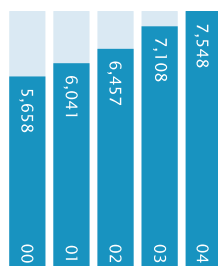
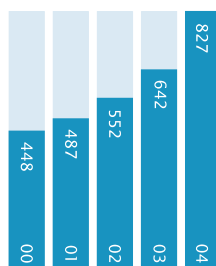


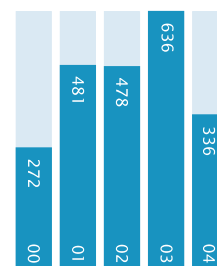
# Financial review



**Group sales**  
£ million



**Profit before amortisation of goodwill, exceptional items and tax**  
£ million



**Free cash flow**  
£ million

## Sales

Group sales grew by 6% from £7,108m (restated for FRS 5, Application Note G, as explained in Accounting Policies and Standards below) to £7,548m. The incremental sales from owning Homebase for a full year (+£1,237m) has almost offset the sales lost following the disposal of the home shopping and Reality businesses (-£1,404m). At constant exchange rates, sales from continuing operations were 34% higher than last year.

## Profit

Group profit before amortisation of goodwill, exceptional items and taxation increased by 29% to £827m. Return on sales before exceptional items and goodwill amortisation rose from 9.0% to 11.0%. The improvement reflects a focus on our core businesses where profitability has risen. The goodwill charge increased to £193m from £143m, largely as a result of a full year's charge on the acquisitions made last year.

## Taxation

The Group's effective rate of tax, before amortisation of goodwill, the profit on the disposal of shares in Burberry and loss on sale of businesses (including the property joint venture), has increased from 22.7% to 23.4%. 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 60.7p in the year to 31 March 2004 compared to 47.8p last year. The Board has proposed a final dividend of 19.0p per share, a rise of 2.6p or 16% on last year. The dividend for the year as a whole of 27.0p is covered 2.25 times from earnings before goodwill amortisation and exceptional items.

## Shareholders' funds

Shareholders' funds amount to £2,847m, a rise of £304m in the year. This is equivalent to 281p per share compared with 253p last year.

## Share price and total shareholder return

The share price of GUS ranged from a low of 490p to a high of 791p during the financial year. On 31 March 2004, the mid market price was 749p, giving a market capitalisation of £7.5bn at that date.

Total shareholder return (the increase in the value of a share including reinvested dividends) has been 130% over the four years to 31 March 2004. This compares favourably with the total shareholder return for the average FTSE 100 company which was minus 23% over the same period.

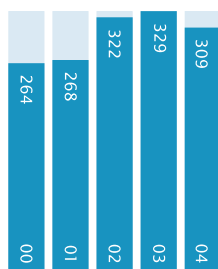
## Cash flow and net debt

The Group's free cash flow before acquisitions and divestments, dividends and special pension contributions was £336m, compared with £636m in 2003. The latter included an inflow of £187m from the reduction in working capital in the Group's vehicle finance business, the remainder of which was sold in December 2003. Capital expenditure in 2004 was £306m, £23m lower than last year, with an increase to about £400m planned for 2005. Capital expenditure was equivalent to 111% of the depreciation charge in 2004.

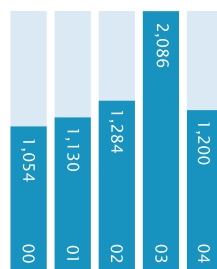
The sales of the home shopping businesses, of the stake in the property joint venture and of the further 11.5% holding in Burberry realised £820m in cash, plus about £140m of deferred consideration. After acquisitions and the payment of dividends, special pension contributions of £100m and foreign exchange movements, net debt at 31 March 2004 was reduced to £1,200m, down by £886m from 31 March 2003.

## Group cash flow

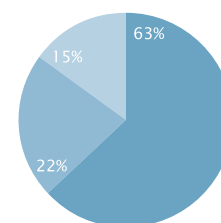
12 months to 31 March	2004 £m	2003 £m
Operating profit	880	700
Amortisation of own shares	15	13
Depreciation	276	232
Capital expenditure	(306)	(329)
Change in working capital	(305)	172
<b>Operating cash flow</b>	<b>560</b>	<b>788</b>
Interest	(48)	(11)
Corporation tax	(176)	(141)
<b>Free cash flow</b>	<b>336</b>	<b>636</b>
Acquisitions and divestments	715	(1,035)
Dividends	(244)	(220)
Special pension contribution	(100)	(20)
<b>Net cash flow</b>	<b>707</b>	<b>(639)</b>
Securitisation repayments	-	(201)
Foreign exchange movements	179	38
<b>Movement in net debt</b>	<b>886</b>	<b>(802)</b>



**Capital expenditure**  
£ million



**Net debt**  
£ million



**Operating profit by currency**  
Year ended March 2004

■ Sterling  
■ US Dollar  
■ Other

### Liquidity and funding

The maturity, currency and interest rate profile of the Group's borrowings are shown in Note 32 to the financial statements. The maturity profile is spread widely over the next nine years, to avoid excessive concentration of re-financing needs.

In December 2003 the Group signed a new £900m, five-year committed revolving credit facility for the purpose of re-financing existing debt and borrowing facilities due to mature in 2004. At 31 March 2004 undrawn committed facilities totalled £900m.

### Treasury and risk management

The Group's Treasury function seeks to reduce or eliminate 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 risk 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.

At £54m, interest costs were £4m lower than last year. This principally reflects the reduced interest costs arising from the proceeds of selling the home shopping businesses (£21m), the Group's share of its property joint venture (£10m) and a further 11.5% of the Group's stake in Burberry (£3m). These were largely offset by the full year impact of the interest costs of acquiring Homebase (£31m).

### Currency risk management

The Group's reported profit can be significantly affected by currency movements. Approximately 37% of the Group's operating profit generated in the year to 31 March 2004 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 to 31 March 2004 the Group continued to enter into forward foreign exchange contracts to sell the US dollar, the euro and the South African rand, in order to hedge a proportion of the value of its investment in its overseas businesses. 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

There were no major acquisitions during the year. Smaller acquisitions included Experian's purchases of affiliate credit bureaux in the United States and the acquisition in October 2003 of Transamerica Finance Corporation's real estate tax service and flood hazard certification business by First American Real Estate Solutions LLC (FARES). FARES is a 20% owned associate in the United States and the Group contributed \$75m towards the \$375m purchase price.

# Financial review continued

## Disposals

In May 2003, the Group disposed of its home shopping businesses in the UK, Ireland and Sweden, together with Reality, its logistics and customer care business in the UK.

The businesses were sold for about £590m to March UK Limited, a company ultimately controlled by Sir David Barclay and Sir Frederick Barclay. The initial consideration for the businesses was approximately £450m. Additionally, there is an unconditional consideration of about £140m payable in May 2006. 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 businesses sold generated sales of £1,673m and operating profit of £35m in the year to 31 March 2003. The transaction has had no material impact on earnings per share before amortisation of goodwill and exceptional items. The net book value of assets at the date of completion was approximately £800m. A provision of £210m was taken in the year to March 2003, with a further charge of £43m made this year. The completion statements in respect of the sold home shopping and Reality businesses are still subject to agreement and have been referred to a third party expert for determination. The Group has assumed a neutral trading position for the period from 1 April 2003 to the date of disposal on 27 May 2003 and, once these completion statements are agreed, any profit or loss will be recorded as an exceptional item.

Following the disposal, Argos Retail Group now comprises four activities: Argos; Homebase; Wehkamp, its market-leading home shopping company in the Netherlands; and ARG Financial Services.

In November 2003, the Group sold a further stake of 11.5% in Burberry taking the Group's holding down to 66%. The proceeds, net of expenses, amounted to £204m.

Also in November 2003 the Group sold its 50% equity stake in its property joint venture to The British Land Company PLC, its joint venture partner, for £120m. In addition, GUS received £43m for the repayment of loans it had made to the joint venture. The disposal resulted in a small exceptional loss of £5m.

In January 2004 Experian sold its US Outsourcing activities to a management group for £16m with £12m received in cash and the balance in loan notes. This disposal has resulted in a loss of £10m against book value and, in addition, £24m of goodwill previously written-off to reserves has been charged to the disposal.

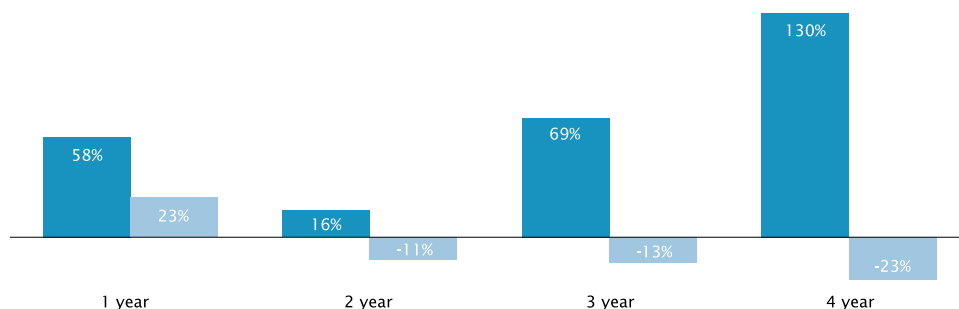
## Exceptional items

The only costs treated as exceptional items are those associated with the sale of businesses. All other restructuring costs have been charged against operating profit in the divisions in which they were incurred.

An exceptional profit of £58m was generated during the year. The major exceptional items were the £159m profit on the sale of further shares in Burberry and a £43m charge (of which £11m related to goodwill previously written-off to reserves) for the loss on the disposal of the Group's home shopping and Reality businesses. The loss on sale of businesses relates mainly to the disposal by Experian North America of its Outsourcing activities and it includes a charge of \$40m (£24m) in respect of goodwill previously written-off to reserves. The balance of the loss relates to a provision for the settlement of the pension liabilities of the 1,400 employees transferred with the business.

### Exceptional items

12 months to 31 March	2004 £m	2003 £m
<b>Continuing operations</b>		
Disposal of shares in Burberry	159	139
Restructuring costs incurred by Argos Retail Group following the disposal of the home shopping and Reality businesses	(7)	–
Loss on sale of businesses	(53)	–
	<b>99</b>	139
<b>Discontinued operations</b>		
Provision for loss on disposal of home shopping and Reality businesses	(36)	(210)
Disposal of interest in BL Universal PLC	(5)	–
Goodwill impairment	–	(19)
	<b>(41)</b>	(229)
<b>Exceptional profit/(charge)</b>	<b>58</b>	(90)



**Total shareholder return (TSR) relative to FTSE 100 to 31 March 2004**

■ GUS  
■ FTSE 100

### Minority interests

Profit attributable to equity minority interests in 2004 of £27m relates mainly to the share of profit attributable to the minority shareholders of Burberry.

Minority interests on the balance sheet mainly represent the minority share of the net assets of Burberry.

### Pensions

The Group has continued to account for pension costs under SSAP 24. In accordance with the FRS 17 transitional arrangements, certain disclosures are included in Note 35 to the financial statements. There is no effect on the primary financial statements.

The Group's two UK Defined Benefit pension schemes had modest deficits at 31 March 2003. To improve the funding of these schemes, the Group made voluntary special contributions totalling £100m in March 2004. The contributions will marginally increase earnings in the current financial year and beyond.

The FRS 17 disclosures show a net deficit for all retirement benefit schemes of £131m net of tax relief at 31 March 2004. The deficit is equal to less than 2% of the Group's market capitalisation and can prudently be resolved over a period of time.

### Accounting policies and standards

The principal accounting policies used by the Group are shown on pages 59 to 61. The Group has adopted Application Note G of Financial Reporting Standard 5 'Revenue Recognition' for the first time in these financial statements which has had no material effect on reported sales and no effect on reported profits. In accordance with the Application Note, Argos Retail Group sales are now recorded net of discounts whereas previously such discounts were shown as a cost within cost of sales. The effect is to reduce sales and cost of sales by £82m in year to 31 March 2004. Comparative figures have been restated and Group sales in the year to 31 March 2003 has been restated from £7,146m to £7,108m. There is no effect on profit before taxation. There have been no other changes to accounting policies as there were no other new Financial Reporting Standards adopted in this financial year.

### Share buyback

In November 2003, following the disposal of the home shopping and Reality businesses, the 50% share in the property joint venture and a further 11.5% stake in Burberry, the Board of GUS announced that it was to review the possibility of returning surplus funds to shareholders, while at the same time ensuring that the interests of bondholders and lenders were protected by maintaining a strong balance sheet.

The review has taken account of:

- the significant growth opportunities open to the Group, and the consequent scope for investment, particularly in ARG Financial Services, ARG infrastructure and infill acquisitions for Experian;

- the £100m voluntary special contributions made to the Group's pension schemes; and
- discussions held with the credit rating agencies.

Following the completion of this review, the Board has decided to initiate a share buyback programme over the next twelve months, aimed at purchasing approximately £200m of GUS shares. This repurchase programme will, of course, be on top of GUS' dividends to shareholders of £271m in 2004. The scope for further buybacks will be reviewed regularly.

### International Financial Reporting Standards

It will become mandatory for the consolidated financial statements of all European Union listed companies to be reported in accordance with International Financial Reporting Standards (IFRS) for periods commencing on or after 1 January 2005.

The areas of greatest impact for GUS plc have been identified and work is under way to ensure the required compliance with IFRS for the year ending 31 March 2006. An impact assessment has identified that changes in accounting treatment for goodwill, other intangibles, property, share-based payments, pensions, deferred tax and financial instruments may have the greatest impact for the Group. The presentation of the financial statements will also be affected.

**David Tyler**  
Group Finance Director