans were repaid during the year. The maturity, currency and interest rate profile of the Group's borrowings are shown in note 33 to the financial statements. The acquisition of Homebase was initially funded with bank borrowings. The substantial majority of these were re-financed in February 2003 by the issue of two bonds under the Group's recently established Euro Medium Term Note Programme:

£350m 5.625% due June 2013 and €600m 4.125% due 2007. The proceeds of the latter were swapped into sterling and a proportion of the proceeds of both were swapped into floating rates.

The Group maintains substantial committed bank facilities. At 31 March 2003 undrawn committed facilities totalled £566m.

Treasury and risk management
The Group's Treasury function seeks to reduce or eliminate the Group's exposure to foreign exchange, interest rate and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It does not operate as a profit centre and transacts only in relation to underlying business requirements. It operates policies and procedures which are periodically reviewed and approved by the Board and is subject to regular Group Internal Audit reviews.

Interest rate management
The Group's interest rate exposure is managed by the use of fixed and floating rate borrowings and by the use of interest rate swaps to adjust the balance of fixed and floating rate liabilities. The Group also mixes the duration of its borrowings to smooth the impact of interest rate fluctuations.

Interest costs were £8m lower than last year. This reflects the impact of lower interest rates (£6m), the previously announced change in the way GUS accounts for interest (a gain of £9m) and the interest income on proceeds from the partial IPO of Burberry (£7m). These were partly offset by the funding costs associated with the acquisition of Homebase (£15m).

The note below on Accounting Policies provides a more detailed explanation of the accounting change, which relates to forward sales of foreign currencies undertaken to hedge overseas assets.

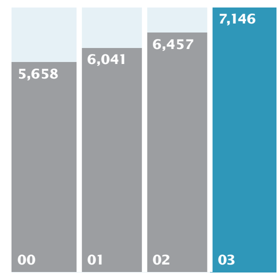
Currency risk management
The Group's reported profit can be significantly affected by currency movements. Approximately 41% of the Group's operating profit generated in the year ended 31 March 2003 was earned in currencies other than sterling. In order to reduce the impact of currency fluctuations on the value of investments in overseas countries, the Group has for some years had a policy of borrowing in US dollars and euros, as well as in sterling, and of entering into forward foreign exchange contracts in these two currencies. During the year ended 31 March 2003 the Group also entered into forward foreign exchange contracts to sell South African rand, in order to hedge a proportion of the value of its investment in its South African retailing business. Additionally, the Group has a policy of hedging foreign currency denominated transactions by entering into forward exchange sale and purchase contracts.

Credit risk
The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with strong credit ratings, within limits set for each organisation. Dealing activity is closely controlled and counter-party positions are monitored daily.

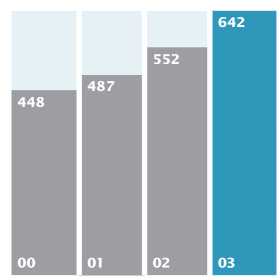
Acquisitions and disposals
With a total spend of £1,265m, this was an active year for acquisitions. The largest of these transactions was Homebase, a leading UK DIY and home furnishings retailer, which was acquired in December 2002 for £902m. There were three other significant acquisitions during the year. ConsumerInfo.com, the leading supplier of online credit reports, scores and related information to consumers in the United States, was purchased in April 2002 for $130m. Nordic Info Group, comprising three leading consumer and business information companies in Denmark and Norway, was acquired in January 2003 for £90m. The Group also acquired the outstanding stakes in its joint ventures with Scorex, the credit decision solutions company, in March 2003 for £70m.

Smaller acquisitions included Experian's purchases of affiliate credit bureaux in the United States and other businesses in the UK and France.

The largest disposal during the year was the partial Initial Public Offering ("IPO") of Burberry in July 2002 in which 23% of its ordinary shares were sold. The profit on disposal was £139m after deducting the cost of employee share schemes in connection with the IPO. Other smaller disposals include the sale of Family Hampers in the UK and Fidelitas in Argentina.

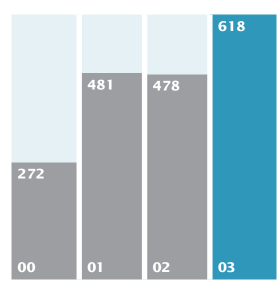


Sales
£ million

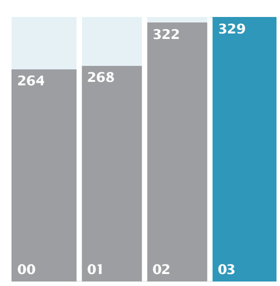


Underlying profit before tax*
£ million

*Excluding amortisation of goodwill and exceptional items



Free cash flow
£ million



Capital expenditure
£ million

Exceptional items

12 months ended 31 March	2003 £m	2002 £m
Continuing operations		
Net profit on partial IPO of Burberry	**139**	–
Loss on sale of businesses	–	(6)
Restructuring costs in Argos Retail Group/Reality	–	(36)
Loss on sale of e-commerce investments	–	(2)
	139	(44)
Discontinued operations		
Provision on disposal of Home shopping/Reality	**(210)**	–
Goodwill impairment	**(19)**	(28)
	(229)	(28)
Total charge	**(90)**	(72)

Exceptional items

An exceptional loss of £90m was incurred during the year. The major exceptional items were the £139m profit on the partial IPO of Burberry and the £210m provision for the loss on the disposal of the Group's Home shopping businesses in the UK, Ireland and Sweden, together with Reality (see post balance sheet event below). There was also a charge of £19m for impairment of goodwill, previously written off to reserves, on the closure of Innovations. All other costs of reorganisation and restructuring are treated as operating costs and are included within operating profit.

Minority interests

Profit attributable to equity minority interests in 2003 of £17m relates mainly to the 23% of profit attributable to the minority shareholders of Burberry. It also includes profit attributable to minority shareholdings in companies owned by Experian International.

Minority interests on the balance sheet represent the minority share of the net assets of these companies.

Pensions

This year the Group has continued to account for pension costs under SSAP 24 although in accordance with the FRS 17 transitional arrangements, certain disclosures are included in Note 36 to the financial statements. There is no effect on the primary financial statements.

The sharp fall in equity markets during the year reduced the market value of the Group's pension scheme assets, while the fall in interest rates increased the discounted value of the liabilities. As a result the FRS 17 disclosures show a net deficit for all retirement benefit schemes of £215m net of tax relief at 31 March 2003. Although this situation is not welcome, it should be noted that the deficit is equal to less than 4% of the Group's market capitalisation and can prudently be resolved over a period of several years. It therefore has no material impact on the Group's operations or financial flexibility.

Contribution rates for the Group's principal pension schemes were increased in April 2002. The next regular actuarial valuation of these schemes will measure the position at 31 March 2004. Unless, over the next year or so, there is a material change in the long-term outlook for investment returns, that valuation is likely to lead to a further increase in the contribution rates paid to the schemes. In anticipation of this the Group made additional special contributions of £20m in the year ended 31 March 2003.

Accounting policies and standards

The principal accounting policies used by the Group are shown on pages 59 to 61. There have been no new Financial Reporting Standards adopted in this financial year.

The Group has for several years hedged its investments in subsidiaries outside the UK by a combination of foreign currency borrowings and forward sales of relevant foreign currencies. The forward premium/discount to spot exchange rates incorporated in these forward sales contracts reflects the differential between sterling interest rates and the interest rate of the currency concerned.

Until 31 March 2002 this interest rate differential had been taken directly to reserves, along with the changes in value during the year of the currency borrowings, the forward currency sales and the assets being hedged. For GUS, the most significant overseas assets are in the United States. With short term US interest rates well below sterling interest rates and the growth in the Group's forward sales of US dollars, the interest element of these forward dollar sales, whose effect is to reduce interest costs, has become more significant. Similar issues arise in connection with the Group's hedging of its euro and South African rand assets, with euro interest rates slightly below sterling rates and South African interest rates significantly higher than sterling rates.

With effect from 1 April 2002, the Group has been accounting for the forward premium/discount arising on forward currency sales as interest. The effect of this change has been to reduce interest expense for the year ended 31 March 2003 by £9m; this consists of a £12m gain from dollar and euro hedging less a £3m cost of South African hedging. There would have been no material effect if this approach had been applied in the year ended 31 March 2002.

Post balance sheet event

On 27 May 2003, the Group announced the disposal of its home shopping businesses in the UK, Ireland and Sweden, together with Reality, its logistics and customer care business in the UK. The disposal of the UK Home Shopping business and Reality is unconditional. The disposal of the Irish and Swedish businesses is conditional on regulatory approval.

The businesses have been sold for about £590m to March U.K. Limited, a company ultimately controlled by Sir David Barclay and Sir Frederick Barclay. The initial consideration for the UK businesses was approximately £410m. The balance, receivable on completion following regulatory clearance in Ireland and Sweden, is £40m. Additionally, there is an unconditional consideration of about £140m payable three years from now. This is in the form of a convertible loan note from the purchaser, with interest payable at sterling LIBOR plus 0.5% per annum. The proceeds will be used to pay down debt.

The businesses being sold generated sales of £1.67bn and operating profit of £35m in the year ended 31 March 2003. The transaction has no material impact on earnings per share before amortisation of goodwill and exceptional items.

The businesses have been sold free of debt. The net book value of assets at the date of completion is approximately £800m. GUS therefore expects to incur a book loss of about £210m on the transaction and a provision for this amount has been made in the year to March 2003. In addition, there will be an exceptional charge, which will be taken in the year to March 2004, relating to the costs of the transaction and to the costs of the resulting reorganisation of the ARG shared services infrastructure. This is currently estimated at about £30m and will be mainly cash.

Argos Retail Group now comprises four activities: Argos, Homebase, Wehkamp, its market-leading home shopping company in the Netherlands, and ARG Financial Services. ARG has also entered into various commercial contracts with March U.K. Limited to cover the provision of home delivery and other services. These contracts last for up to three years.

David Tyler
Group Finance Director