GUS
Annual Report and
Financial Statements
2006
Argos Retail Group
experian

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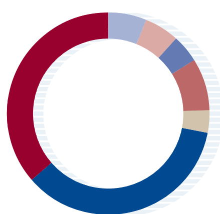
Reaching consumers through the Internet is now a vital part of the Group's growth strategy. The Argos website is the third largest Internet retail site in the UK and accounts for 12% of Argos sales. Experian's Interactive websites receive more than 40 million visitors each month, making Experian one of the top 15 Internet companies in the United States based on revenue.

Overview

The year under review has seen further major steps in the transformation of GUS, with significant disposals, acquisitions and organic investment.

In March 2006, the Board of GUS announced plans for the demerger of our two remaining businesses, Argos Retail Group and Experian.

This will enable all our existing shareholders to continue to benefit directly from an investment in both these attractive businesses.

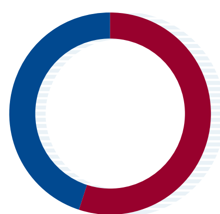


Operating profit 2000
£519m*

- 30% ARG
- 39% Experian
- 4% Burberry
- 9% Lewis
- 5% Finance
- 6% Property
- 7% Home Shopping

* Before central activities

Seven business units delivering £516 of profit



EBIT 2006
£766m*

- 45% ARG
- 55% Experian

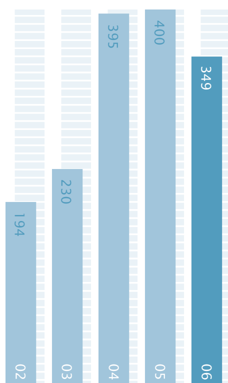
* Before central activities

Focus now on ARG and Experian; £766m of profit

Since January 2000, GUS has exited from businesses with low growth or low return on assets such as home shopping, property investment and car financing.

Year in brief

May 05	June 05	July/August 05	September/October 05
GUS places 50% remaining stake in Lewis Group Experian acquires LowerMyBills.com	Argos opens 600th store Homebase wins 'DIY Retailer of the Year Award 2005' Experian acquires the Future Foundation	Argos teams up with Help the Hospices to raise £600,000 Experian acquires ClassesUSA.com Experian acquires Baker Hill	Experian acquires credit bureau in Romania New Argos advertising campaign, 'Don't shop for it. Argos it'



ARG EBIT[1] (£m)

[1] Under IFRS, before amortisation of acquisition intangibles, store impairment charges, exceptional items and financing fair value remeasurements.
Under UK GAAP, before amortisation of goodwill and exceptional items.

Argos Retail Group

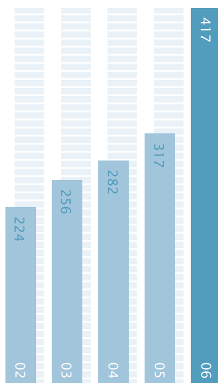
General merchandise and home enhancement retailing

Argos Retail Group (ARG) is the UK's leading non-food, non-clothing retailer. With its combination of major retail brands it delivers choice, value and convenience through integrated channels of stores, catalogues, websites and home delivery options. ARG incorporates:

- Argos - the UK's most successful general merchandise retailer
- Homebase - one of the UK's leading home enhancement companies
- ARG Financial Services - providing consumer financial services, including the Argos and Homebase store cards

ARG leads its markets by leveraging its size and strength to improve purchasing scale, to share services and to provide multi-channel capability across the business.

ARG employs 48,000 people in the UK, the Republic of Ireland and the Far East.



Experian EBIT[1] (£m)

[1] Under IFRS, before amortisation of acquisition intangibles, store impairment charges, exceptional items and financing fair value remeasurements.
Under UK GAAP, before amortisation of goodwill and exceptional items.

Experian

Information solutions

Experian has a comprehensive understanding of individuals and markets and helps organisations to develop and manage customer relationships by providing information, analysis, decision management solutions and processing services.

Experian also helps consumers by enabling them to understand, manage and protect their personal information, and by providing valuable information to enable them to make more informed financial decisions and purchases.

Experian is a strategic partner for clients across diverse industries, including financial services, telecommunications, insurance, retail and catalogue, automotive, utilities, e-commerce and government. It has a broader geographic reach and range of services than any similar company in its sector.

The company employs 12,600 people in 28 countries supporting clients in more than 60 countries. Experian's operational headquarters are in Nottingham, UK and Costa Mesa, California.

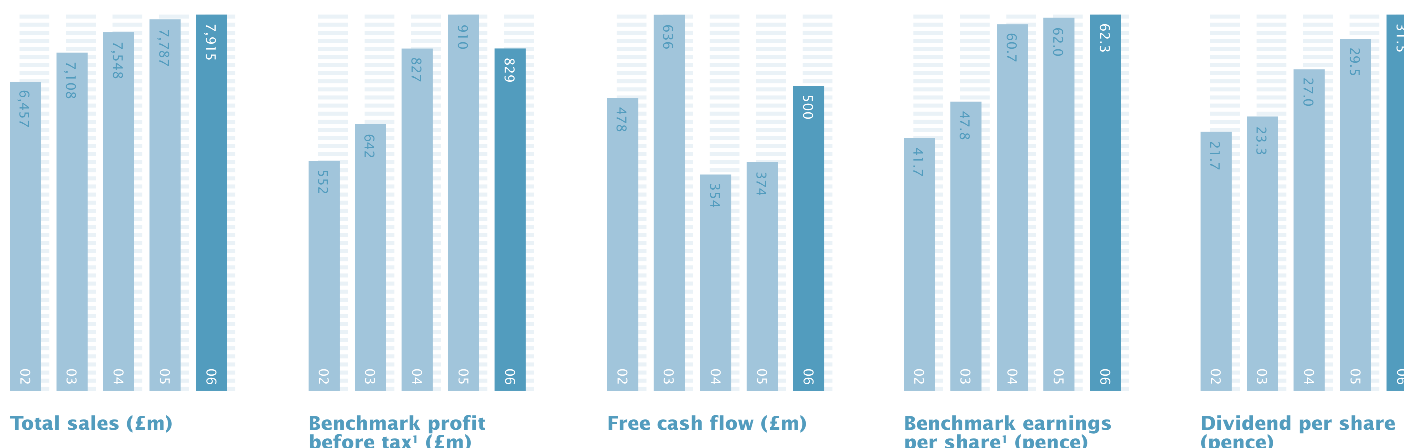
November 05	December 05	January/February 06	March/April 06
Experian named UK's 'National Business of the Year'	GUS demerges remaining 65% stake in Burberry	Experian acquires ClarityBlue, Footfall and Catalist	GUS announces demerger of ARG and Experian
	Experian acquires PriceGrabber.com	GUS disposes of Wehkamp, its last home shopping business	Argos wins 'Online Retailer of the Year' award
		Lady Patten retires from GUS Board	Experian's CreditExpert named 'Best Consumer Service'

Group financial highlights

for the years ended 31 March	2006	2005
Total sales	**£7.9bn**	£7.8bn
Profit before tax for continuing operations	**£649m**	£648m
Benchmark profit before tax*	**£829m**	£910m
Earnings per share	**60.2p**	59.6p
Benchmark earnings per share	**62.3p**	62.0p
Dividend per share	**31.5p**	29.5p

* Benchmark profit before tax is defined as profit before amortisation of acquisition intangibles, store impairment charges, exceptional items (i.e. gains or losses on disposal, demerger or closure of businesses and goodwill impairment charges), financing fair value remeasurements and taxation. It includes the Group's share of associates' pre-tax profit and the profits or losses of discontinued operations up to the date of disposal or closure.

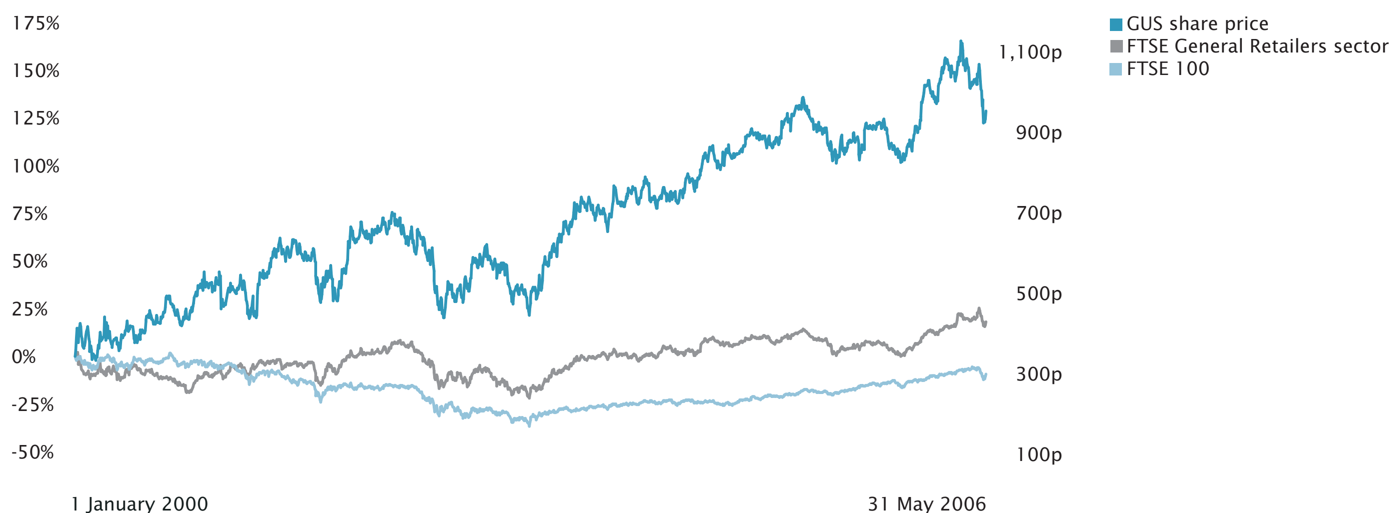
- Sales from continuing operations up 9% to £7.3bn.
- EBIT from continuing operations up 7% to £745m, reflecting both record profits at Experian and the impact of a difficult UK retail market on ARG.
- Benchmark PBT down 9% to £829m (2005: £910m), reflecting the impact of the disposal of Lewis, Burberry and Wehkamp during the year.
- An effective tax rate of 25.6% based on Benchmark PBT (2005: 26.3%).
- Benchmark EPS up 0.3p to 62.3p (2005: 62.0p), reflecting the lower tax rate and the impact of the share consolidation accompanying the Burberry demerger in December 2005.
- Net debt increased to £1.97bn at 31 March 2006, up from £1.43bn a year ago, reflecting the cost of acquisitions (about £820m) and a £100m special pension contribution, partly funded by strong operating cash flow.
- Final dividend of 21.9p proposed, making 31.5p for the full year for each new consolidated GUS share (2005: 29.5p per old share). Dividend cover for GUS is 2.0 times on benchmark EPS of 62.3p.



Total sales (£m) **Benchmark profit before tax[1] (£m)** **Free cash flow (£m)** **Benchmark earnings per share[1] (pence)** **Dividend per share (pence)**

[1] The graphs show 2002-2004 as reported under UK GAAP. 2005 and 2006 are as reported under IFRS.

GUS share price performance



Chairman's statement

Sir Victor Blank
Chairman

GUS has made real progress again this year, both operationally and strategically. Experian has delivered a fourth successive year of double-digit growth and Argos Retail Group (ARG), in a very challenging retail environment, has again improved its market position, under both the Argos and Homebase brands.

During the course of the year, we continued to invest in these businesses. We also successfully completed the sale of our remaining interest in Lewis Group; demerged our 65% shareholding in Burberry by distributing our shares to you, the shareholders; and sold the Wehkamp home shopping business in the Netherlands.

In March, we announced plans for the demerger of our two remaining businesses, Argos Retail Group and Experian. These plans are now well advanced and the demerger should be completed in October, subject to shareholder approval. This is the final step in our strategy of building successful businesses and enabling shareholders to invest directly in them.

I hope you will agree that we have developed, over the past six years, some very fine businesses out of the GUS stable. Experian is today a global leader in providing information solutions to organisations and consumers; ARG is the UK's leading general merchandise retailer; Burberry is a major international luxury brand; and Lewis Group is one of the leading furniture and appliance retailers in South Africa.

Our strategy over the course of the last few years has been to invest in and develop businesses with above average growth potential and, in this way, to create value for you. I believe that we have done that and that the value of your shares in GUS has grown very significantly since early 2000. In total, during this time, we have created over £8bn of shareholder value.

Despite immense corporate activity during this period, we have also given close attention to our broader corporate responsibilities. The Group continues to be listed in all the major corporate responsibility indices, including FTSE4Good and the Dow Jones Global Sustainability Index. We have improved the energy efficiency in our buildings and increased the amount of waste we recycle; our ethical audits have gone deeper and wider into our supply chain, and we have been closely involved with social topics such as financial awareness and money management.

The GUS Charitable Trust has also supported important projects that will leave a permanent legacy in the charitable sector. For example, the Trust brought together over 20 prostate cancer organisations to improve health policy in this area. It also facilitated a winning bid by the Citizens Advice Bureau to receive £33 million from the Government's Financial Inclusion Fund to provide more face-to-face debt advice.

As we finalise our plans for demerger, I would like to pay a real tribute to the talent, energy and commitment of everyone at GUS in bringing us to such a successful position, and most particularly to the leadership of John Peace, so ably assisted by David Tyler, Terry Duddy and Don Robert. I hope that shareholders will endorse my vote of thanks to the team who have worked so successfully for us. At the same time, I would like to thank all my non-executive colleagues on the GUS Board, both past and present, for their considerable input of time and expertise.

We are very fortunate that the management that has served us so well over recent years will continue as the senior team in Experian and ARG. Don Robert will be the Chief Executive of Experian and Paul Brooks the Chief Financial Officer; Terry Duddy will be the Chief Executive of ARG and Richard Ashton the Group Finance Director.

I am delighted, too, that other members of the GUS Board will be joining the two businesses to provide further continuity. Oliver Stocken and John Peace will become the chairmen of ARG and Experian respectively, and will be joined as non-executive directors by John Coombe and Andy Hornby at ARG and by Sir Alan Rudge and David Tyler at Experian.

They and their colleagues are all looking forward to continuing to develop these businesses and creating further value as they focus on their particular market places.

So, in what is probably my last statement as Chairman of GUS, I reiterate my thanks to colleagues and to you, the shareholders, who have been so supportive of our efforts over the course of the last few years. It is the people who work in our businesses who make the difference between moderate performance and excellent performance. As shareholders, I know that you will be well served by the ongoing teams in Experian and ARG and I thank them for their endeavours and wish them all good fortune and all success for the future.

Sir Victor Blank
Chairman

23 May 2006

Our strategy over the course of the last few years has been to invest in and develop businesses with above average growth potential and, in this way, to create value for shareholders.

Financial summary

	Sales		Profit	
12 months to 31 March	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Argos Retail Group	5,548	5,313	348.9	399.5
Experian	1,725	1,362	416.7	317.0
Central activities	(11)	(12)	(20.2)	(21.8)
Continuing operations	**7,262**	**6,663**	**745.4**	**694.7**
Discontinued operations[1]	653	1,124	119.4	239.0
Total	**7,915**	**7,787**	**864.8**	**933.7**
Net interest			(36.3)	(23.7)
Benchmark PBT			**828.5**	**910.0**
Amortisation of acquisition intangibles			(37.0)	(11.6)
Store impairment charges[2]			(12.8)	–
Exceptional items			17.5	(3.5)
Fair value remeasurements			(2.8)	–
			793.4	**(894.9)**
Taxation			(198.2)	(249.7)
Equity minority interests			(25.6)	(49.4)
Profit attributable to equity shareholders			**569.6**	**595.8**
Benchmark EPS			**62.3p**	**62.0p**
Basic EPS			**60.2p**	**59.6p**
Weighted average number of ordinary shares			946.7m	1,000.1m

The profit figure shown against each business above is earnings before interest and taxation (EBIT), defined as profit before interest, amortisation of acquisition intangibles, store impairment charges, exceptional items (i.e. gains or losses on disposal, demerger or closure of businesses and goodwill impairment charges), financing fair value remeasurements and taxation. It also includes the Group's share of associates' pre-tax profit.

2005 profit has been restated to reflect clearer IFRS interpretation on certain issues.

[1] Discontinued operations include Lewis, Burberry and Wehkamp with profit in 2006 up until the date of disposal
[2] Resulting from clearer IFRS interpretation on store impairment which affects Homebase

Business review

The business review on the following pages provides information on the corporate objectives of the Group and its businesses, together with a review of our progress during 2006 and an assessment of the key risks and uncertainties that we face.

GUS: corporate objectives

GUS plc is a retail and business services group. Its activities now comprise general merchandise retailing through Argos Retail Group and information and customer relationship management services through Experian.

GUS is committed to creating long-term shareholder value by focusing on businesses with above average growth potential and establishing leadership positions in its chosen markets.

Over the last six years, GUS has established a track record of creating value for shareholders by focusing on growth businesses and investing in their future. Since January 2000, GUS has exited from low growth or low return on assets businesses such as home shopping, property investment and motor vehicle financing. It has also simplified its structure by disposing of Burberry (via placings in 2002 and 2003 and a demerger to GUS shareholders in December 2005) and Lewis in South Africa (via placings in 2004 and 2005).

Over the same period, GUS has invested heavily in Argos Retail Group (ARG) and Experian, both organically and by acquisition. This investment has largely been funded by the proceeds of the disposals noted above. As explained later, we have clear strategies for continued growth at both Argos Retail Group and Experian, supported by investment in operations, infrastructure, complementary acquisitions and good people.

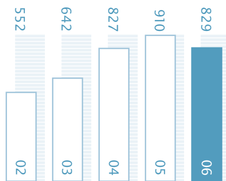
In order to enhance value further, the Board plans to separate GUS into two businesses: Argos Retail Group and Experian. As discussed later, and subject to shareholder approval, this will be achieved by means of a demerger with both businesses becoming independently listed on the London Stock Exchange.

The objective of GUS has been to deliver sustainable returns for all its stakeholders.

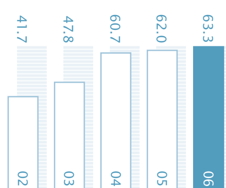
Our aim has been to deliver a growth in total shareholder return over the medium term (i.e. over three years) that at least matches the top quartile of comparable listed companies. GUS achieves this through sustainable growth in sales and profit, by investing in projects that give returns in excess of its cost of capital over the medium term. The Board recognises that these objectives can be affected in the short term by external economic, social and political factors. However, it believes that consistent investment in businesses with competitive advantage within growth markets will provide sustainable returns to stakeholders over the longer term.

Our objective has been to grow dividends for shareholders broadly in line with earnings, subject to the investment needs of the business and an acceptable level of dividend cover. At the same time, GUS has maintained an appropriate level of debt funding and serviced this debt properly in the interests of banks and bondholders.

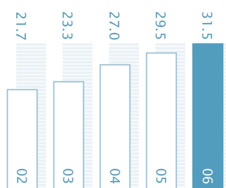
We also aim to act responsibly and ethically towards all of our stakeholders, including our customers, colleagues, suppliers and business partners and the communities around us. Our approach to corporate responsibility is summarised later in the Business Review. We believe that this approach is assisting GUS in achieving its objectives for shareholder return.



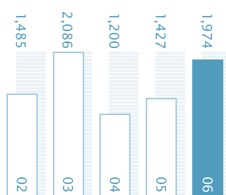
Underlying PBT (£m)
PBT falls in 2006 as sold Burberry & Lewis. Profit from continuing profit increases.



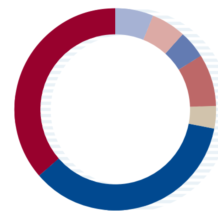
Underlying earnings per share (pence)
EPS increases slightly in 2006



Dividend per share (pence)



Net debt (£m)
Net debt rises to £2bn in 2006; c. £800m spent on acquisitions and £100m pension contribution



Operating profit 2000
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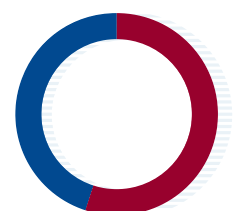
* Before central activities
Seven business units delivering £516 of profit



EBIT 2006
£766m*

- 45% ARG
- 55% Experian

* Before central activities
Focus now on ARG and Experian; £766m of profit

GUS: progress in 2006

John Peace
Group Chief Executive

The year under review has seen further major steps in the transformation of GUS, with significant disposals, acquisitions and organic investment.

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We have during the year completed the demerger of Burberry and the disposals of Lewis and Wehkamp, leaving GUS now focused entirely on Argos Retail Group (ARG) and Experian. In May 2005, we sold our remaining 50% stake in Lewis, raising £140m; in January 2006, we sold Wehkamp, our last home shopping business, for £210m; and in December 2005, we carried out the demerger of our remaining 65% stake in Burberry Group plc. Combined, these businesses contributed about one-quarter of Benchmark PBT in the year to 31 March 2005.

We have invested over £800m in acquiring businesses during the year. Most of this has been in Experian in areas such as Interactive (including LowerMyBills.com and PriceGrabber.com), in marketing database solutions (ClarityBlue) and further credit bureaux affiliates. Argos also acquired 33 Index stores at a cost of £44m. All these acquisitions are trading well.

We have continued to invest both capital and revenue during the year in ARG and Experian. At ARG, investments were made in new stores, warehouses and ranges. Experian continues to invest in new products, regions and infrastructure. Capital expenditure in the year to 31 March 2006 was about £360m for continuing operations – a level that is expected broadly to repeat in the current year.

As announced in March 2006, the Board of GUS proposes that ARG and Experian should be separated by means of a demerger with both businesses becoming independently listed on the London Stock Exchange. We have so far provided the following information:

Timing: We are aiming to complete the demerger in October 2006, subject to shareholder approval.

Debt allocation: At 31 March 2006, GUS had net debt of £2.0bn. The Board of GUS believes that Experian, as an independent company, should have net debt of about £1.0bn after the proposed equity issue. This, it believes, would be consistent with a BBB+/Baa1 credit rating. ARG will be allocated net debt of about £200m, in addition to its substantial leasehold obligations.

New share issue in Experian: Subject to any major changes in our financing requirements prior to the demerger, the Board now expects to offer new shares in Experian at the time of the demerger.

Dividend policy: The dividend policy of Experian and ARG is a matter for each Board following the demerger. However, at this stage, it is anticipated that Experian will have a cover of no less than three times and ARG a cover of no less than two times.

Outstanding bonds: As announced on 22 May 2006, we have proposed certain amendments to the terms and conditions of our outstanding bonds.

Tax rates: Subject to any changes in legislation, it is expected that the effective tax rate based on Benchmark PBT will be in the region of 30% for ARG and in the low twenties for Experian, reflecting its more international business mix.

Reporting currency: Experian will report in US dollars post separation, given that the majority of its profit comes from the US. Nearly two-thirds of Experian's EBIT in 2006 was generated by Experian North America.

Sector classification: It is expected that, following discussions with the FTSE, ARG will be classified in the General Retailers sector and Experian in the Support Services sector.

We will continue to update the market accordingly as further decisions are made.

Business review: Argos Retail Group (ARG)

ARG: overview

Nature of business

Argos Retail Group (ARG) is the UK's leading non-food, non-clothing retailer with sales of £5.5 billion in 2006. It sells products under two distinctive and complementary retail formats, Argos and Homebase, both of which are household names in the UK. Argos is a unique catalogue retailer recognised for choice, value and convenience. It sells general merchandise and products for the home from over 650 stores, online and over the telephone. Argos' Internet site, www.argos.co.uk, is the third largest Internet retail site in the UK. Homebase is the UK's second largest DIY retailer and is recognised for choice, style and customer service across the wider home enhancement market. It has 297 large, out-of-town stores as well as a growing Internet offering.

ARG's vision is to be a leading retailing group that delivers long-term sector-leading sales and profit growth, by leveraging its strengths to support its retail businesses – Argos and Homebase.

Terry Duddy
Chief Executive,
Argos Retail Group

Markets in which ARG operates

ARG operates in the general merchandise and home enhancement markets in the UK and the Republic of Ireland. In the year ended December 2005, the UK general merchandise market and the home enhancement market each had sales of over £25 billion. The general merchandise market consists of jewellery, toys, sports and leisure, small domestic appliances, consumer electronics and large domestic appliances (it excludes health and beauty and entertainment, neither of which ARG operates in). The home enhancement market consists of housewares, furniture, DIY, kitchens, bathrooms and bedrooms, garden furniture and gardening products.

In the combined general merchandise and the home enhancement market ARG had a market share of over 10% in 2005 according to market research studies by GfK, Mintel and Verdict.

Growth drivers

ARG's performance will depend on:

- overall growth in consumer expenditure;
- growth in the non-food, non-clothing market; and
- ARG's ability to take share in its product markets.

Looking forward, the management team at ARG believe that, following the current consumer spending slowdown, ARG's product markets should return to more normal levels of growth over the longer term. Future growth in these markets will be driven by:

- increasing household formation;
- rising overall household disposable income;
- technology change and development;
- falling prices of necessary items such as food and clothing leaving more discretionary spend for consumers to spend on home and leisure related products; and
- rapidly expanding sources of low cost supply which will stimulate further consumer expenditure across these product markets.

Competitive position

ARG faces competition from many players in many different sectors. They can be summarised as:

- specialist multiples, such as B&Q in home improvement, Currys and Comet in consumer electronics and domestic appliances, Woolworths in toys and wider general merchandise and H. Samuel in jewellery;
- specialist independents, that is regional and local chains selling single product ranges, such as toys and jewellery. With some exceptions, this area is generally losing share;
- supermarkets, such as Tesco and Asda, who have been growing share in certain parts of the non-food, non-clothing market, building on their regular footfall and increased space given to these ranges; and
- online retailers. Although they represent only a small share of the non-food, non-clothing market currently, the growth of PC usage, broadband penetration and increasing use of Internet shopping is likely to lead to traditional store-only retailers losing share over time.

ARG sees its strengths in this competitive landscape as deriving from its:

- strong retail brands with large customer bases;
- market leading position, allowing it to operate with scale;
- product market authority driven by wide choice, availability and service;
- purchasing and global sourcing scale and expertise, driving value for the customer;
- integrated multi-channel offering, allowing customers to shop in store, online or over the phone, as well as to collect products from store or have them home-delivered; and
- shared infrastructure and logistics expertise, leveraging such capabilities as home delivery, supply chain, catalogue production, the financial services offering as well as other central functions across the businesses.

Homebase is the second largest home improvement retailer in the UK, with 297 large, out-of-town stores as well as a growing Internet offering.

Argos is a unique catalogue retailer recognised for choice, value and convenience. It sells general merchandise products from over 650 stores, as well as online and over the telephone.

Business review: Argos Retail Group

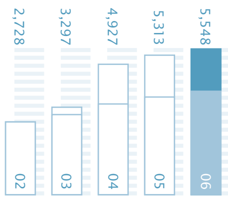
ARG's competitive position is strengthened by its shared infrastructure and delivery expertise.

Corporate objectives and strategy

ARG's vision is to be a leading retailing group that delivers long-term sector-leading sales and profit growth, by leveraging its strengths to support its retail brands – Argos and Homebase. It will achieve this by developing world-class low cost sourcing capabilities (enabling ARG to deliver value to customers across a broad range of products) and delivering end-to-end customer solutions (giving customers convenient ways to order, pay for and obtain goods).

Key initiatives to support this strategy include:

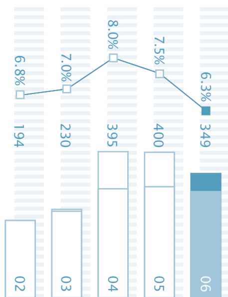
- growing market share in targeted large product markets. Given the flexibility of its formats and attractive customer propositions, purchasing scale and sourcing capability, ARG has an opportunity to increase its share in a number of large, fragmented product markets. These markets include furniture, electrical goods, home appliances, fitted kitchens and sports and leisure;
- leveraging a shared product pool and capitalising upon purchasing scale. With UK leadership in many product markets, expertise in sourcing and logistics and an increasing product overlap, ARG expects to continue to provide value for money to customers and improve its own financial returns;
- extending and exploiting multi-channel leadership. The consumer focused, integrated approach at Argos that allows ordering and receipt across multiple channels is expected to continue to drive sales. This will continue to be leveraged to support Homebase where appropriate; and
- expanding the Argos and Homebase store networks. Both chains will continued to add new stores as well as adjust formats such as the size of stores or the use of mezzanine floors.



Sales – continuing operations (£m)

Argos
Homebase

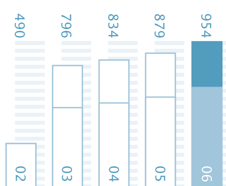
ARG is a leading general merchandise retailer with sales of over £5.5bn



EBIT (£m) & EBIT margin continuing operations

Argos
Homebase

2006 EBIT reflects a difficult UK retail environment



Number of stores

Argos
Homebase

The growing number of stores in ARG is a key growth driver

Homebase has continued to improve the shopping experience for its customers by raising in-store standards, improving stock availability and offering better customer service.

ARG: progress in 2006

- Sales up 4% to £5.5bn; EBIT of £349m reflects the difficult UK retail environment, especially in DIY
- Both Argos and Homebase outperformed their markets, benefiting from investment in key strategic initiatives
- Significant operational improvements in 2006; well executed in both Argos and Homebase
- ARG remains cautious on the outlook for a recovery in consumer spending

The annual rate of growth in consumer spending in the UK slowed markedly in the year under review. Higher interest payments and utility bills, a moderation in the growth of disposable income and a more cautious approach to borrowing (influenced in particular by a slow housing market) all combined to subdue spending. This weak demand, coupled with higher cost inflation for retailers in areas such as rents, business rates, wages, utilities and fuel bills, has adversely impacted many retailers' profits including those of Argos and Homebase. Both businesses have continued to manage their costs effectively during the year, while investing to strengthen their long-term competitive positions.

In the year under review, ARG has successfully implemented a significant number of operational improvements. These include:

Argos

- roll-out of Argos Extra to all stores in July 2005;
- acquisition, integration and rebranding of 33 Index stores;
- opening of 32 additional new stores;
- opening of two new warehouses supporting Argos Direct, Argos Extra and direct importing;
- reorganisation of store staffing to serve customers more effectively; and
- introduction of a trial of the Argos Home catalogue in 100 stores.

Homebase

- opening of 10 new stores;
- addition of 23 mezzanines;
- national roll-out of Furniture Extra; and
- relocation of about 500 roles in buying, merchandising and other functions to Milton Keynes alongside Argos.

Looking forward, ARG remains cautious on the outlook for a recovery in the rate of growth in consumer spending and is planning on this basis. It expects the DIY market in particular to remain difficult. In the current financial year, underlying cost inflation in both businesses is likely to be about 4% - the same as 2006. ARG will continue to work to mitigate the impact of this through cost reduction programmes and productivity improvements while still investing in its key initiatives.

ARG has a clear strategy in place to deliver further share gains. GUS believes that both Argos and Homebase are well-positioned in their markets – Argos as a leading multi-channel general merchandise retailer and Homebase as a strong brand across the wider home enhancement market. There are continuing synergies available from Argos and Homebase working closely together in areas such as sourcing and supply chain initiatives, home delivery and product development.

Argos Retail Group (ARG)

	Sales		EBIT	
12 months to 31 March	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Argos	**3,893**	3,652	**291.0**	320.0
Homebase[1]	**1,562**	1,580	**51.8**	113.8
Financial Services	**93**	81	**6.1**	0.2
Sub-total	**5,548**	**5,313**	**348.9**	**434.0**
Argos - charge for OFT fine	-	-	-	(16.2)
Homebase - charge for reorganisation costs	-	-	-	(18.3)
Total	**5,548**	**5,313**	**348.9**	**399.5**
EBIT margin[2]			**6.3%**	8.2%

2005 EBIT has been adjusted as a result of clearer IFRS interpretation now available on lease accounting and store impairment since GUS restated its results under IFRS in June 2005. The result has been to reduce Argos EBIT by £1.2m and increase Homebase EBIT by £5.2m

[1] Homebase sales and EBIT for 12 months to 28 February

[2] Excluding one-off charges for Argos OFT fine and Homebase reorganisation costs

Business review: Argos Retail Group

Argos Direct, the delivery to home operation, grew sales by 10% in the year, representing 22% of revenue.

Argos: progress in 2006

Operational review

Argos Extra, which offers customers over 17,000 lines compared to around 13,000 previously, was successfully rolled out to all stores and channels for both the Autumn/Winter catalogue (launched in July 2005) and the Spring/Summer catalogue (launched in January 2006). Of the 657 stores at the year end, 191 stocked in the additional ranges, up from 128 last year. The remaining stores offer customers the option to order-in for later collection from store or for home delivery. Argos Extra is trading in line with expectations and is estimated to have contributed about 2% to total sales growth in the year.

Looking forward, the emphasis will be on optimising the product offer and further improving customer awareness of the extended ranges. After such major growth in the last year, the number of catalogue lines in the next twelve months is unlikely to increase significantly.

Argos is also trialling a separate "Home" catalogue which is designed to increase ARG's market-leading share of the fragmented furniture and home accessories market. The trial started in March 2006 with a 340-page catalogue available in 100 stores. It offers consumers over 3,000 products from the existing Argos catalogue presented in a more aspirational manner.

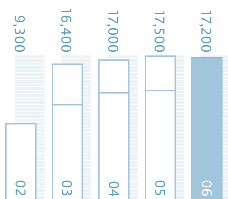
Argos has further reduced prices for consumers. In the current Spring/Summer catalogue, prices on re-included lines are 3% lower than last year. Argos is also committed to lowering prices during the life of each catalogue; for example, over 1,800 price reductions were made in the 2005 Autumn/Winter catalogue. Its "non stop price drop" campaign reinforces this message to customers.

Argos continues to be able to fund these lower prices as it delivers further supply chain benefits. For example, the proportion of directly imported goods in the current catalogue is 32% of sales, up from 26% last year and 16% three years ago. Direct importing drives gross margin benefits by lowering the cost of goods sold, albeit that it requires additional infrastructure investment and costs to support the more sophisticated supply chain.

Argos opened 65 stores during the year, including the 33 acquired from Index in July 2005. The integration and refitting of the Index stores was achieved on plan and these stores contributed 2% to total sales growth. Of the 65 openings, 10 were in new towns with the balance being second or third stores in existing catchments. At 31 March 2006, Argos operated 657 stores. It expects to open around 30 stores in the current year.

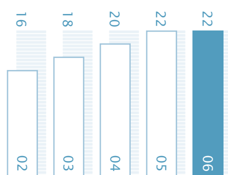
Argos is benefiting from the growth in online shopping in the UK, with 12% of its sales now ordered over the Internet for delivery to home or for later collection in store. This is a 55% increase on the previous year and the first time that the value of orders over the Internet has exceeded that over the phone.

Argos Direct, the delivery to home operation, grew sales by 10% in the year, representing 22% of revenue. Self-service kiosks are in over 300 stores and account for about 10% of sales in those locations. The new advertising campaign at Argos reinforces the message about how convenient it is to shop from Argos.



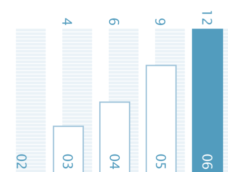
Number of lines in catalogue (£m)

Choice: all customers now have access to over 17,000 lines



Argos Direct % of sales

Governence: Argos now delivers 22% 0f its sales direct to customers homes



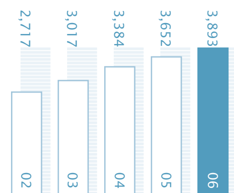
% of sales ordered via internet

Argos was the most visited high street retailers website at Christmas 2005

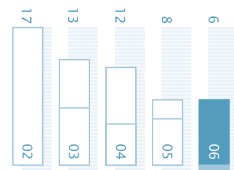
Argos

12 months to 31 March	2006 £m	2005 £m	Change
Sales	**3,893**	**3,652**	**7%**
Total change	*7%*	*8%*	
Like-for-like change	*(1%)*	*3%*	
EBIT[1]	**291.0**	**320.0**	**(9%)**
Charge for OFT fine	-	(16.2)	
Total reported	291.0	303.8	
EBIT margin[2]	7.5%	8.8%	
At 31 March			
Number of stores	657	592	
Of which: Argos Extra stocked-in	191	128	

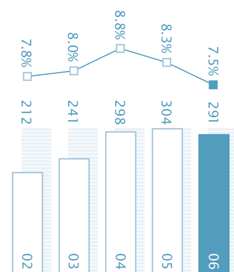
[1] 2005 EBIT has been adjusted as a result of clearer IFRS interpretation now available on lease accounting since GUS restated its results under IFRS in June 2005. The effect has been to reduce EBIT by £1.2m
[2] Excluding one-off charge for the OFT fine



Sales (£m)
Argos has added over £1bn to annual sales in the last five years



Sales trends (% growth)
From new space and like-for-like



EBIT (£m)
EBIT margin in 2006 still 7.5% despite difficult market conditions

Financial review

Sales in the year to 31 March 2006 increased by 7% in total. Of this, 8% came from new space while like-for-like sales fell by 1% in the year. There were strong performances from consumer electronics, bedroom furniture, textiles and white goods while jewellery remained weak. Gross margin was in line with last year.

EBIT in the year was £291m, a £29m decline on the previous year excluding the charge for the OFT fine last year. There were £11m of one-off costs incurred in the first half of the year: £7m transitional costs relating to the Index stores and £4m restructuring costs associated with changing staffing arrangements in-store. Excluding these, operating costs increased by 10% year-on-year, of which underlying cost inflation was about 4%. The balance reflects the direct costs of higher sales and further investment in areas such as Argos Extra, new space and infrastructure investment (especially the new warehouses which are currently running below full capacity utilisation). These costs have been partly offset by cost saving initiatives.

The latest Spring/Summer edition of the Argos catalogue has over 17,000 product lines. Prices on re-included lines are 3% lower than last year.

Business review: Argos Retail Group

Furniture Extra, a catalogue offering over 700 lines, has significantly improved Homebase's sales performance in furniture.

Homebase: progress in 2006

Operational review

The UK DIY market was very challenging during the year, with weak demand from consumers and increasing promotional activity from major competitors. Homebase continued to gain share in its market, although some of the price reductions that it pursued, especially in the second half of the year, did not generate the desired volume uplifts. As a result, Homebase intends to pursue a less aggressive promotional stance in the current year.

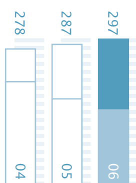
Homebase continues to invest in initiatives to differentiate itself further from other players. More range reviews were completed during the year so that all major product groups have now been repositioned since the acquisition of Homebase in December 2002. Homebase has also continued to improve the shopping experience for its customers by raising in-store standards, improving stock availability and offering better customer service.

In home enhancement, Furniture Extra, a catalogue offering over 700 lines, was rolled out to all stores by December 2005, with product displays in 135 stores. This has significantly improved the sales performance in furniture. A new 200-page home furnishings catalogue is being trialled in 30 stores from Easter 2006, while new merchandising techniques for textiles, cookshop and home accessories are currently being trialled in 11 stores.

Homebase continues to add space through new stores and mezzanine floors, enabling it to serve new regions and sell new products more effectively. During the year, Homebase opened a net ten new stores, bringing the total at 28 February 2006 to 297. In the current year, it plans a net increase of 15 stores, being a mix of traditional and small store formats.

At the year end, 144 stores had a mezzanine floor, up from 111 a year ago. Sales uplifts from the latest mezzanine floors continue to be above those generated by earlier trials. In the current year, Homebase plans to add mezzanines to at least another ten stores.

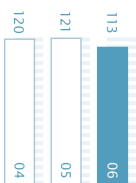
Homebase continues to leverage the ARG infrastructure. Being part of ARG gives Homebase considerable advantage over what it could achieve on its own. For example, the proportion of goods directly imported now stands at 22%, compared to 8% at acquisition. This growth has been accelerated by Homebase having access to ARG's established buying offices in Hong Kong, Shanghai and Shenzhen. The Homebase website, which was relaunched in February 2005 using the Argos IT infrastructure, is performing well, albeit from a small base. The relocation of about 500 Homebase roles to Milton Keynes, where Argos is based, was completed successfully during the year and is expected to deliver benefits in terms of closer co-operation throughout ARG.



Number of stores

- Traditional
- With mezzanine

Mezzanine floors have been introduced to add space and sell new products more effectively



Sales per square foot (£m)

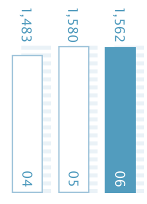
Sales per square foot declined in 2006, reflecting difficult DIY market

Homebase

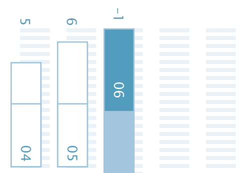
12 months to 28 February	2006 £m	2005 £m	Change
Sales	**1,562**	**1,580**	**(1%)**
Total change	*(1%)*	*6%*	
Like-for-like change	*(4%)*	*3%*	
EBIT[1]	**51.8**	**113.8**	**(54%)**
Charge for reorganisation costs	-	(18.3)	
Total reported	51.8	95.5	
EBIT margin[2]	3.3%	7.2%	
At 28 February			
Number of stores	297	287	
Of which: number with mezzanine floor	144	111	

[1] 2005 EBIT has been adjusted as a result of clearer IFRS interpretation now available on store impairment since GUS restated its results under IFRS in June 2005. The result has been to increase Homebase EBIT by £5.2m

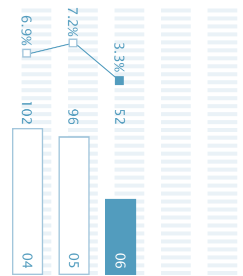
[2] Excluding one-off charge for reorganisation costs



Sales (£m)
Sales in 2006 declined slightly



Sales trends (% change)
Like-for-like
Space
Sales outperformed the DIY market as a whole in 2006



EBIT (£m) & EBIT margin
EBIT in 2006 reflected a very challenging DIY market and continued investment

Financial review

In the year to 28 February 2006, sales at Homebase fell slightly in total, outperforming the DIY market as a whole. New stores contributed 3% to sales and are trading in line with plan. Like-for-like sales were down 4% for the year, although this performance was worse in the latter part of the period. Despite the difficult economic environment, total sales of kitchens and furniture saw double-digit percentage increases, driven by the investment in Furniture Extra and additional mezzanines. Core DIY and decorating sales fell by mid-single digit percentages on a like-for-like basis. Gross margin for the year as a whole was in line with last year, although down in the second half.

Both the gross margin and operating costs as a percentage of sales at Homebase are significantly higher than at Argos. Total costs increased by 8% year-on-year, reflecting 4% underlying cost inflation and a 4% increase from investment in areas such as new stores and mezzanine space. These were only partly funded by cost savings and productivity improvements. The combined impact of lower sales, cost inflation and investment in new space led to a sharp reduction in EBIT to £52m.

Mezzanine floors have now been introduced to 144 Homebase stores, providing the space to showcase a wide range of bathrooms, kitchens and furniture.

Business review: Argos Retail Group

Self-service kiosks are now in over 300 Argos stores, reducing the time it takes for customers to purchase goods.

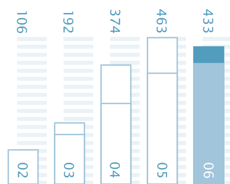
ARG Financial Services: progress in 2006

The ARG FS gross loan book fell by £30m to end the year at £433m. The decline reflects the run-off of personal loan balances resulting from the decision taken in December 2004 to withdraw from this very competitive market.

The Argos and Homebase store card balances grew by 9% to £378m at year-end, primarily due to the success of 'buy now pay later' credit offers. The Argos store card funded 9% of sales in 2006, with a 17% increase in the active card base. The Homebase card funded 4% of its sales, with growth in the active base of 33%. Credit offers are supporting initiatives in the retail businesses such as the trial of the Home catalogue in Argos and growing kitchen sales in Homebase.

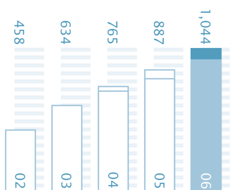
Modest expansion is expected in the total gross loan book over the next twelve months, reflecting continued growth in store cards but a further run-off in personal loans.

Profit after funding costs increased to £6.1m, driven by increased interest income from the growth in the store card loan book, partially offset by increased provisions for bad debts.



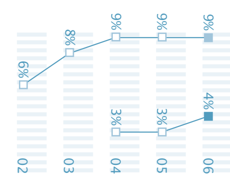
Gross loan book (£m)
Store card
Personal loans

Decline in 2006 reflected the withdrawal from personal loans



Number of active store card holders ('000s)
Argos
Homebase

Success of 'buy now pay later' offers are a key driver in the increase in active store card holders



% Sales funded by store cards
Argos
Homebase

Credit offers have supported initiatives in both retail businesses

ARG Financial Services (ARG FS)

12 months to 31 March	2006 £m	2005 £m
Sales	**93**	**81**
Earnings before funding costs	24.0	18.6
Funding costs	(17.9)	(18.4)
	6.1	**0.2**
At 31 March		
Gross loan book	433	463
Number of active store card holders (000s)	1,044	887

ARG: risks and uncertainties

The management team at ARG has identified the following factors as major potential risks to the successful performance of its business. Some, such as IT failures, are specific risks that require specific, identified actions to mitigate their effect. Others, such as the impact of competition, are areas addressed through strategic planning and operational management processes.

Competition in the retail industry

ARG operates in highly competitive markets and its failure to compete effectively could have a material adverse effect on its results.

Consumer preferences, perception and spending

The retail industry is subject to changes in consumer preferences, perceptions and spending habits. ARG's performance depends on factors which may affect the level and patterns of consumer spending in the United Kingdom and on its ability to anticipate and respond to changes in consumer preferences.

Poor economic conditions

ARG derives a substantial proportion of its profits from the United Kingdom and a material proportion from the Republic of Ireland and is therefore sensitive to fluctuations in the UK and Irish economies.

Seasonal fluctuations in sales

ARG's operations are characterised by seasonal fluctuations in sales requiring careful operational and stock management.

Failure or interruption in product supply

ARG purchases a substantial proportion of its products from third-party product suppliers in Great Britain, Europe and the Far East. Its operations may be interrupted or otherwise adversely affected by delays or interruptions in the supply of these products.

Raw material costs

The price of ARG's products may be significantly affected by the cost of raw materials used to produce the product it sells (e.g. oil, plastic, wood and gold).

Failure or unavailability of operational infrastructure

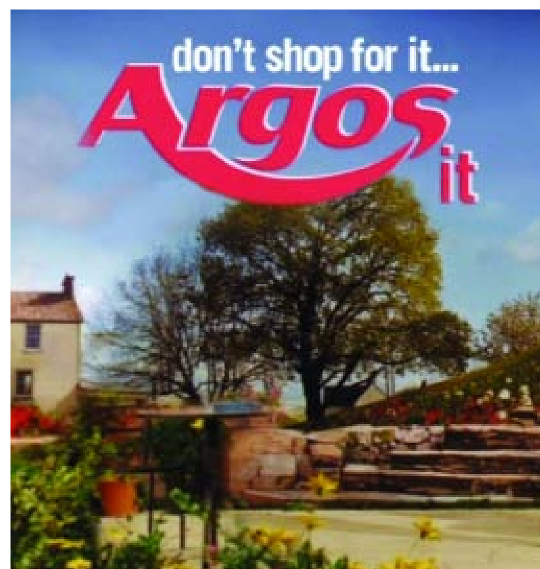
Any failure, interruption or unavailability of ARG's operational infrastructure could lead to increased costs or disruption to supply.

Failure or interruption in information technology systems

ARG is reliant on its IT systems for the provision of information regarding most aspects of its operational activity, including the sale of goods through stores, online and over the telephone together with the management of stock through the retail chains.

Cost inflation and legislative change

ARG's operational costs are affected by underlying cost inflation and legislative and fiscal policy changes in relation to, for example; paper, packaging, fuel, utilities, rates and wages.



A new advertising campaign is reinforcing the message about how easy it is to shop from Argos.

Business review: Experian

Experian: overview

Nature of business

Experian is a global leader in providing information solutions to organisations and consumers. It helps organisations to find, develop and manage customer relationships by providing information, decision-making solutions and processing services. It also helps consumers to understand, manage and protect their personal information and provides valuable information to help them make more informed purchasing decisions. Experian sells to clients in more than 60 countries.

It has four main areas of activity:

- Credit: providing data and solutions to help corporate clients with decision making for credit purposes;
- Marketing: providing data and solutions to help corporate clients with decision making for marketing purposes;
- Outsourcing: supporting corporate clients in process tasks; and
- Interactive: providing consumers with valuable information to make more informed financial and purchasing decisions.

Experian's vision is to use its people, data and technology to become a necessary part of every major consumer economy in the world.

Don Robert
Chief Executive Officer,
Experian Group

Experian's databases are the foundation of its business, with its solutions (proprietary analytics, software and systems) providing further value for clients by automating decision making.

Additional detailed information on Experian is available in "Explaining Experian" which is on the GUS website, www.gusplc.com.

Markets in which Experian operates

Experian has a widespread and balanced portfolio by product type, by vertical market served and by country served. As examples:

- in the year to 31 March 2006, the breakdown of sales was Credit (47%), Marketing (25%), Outsourcing (8%) and Interactive (20%);
- financial services clients account for 55% of sales, followed by 12% in direct-to-consumer, 11% for retail and home shopping, 7% from telecomms, utilities and insurance and the balance from automotive, government, publishing and media;
- it employs over 12,600 people in 28 countries;
- it owns and operates consumer credit bureaux in 12 countries and business credit bureaux in 6 countries; and
- it classifies one billion consumers by socio-demographic type in 25 countries around the world.

Experian as a whole is dependent on the economic environment in which it operates but its broad portfolio of products and markets served gives it some resilience should its major markets weaken. New products also affect Experian's performance, as does its success in gaining share in its chosen markets. "Explaining Experian" details some of the economic indicators that Experian monitors.

Growth drivers

Experian is well-positioned to benefit from a number of key drivers of long-term growth, including expansion in:

- the direct-to-consumer market and online advertising;
- consumer credit and card usage;
- multi-channel marketing;
- fraud prevention;
- vertical markets such as automotive and government; and
- emerging markets such as Asia Pacific and Eastern Europe.

Competitive position

Experian's competition varies by product and market, as summarised below:

- Credit information: there are two other national consumer credit bureaux in the US (Equifax and TransUnion). In the UK, Experian is the clear market leader in consumer credit with mainly local competition elsewhere. Dun & Bradstreet is the only global business credit competitor;
- Credit solutions: the market leader in the US is Fair Isaac; outside the US, Experian is the major player, facing mainly fragmented local competition;
- Marketing: there are some large competitors in the US (such as Acxiom and Harte-Hanks) but competition elsewhere is local, fragmented and often specialist; and
- Interactive: Experian is the clear market leader in selling credit reports direct to consumers ahead of Equifax, TransUnion, Fair Isaac and other specialist providers. The online lead generation market is fragmented and Experian has strong market positions in its areas of operation.

Experian continues to invest organically in its businesses, in areas such as product development, infrastructure and establishing a stronger presence in selected regions.

Experian is able to compete effectively with the competition in any one of its business areas. However, its ability to offer more products and solutions in more countries around the world is a real competitive advantage. Experian can offer its clients a one-stop shop for many of their information and solutions needs. This is increasingly important as many of its existing clients expand into emerging markets and wish to use the same tools as they do in their established markets.

Corporate objectives and strategy

Experian's vision is to use its people, data and technology to become a necessary part of every major consumer economy around the world. It has a clear strategy to capitalise on these opportunities by:

- building on its core businesses, by, for example, selling additional products into the existing customer base. A good example is where financial services clients who have historically bought credit products from Experian then buy marketing data and analytics;
- selling new value-added solutions. Experian helps improve clients' decision-making processes through the provision of software and analytics. These solutions are often implemented into the clients' processing systems and incorporate Experian's data, as well as other information; and
- growing by complementary acquisitions, which bring new products, new data or entry into new vertical or regional markets, while leveraging the core assets of Experian. This often enables Experian to accelerate the rate of growth of acquired companies by sharing expertise across the business.

Experian's databases are the foundation of its business. The data centre in McKinney, Texas monitors the pulse of Experian's North American information solutions.

Business review: Experian

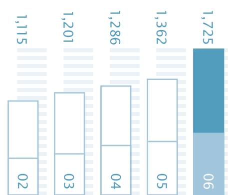
Experian's fraud detection system, Hunter, is used extensively in the financial services, insurance, telecommunications and public sector to screen applications and claims for potential fraud.

Experian: progress in 2006

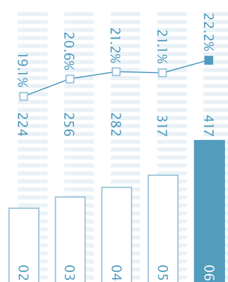
- Sales up 27% and profit up 29% for continuing activities at constant exchange rates
- Fourth consecutive year of double-digit sales and profit growth
- Further EBIT margin advance even after increased investment in new products, markets and infrastructure
- Fourth consecutive year of excellent cash generation, with about 100% of EBIT converted into operating cash flow

In 2006, sales were up 27% at constant exchange rates and EBIT was up 29%, demonstrating the benefits of Experian's portfolio of businesses by product, by region and by market. There was also a balance between organic growth (which contributed 10% of the 27% sales increase) and acquisitions (which contributed 17%).

Experian was highly cash generative in 2006, converting all of its EBIT to operating cash flow. Acquisition spend in the year was about £775m, well above the average spend in the three previous years. Together, acquisitions made in the last three financial years are performing ahead of plan.



Sales (£m)
North America
International
Another year of strong sales growth



EBIT (£m) & EBIT margin
EBIT grew by £100m with further margin advances

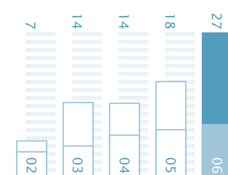
Experian continued to invest organically in its businesses during the year, in areas such as new products, establishing a stronger presence in selected regions and in its infrastructure. For example, new products, which contributed significantly to organic growth, include Triple Advantage in Consumer Direct and Hunter II, the anti-fraud system which recently won the Queen's Award for Innovation. Experian also recently launched Vantage Score in the US, a new credit score jointly developed by it and the two other US national credit reporting companies, which delivers for clients and consumers more consistent and predictive credit scores. In Asia Pacific, Experian now employs nearly 200 people – an increase of more than 50% over a year ago. This enables it to serve better both local and multi-national clients looking to expand into this fast-growing region.

Experian also continued to evolve its portfolio of businesses by further acquisitions and some closures. Experian made two large acquisitions during the year, both in the Interactive business. LowerMyBills.com, a leading US online generator of mortgage leads, was acquired for $330m plus earn-out in May 2005 and PriceGrabber.com, a leading US provider of online comparison shopping services, was purchased for $485m in December 2005. Both will benefit from the rapid growth in Internet usage by consumers and clients, as well as from the synergies available to them from being

Experian has developed China's first consumer classification system, dividing the population into 34 distinct consumer types.

part of Experian in areas such as access to data, analytical tools and clients. Experian also invested via acquisition in other areas such as database marketing solutions (ClarityBlue), purchasing more US credit affiliate bureaux, enabling lending to small businesses (Baker Hill) and in the retail and property sectors (Footfall). In addition, Experian has recently announced its withdrawal from two markets which have become increasingly unattractive - incentive marketing websites in the US (via MetaReward) and large scale account processing in the UK.

In 2006, Experian continued to win contracts across the business. Some of these are from long-established major clients where Experian is extending the services it sells. One example is the recently announced multi-year, multi-million pound contract with HSBC, which will use Experian's decision analytics to support lending decisions around the world. In the US, Limited Brands, a top ten specialty retailer, extended its relationship with Experian, awarding it a multi-year, multi-million dollar contract for an integrated customer and prospect database across all sales channels. Other wins are in recently acquired companies such as ClarityBlue's three year, multi-million pound contract to support customer acquisition at BSkyB. Finally, Experian is gaining clients in new regions, such as Japan (JCB and Nicos) and Thailand (Bank of Siam).



Sales change (%)
Organic
Acquisition
Fourth consecutive year of double digit sales growth driven by both organic growth and acquisitions

Experian has acquired Footfall, the European leader in customer counting technology, as part of its global strategy to acquire complementary businesses that provide new products, new data or entry into new markets.

Experian

12 months to 31 March	Sales 2006 £m	Sales 2005 £m	EBIT 2006 £m	EBIT 2005 £m
Experian North America	1,000	712	265.3	189.0
Experian International	722	620	151.3	126.6
Total continuing activities	**1,722**	**1,332**	**416.6**	**315.6**
% growth at constant FX	27%	18%	29%	16%
Discontinued activities	3	30	0.1	1.4
Total reported	**1,725**	**1,362**	**416.7**	**317.0**
EBIT margin - excluding FARES			22.2%	21.1%
EBIT margin - including FARES			24.2%	23.7%

Notes (relevant to all Experian tables):
EBIT margin is for continuing activities only. For FARES, the 20%-owned real estate information associate, Experian reports its share of FARES profits but not sales. FARES is an integral part of Experian's business

Business review: Experian

Experian's Interactive business was strengthened during the year by two major acquisitions: LowerMyBills.com, a leading US online generator of mortgage leads, and PriceGrabber.com, a leading US provider of online comparison shopping services.

Experian North America: progress in 2006

Operational review

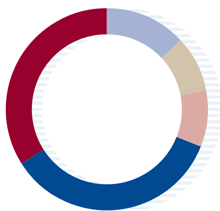
Sales from continuing activities increased by 36% in dollars. Corporate acquisitions generated 23% of this growth, with 13% organic growth (H1: 18%; H2: 9%). In the current financial year, the contribution from acquisitions made to date is expected to increase sales growth by mid-single digits.

Credit Information and Solutions together grew sales by 14% excluding corporate acquisitions. The US consumer credit market was very strong during the year. For example, credit card solicitations were at an all time high in calendar year 2005, with 6 billion offers mailed – up 16% on 2004. This strong market, which is expected to moderate in the current year, benefited Experian's core credit operations. Experian also saw good growth in value-added products such as triggers and pre-screen. The FACT Act recovery charge, which anniversaried from 1 January 2006, contributed 3% to sales growth in Credit in the year.

There was double-digit organic growth in business credit, reflecting strength in the volume of business credit reports as well as growth in decision analytics in this market.

Marketing Information and Solutions together grew sales by 6% excluding acquisitions. There was renewed weakness across the direct marketing industry in the second half. This impacted Information sales at Experian, especially in the catalogue and reseller sectors. Marketing Solutions continued to trade well, especially in database solutions and email marketing. The success of CheetahMail, which sent nearly 11 billion email messages during the year, is a good example of how Experian repositions its portfolio of businesses to capitalise on high growth markets.

Experian Interactive contributed about 35% of sales in Experian North America in 2006, up from 22% in 2005. Sales in total more than doubled to $617m, with significant contributions from businesses acquired during the year. Excluding acquisitions, sales increased by 22%. Consumer Direct saw further strong growth of over 30%, driven by more new members, the success of new products such as Triple Advantage and increased revenue per member. Sales at MetaReward fell during the second half of the year. As previously announced, it has closed its incentive marketing websites, which operate in an increasingly unattractive market for both consumers and thus clients. These websites had sales of $70m and EBIT of $5m in the year to 31 March 2006.



Mix of business by segment

- 35% Credit information
- 9% Credit solutions
- 9% Marketing information
- 13% Marketing solutions
- 34% Interactive

Interactive now one-third of Noth American sales

Financial review

In dollars, sales from continuing activities were $1,789m, up 36% compared to last year. EBIT from direct businesses was $412m (2005: $286m), giving an improvement in EBIT margin of over one percentage point to 23.0%. This improvement reflects operational leverage from 13% organic sales growth and a favourable mix from strong Credit sales. These factors were stronger in the first half of the year than the second half. FACTA-related set-up costs which were incurred in the previous year were recovered during 2006. Experian North America also invested several million dollars in the latter part of the year in further improving its information infrastructure.

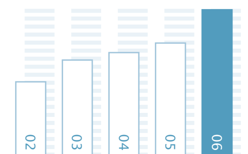
FARES, the 20%-owned real estate information associate, saw largely unchanged profits year-on-year at $63m (2005: $64m), reflecting the decline in the US mortgage refinancing market offset by continuing cost control.

The £/$ exchange rate moved from an average of $1.85 in the year to March 2005 to $1.79 in 2006. This increased reported sales by £33m in the year and EBIT by £9m.

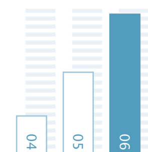
Experian continued to win major contracts during the year. Bank of America chose Experian's Strategy Management for making sophisticated enterprise-wide decisions, identifying and selecting the most ideal customers, and managing customer relationships more effectively.

Experian North America

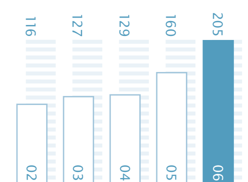
12 months to 31 March	**2006 £m**	2005 £m	Growth at constant FX
Sales			
- **Continuing activities**	**1,000**	**712**	**36%**
- Discontinued activities	2	12	na
- Total reported	1,002	724	34%
EBIT			
- Direct Business	230.3	154.5	44%
- FARES	35.0	34.5	(2%)
- **Continuing activities**	**265.3**	**189.0**	**36%**
- Discontinued activities	-	(0.1)	na
- Total reported	265.3	188.9	36%
EBIT margin			
- excluding FARES	23.0%	21.7%	
- including FARES	26.5%	26.5%	



Volume of consumer credit reports (indexed)
Consumer credit market exceptionally strong in 2006



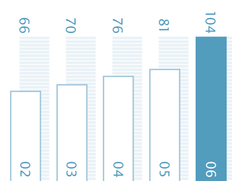
Volume of emails delivered (indexed)
Secular growth in use of email as clients switch to more interactive channels



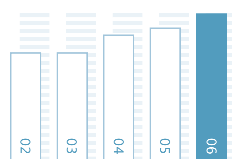
Sales per full-time equivalent employee (£'000s)
Improved performance in sales per FTE driven by growth in Interactive, which has relatively low labour costs as a percentage of sales

Business review: Experian

Experian is helping the public sector to improve the services it delivers. In the UK, Experian already works with over 200 local authorities, as well as the police and health service.



Sales per FTE (£'000s)
Further improvement in efficiencies provided an increase in sales per FTE



UK applications for credit (indexed)
Volumes increased due to sales in account management and success in new vertical markets

Experian International: progress in 2006

Operational review

Sales grew by 16% at constant exchange rates, of which 9% came from acquisitions and 7% was organic. The full year impact of acquisitions made to date is expected to increase sales growth by mid-single digits in 2007. Despite a slowdown in the growth of UK consumer lending, Experian's sales in the UK, which account for about 60% of its International revenues, still grew by 6% excluding acquisitions. This reflects the breadth of its portfolio by product and vertical market. Organic growth outside the UK was 8%.

Credit Information and Solutions increased sales by 8% excluding acquisitions. Although there was a decline in demand for products supporting new consumer credit applications in the UK, this was countered by strong sales growth in business-to-business sales, as well as significant growth from a small base in the government, telecomms and direct-to-consumer markets. Outside the UK, Italy, Asia Pacific, South Africa and Eastern Europe demonstrated double-digit growth in credit, especially in value-added decision solutions.

As already announced, with the market in decline, Experian will have withdrawn from large scale credit card and loan account processing in the UK by Autumn 2009. In the year to 31 March 2006, sales in UK account processing fell to about £44m generating EBIT of £20m. With the planned contraction of the business, profit will decline further over the next few years, with EBIT in the year to 31 March 2007 expected to be no more than half the 2006 level. The costs of withdrawal, all of which are cash, will be about £15m. These will be charged against EBIT in the year to 31 March 2007.

Marketing Information and Solutions grew sales by 9% excluding acquisitions.

As expected, given the UK market background, there was some slowdown in marketing spend by financial services clients. This was compensated for by strong growth in CheetahMail, by public sector wins in QAS and by double-digit growth in Business Strategies in the UK and elsewhere.

Outsourcing sales grew by 4% in euros excluding acquisitions. Experian continued to win new contracts in both the more mature cheque processing area (now serving all five major French banks) as well as other back office functions, including a four year, multi-million euro contract with Prud'homales, building and running the electoral roll for French work council elections.

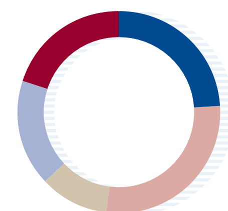
Financial review

Sales for continuing activities at Experian International increased by 16% at constant exchange rates. EBIT from continuing activities at £151.3m increased by 19% at constant rates, resulting in a 60 basis point improvement in the margin. This reflects operational leverage throughout the business, despite re-investment in new products and regions. In particular in the second half, Experian increased its revenue investment in Asia Pacific.

Experian International

12 months to 31 March	2006 £m	2005 £m	Growth at constant FX
Sales			
- Continuing activities	**722**	**620**	**16%**
- Discontinued activities	1	18	na
- Total reported	723	638	13%
EBIT			
- Continuing activities	**151.3**	**126.6**	**19%**
Discontinued activities	0.1	1.5	na
- Total reported	151.4	128.1	18%
EBIT margin	21.0%	20.4%	

EBIT margin is for continuing activities only.



Mix of business by segment 2006
- 20% Outsourcing
- 24% Credit information
- 28% Credit solutions
- 11% Marketing information
- 17% Marketing solutions

A well balanced portfolio of businesses

Experian: risks and uncertainties

The management team at Experian has identified the following factors as major potential risks to the successful performance of its business. Some, such as data security, are specific risks that require specific, identified actions to mitigate their effect. Others, such as the impact of competition, are areas addressed through strategic planning and operational management processes.

Data security

Unauthorised or fraudulent access to consumer credit data directly from Experian systems or employees or from third parties is a risk, as is the loss or potential misuse of consumer data. To address this, Experian has very rigorous information security policies and procedures which are embedded within the operations. Compliance reviews are continuous and internal audits are conducted regularly. To address the risk of unauthorised access by third parties, Experian also screens new third parties carefully and internal audit performs targeted audits. The loss and/or potential misuse of consumer data is addressed through continued investment in IT security and greater use of data encryption around the world.

Competition in the credit reporting industry

Experian's US business primarily competes with two national consumer credit reporting companies and one national business credit reporting company, which offer credit reporting products that are similar to those of Experian. Experian believes that the principal competitive factors affecting it are price, product quality, customer service and technological innovation.

Client consolidation

There is a risk that if clients consolidate there could be a resulting price compression which would negatively affect Experian.

Lawsuits

In the US, class action lawsuits continue to be a significant feature of business life. For Experian, the need to defend its position may require increasing legal expense and attention of management.

Information systems

Information systems are fundamental to Experian which therefore protects its data centres against damage from fire, power loss, telecommunications failure, natural disaster, hardware or software malfunction, computer viruses or other purposeful interference. Off-site copies of all information contained in databases are maintained and Experian runs back up data centres.

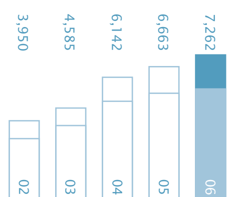
Government regulations

Concerns about individual privacy and the collection, distribution and use of information about individuals have led to substantial governmental regulation of the credit reporting industry and some government regulation of the direct marketing industry together with self-regulation by the direct marketing industry through industry bodies. While Experian does not believe currently that any existing or proposed legislation will have a material adverse effect on it, future legislation could limit demand for, or increase the costs of, certain products. To the best of Experian's knowledge, it is in compliance with data protection registration requirements in the jurisdictions in which it operates and its registrations are sufficient for its current purposes. Experian also actively monitors its collection and use of personal data to ensure compliance with existing data protection legislation. In addition, its legal and government affairs departments work with executive management to adopt strategies to educate lawmakers and influence the debate where appropriate.

Experian was named the UK's National Business of the Year for the second time. It previously won the award in 2003.

Business review

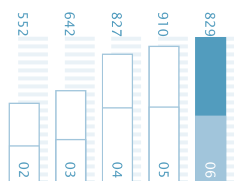
David Tyler
Group Finance Director



Total sales – continuing operations (£m)

ARG
Experian

Sales have nearly doubled over four years



EBIT[1] (£m)

ARG
Experian

[1]Excluding amortisation of acquisition intangibles, store impairment charges, exceptional items and financing fair value remeasurements.

EBIT has increased by 80% over the four-year period

GUS: financial review

Sales

Group sales from continuing operations grew by 9% from £6,663m to £7,262m. At constant exchange rates, sales from continuing operations were 8% higher than last year.

Profit

Profit before amortisation of acquisition intangibles, store impairment charges, exceptional items, financing fair value remeasurements and taxation – termed benchmark profit - fell by £81m to £829m. The reduction in benchmark profit is largely a result of the profit contribution from discontinued operations falling by £120m in 2006. Return on sales from continuing operations based on benchmark profit, fell from 10.0% to 9.7% largely as a result of lower profits at Argos Retail Group and a higher interest charge. EBIT from continuing businesses grew by 7% to £745m because of the rise in Experian's profit in the year, partially offset by a reduction in ARG's profit.

Taxation

The Group's effective rate of tax for the year was 25.6%, based on benchmark profit. This compares to 26.3% last year.

Shareholder return and dividends

Basic earnings per share were 60.2p in the year to 31 March 2006 compared to 59.6p last year. Benchmark earnings per share increased slightly to 62.3p from 62.0p last year. The Board has proposed a final dividend of 21.9p per share. The dividend for the year as a whole of 31.5p is covered 1.98 times from benchmark earnings. Shareholders who have not bought or sold GUS shares in the last year and retained the Burberry shares they received at the time of the demerger will receive the same dividend in total as last year.

Share price and total shareholder return

The share price of GUS ranged from a low of 827p to a high of 1128p during the financial year. On 31 March 2006, the mid market price was 1055p, giving a market capitalisation of £9.1bn at that date.

Total shareholder return (the increase in the value of a share including reinvested dividends) has been 21% p.a. over the five years to 31 March 2006. This compares favourably with the total shareholder return for the average FTSE 100 company which was 1% p.a. over the same period.

Shareholders' funds

Shareholders' funds amount to £3,131m, an increase of £76m in the year. This is equivalent to 356p per share compared with 300p last year.

Cash flow and net debt

The Group's free cash flow before acquisitions and divestments, dividends, share buybacks and special pension contributions was £500m, compared with £374m in 2005. Capital expenditure in 2006 was £365m, £21m higher than last year. Capital expenditure was equivalent to 142% of the depreciation charge in 2006. Free cash flow was used to fund acquisitions of £819m, dividends of £284m and special pension contributions of £100m. After proceeds from disposals of businesses of £360m, net cash outflow for the year was £343m.

Net debt on the GUS balance sheet at 31 March 2006 increased by £547m to £1,974m, up from £1,427m at 31 March 2005.

Acquisitions

Acquisitions amounted to £819m, most of which were made by Experian. The largest acquisitions were LowerMyBills.com which was purchased for $330m (£213m) in May 2005 and PriceGrabber.com which was acquired for $485m (£277m) in December 2005. Other acquisitions made by Experian during the year included three US based affiliate credit bureaux, ClassesUSA, Baker Hill and Vente in North America and ClarityBlue and Footfall in the UK. Separately, Argos acquired 33 former Index stores and the Index brand for £44m from Littlewoods Limited.

Disposals

In May 2005 the Group sold its remaining 50% interest in Lewis Group for proceeds of R1,675m, which amounted to £140m. In December 2005 the Group divested its remaining 65% stake in Burberry through a dividend in specie, which was accompanied by a consolidation of GUS shares to keep the share price at a comparable level. GUS shareholders received 305 Burberry shares and 860 new GUS shares for every 1000 existing GUS shares held. In January 2006 the Group sold Wehkamp, the leading home shopping brand in the Netherlands, for €320m (£210m).

Following these disposals, the results of Lewis, Burberry and Wehkamp have been reclassified as discontinued.

Post balance sheet event

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. Deferred proceeds from this sale of £140m were received by GUS in April 2006.

Minority interests

Profit attributable to equity minority interests in 2006 of £26m relates mainly to the share of profit attributable to the minority shareholders of Burberry and Lewis Group. Following the demerger of Burberry and the disposal of Lewis Group in 2006, the Group now has negligible minority interests.

Liquidity and funding

The maturity, currency and interest rate profile of the Group's borrowings are shown in Note 27 to the financial statements. The maturity profile is spread over the next eight years, to avoid excessive concentration of re-financing needs.

At 31 March 2006 undrawn committed borrowing facilities totalled £530m.

Treasury and risk management

The Group's Treasury function seeks to reduce exposures 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 are subject to regular Group Internal Audit reviews.

Currency risk management

The Group's reported profit can be significantly affected by currency movements. Approximately 41% of the Group's EBIT generated in the year to 31 March 2006 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 a policy of borrowing in US dollars and euros, as well as in sterling, and of entering into forward foreign exchange contracts in its key overseas currencies. During the year ended 31 March 2006 the Group continued to enter into forward foreign exchange contracts to sell the US dollar and the euro 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 foreign exchange contracts.

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 spreads the duration of its borrowings to smooth the impact of interest rate fluctuations.

Group cash flow

for the years ended 31 March	2006 £m	2005[1] £m
Benchmark profit before interest for continuing operations	746	695
Depreciation	257	230
Capital expenditure	(365)	(344)
Change in working captial	3	(3)
Operating cash flow	**641**	**578**
Interest	(33)	(34)
Corporation tax	(108)	(170)
Free cash flow	**500**	**374**
Acquisitions and divestments	459	(70)
Dividends	(284)	(281)
Share buy back – GUS	–	(200)
Special pension contribution	(100)	(76)
Net cash outflow	**(343)**	**(253)**
Foreign exchange movements	–	56
Net debt flow of discontinued operations	**(204)**	**(30)**
Movement in net debt	**(547)**	**(227)**

[1] 2005 numbers have been restated. Under IFRS, the net cash flow of discontinued operations is shown separately (in the penultimate line of the table).

Interest costs

At £36m, interest costs were £13m higher than last year, reflecting higher net debt levels largely resulting from the £819m spent on acquisitions during the year. The reported net interest line benefits from the recharge to ARG Financial Services of interest on its loan book (£18m), from £8m of income from a £140m loan note which did not form part of net debt, and from a credit to interest of £8m relating to the excess of the expected return on pension assets over the interest on pension liabilities (2005:£2m).

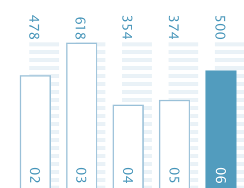
Credit risk

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.

Exceptional items

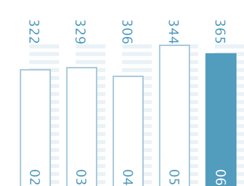
The only costs treated as exceptional items are those associated with the disposal, demerger or closure of businesses. All other restructuring costs have been charged against EBIT in the divisions in which they were incurred.

The exceptional items during the year were a profit on the disposal of Lewis and Burberry shares, a loss on the disposal of Wehkamp and various costs relating to the Burberry and Group demerger projects.



Free cash flow (£m)

£500m free cash flow



Capital expenditure (£m)

2006 capital expenditure rose as GUS invested significantly in both ARG and Experian

Business review

Other adjustment items

IFRS requires that, on acquisition, specific intangible assets are identified and recognised separately from goodwill and then amortised over their useful economic lives. These include items such as brand names and customer lists, to which value is first attributed at the time of acquisition. As permitted by IFRS, acquisitions prior to 1 April 2004 have not been restated. As it did with goodwill under UK GAAP, the Group has excluded amortisation of these acquisition intangibles from its definition of Benchmark PBT because such a charge is based on uncertain judgements about their value and economic life.

As a result of clearer IFRS interpretation on impairment reviews, Argos Retail Group now performs store impairment tests on a store by store basis and this has led to a store impairment charge at Homebase of £13m in 2006 (2005:nil).

An element of the Group's derivatives is ineligible for hedge accounting under IFRS. Gains or losses on these derivatives arising from market movements are charged or credited to the income statement. In the year to 31 March 2006, this amounted to a charge of £3m (with no comparable credit or charge as the Group had previously elected to defer implementation of IAS 32 and 39).

Pensions

Following the transition to IFRS the consolidated balance sheet now reflects retirement benefit assets/obligations. Note 25 to the financial statements shows the assumptions used (including mortality assumptions) together with the other disclosures required in accordance with IAS 19.

The Group's two UK defined benefit pension schemes had modest deficits at 31 March 2005. To improve the funding of these schemes the Group again made voluntary special contributions totalling £100m in March 2006 (2005:£76m). This helped to generate a net surplus for all retirement benefit schemes on an IAS19 basis of £18m at 31 March 2006.

International Financial Reporting Standards

The Group has prepared its financial statements under International Financial Reporting Standards for the year ended 31 March 2006, with comparative information for the year ended 31 March 2005 restated. The Group has taken the option to defer the implementation of IAS 32 and IAS 39 on financial instruments until the year commencing 1 April 2005, without restating comparative amounts.

The key impacts of the restatement of 2005 on an IFRS basis are shown in Note 38 to the financial statements. The greatest impact on net assets and profit at GUS has come from changes to the accounting treatment of goodwill amortisation and impairment, other intangibles, financial instruments, share-based remuneration, pension costs, tax and deferred tax.

Use of non-GAAP measures

GUS has identified certain measures that it believes provide additional useful information on the performance of the Group. This approach is comparable with that previously used but as the measures are not defined under IFRS they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are not intended to be a substitute for, or superior to, any IFRS measures of performance. The non-GAAP measures identified by the Group are shown in Note 2 to the financial statements.

Accounting policies and standards

The principal accounting policies used by the Group are shown in Note 37 to the financial statements. Detailed indicative disclosures in respect of IFRS on the reported position and results for the year ended 31 March 2005 were issued in June 2005, and are available on the Company website at www.gusplc.com/gus/investors/IFRS. A summary of the impact of IFRS on certain key reported figures is set out in Note 38 to the financial statements.

Since the issue of the indicative disclosures in respect of IFRS in June 2005, Burberry and Wehkamp have been reclassified as discontinued operations and some further adjustments have been made as a result of clearer IFRS interpretation becoming available. These further adjustments relate to store impairment testing, guaranteed rental uplifts on leased premises, taxation and acquisition intangibles. Further information is provided in Note 38 to the financial statements.

Exceptional and other adjustment items

12 months to 31 March	2006 £m	2005 £m
Exceptional items		
Continuing operations:		
Costs incurred relating to the Group separation	(4)	–
Loss on sale of businesses	–	(7)
	(4)	(7)
Discontinued operations:		
Profit on disposal of Lewis Group	36	24
Loss on disposal of Wehkamp	(19)	–
Disposal of shares in Burberry	10	3
Costs incurred relating to the demerger of Burberry	(5)	–
Loss on disposal of other discontinued operations	–	(24)
	22	3
Total exceptional items	**18**	**(4)**
Other adjustment items		
Continuing operations:		
Amortisation of acquisition intangibles	(37)	(11)
Homebase store impairment	(13)	–
Financing fair value remeasurements	(3)	–
Total other adjustment items	**(53)**	**(11)**
Total exceptional and other adjustment items	**(35)**	**(15)**

GUS: risks and uncertainties

The Board of GUS believes that the following constitute areas that are key to the success of its business. Some, such as data security in Experian, are specific risks that require specific, identified actions to mitigate their impact. Others, such as the impact of changes in the economic environment, are areas that are addressed through strategic planning and operational management processes. The following summarises what it believes are the key risks to delivering successfully against GUS' corporate objectives.

Economic environment

Changes to the economic environment can affect any of its businesses. For example, an improving economic climate increases consumer confidence, and with it the potential for our retail businesses as well as demand for consumer credit information. The reverse could also be true.

Staff retention

The success of its business is dependent, to a large extent, upon the efforts and abilities of key employees, particularly senior staff members. The policy of GUS is to provide senior staff members with compensation and benefits which are competitive with other leading companies, as well as to provide them with fulfilling opportunities for their future careers.

Acts of terrorism

Following recent events, GUS has placed greater emphasis on the potential risks to it posed by acts of terrorism and other unpredictable catastrophic events. It continues to reassess its exposure to these risks and develop disaster recovery plans.

Acquisition strategy

A key element of its strategy is to pursue strategic acquisitions of companies that have products, services and technologies or industry specialisations that extend or complement GUS businesses. The process of integrating acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of the time and attention of management and our financial and other resources. We use both in-house expertise as well as that of professional advisors when undertaking such acquisitions.

Labour relations

Good relations with employees is essential to the efficiency and sustainability of its operations. This extends also to those employees of its suppliers and partners. GUS currently requires all suppliers to agree to comply with certain "best practice" guidelines developed by the Group with respect to employees and agents.

Business continuity

Plans to maintain business continuity in the event of potentially disruptive events are regularly updated and tested across the Group.

GUS: corporate responsibility

GUS recognises that society has expectations of large companies that are to do with taking proper responsibility for what they do. Failure to recognise and react to these 'ethical obligations' can lead to damaging public criticism, boycotts or other sanctions.

Those companies, however, that are quick to respond to shifts in social attitudes are often better placed to take advantage of new market opportunities. A company with a positive social reputation will also benefit from increased customer and employee loyalty, leading in turn to advocacy on its behalf from these important groups.

GUS' approach to Corporate Responsibility is to identify such risks and opportunities through an understanding of the social context of the Group's businesses. We realise that a large and complex group like GUS cannot satisfy every concern of individual stakeholders, so we prioritise our response based on the current and future significance of the issue to the business. Our current priorities are:

- labour, environmental and social practices in the Group's supply chain;
- providing a working environment that is conducive to the recruitment and retention of the widest possible range of talented staff;
- protection of consumer privacy and the proper handling and use of customer information;
- provision of a safe and healthy place of work;
- providing products of the appropriate quality, including responsible product sourcing and retailing, product safety and reliability;
- serving customers to their complete satisfaction;
- improving the Group's environmental performance, principally our use of energy, the impact of our transport fleet and our use of bulk materials such as paper and packaging; and
- developing strong community relationships in support of our business objectives.

Once we have identified an issue we ensure that accountabilities are defined, that we have a clear policy and that we are managing and measuring our progress. These issues are set out in our full Corporate Responsibility Report, which is published online at www.guscr.com.

Board of directors

Sir Victor Blank (63)
Chairman

Sir Victor Blank was educated at Stockport Grammar School and St Catherine's College, Oxford. He qualified as a solicitor with the law firm Clifford-Turner (now Clifford Chance), becoming a partner in 1969. In 1981, he moved into investment banking with Charterhouse, becoming Chairman and Chief Executive in 1985. He was a director of The Royal Bank of Scotland Group plc from 1985 to 1993. He joined the Board of GUS in 1993.

Sir Victor retired from investment banking in 1997, having become Deputy Chairman of GUS the previous year. He became Chairman of GUS in 2000 and was Chairman of Trinity Mirror plc until May 2006.

He became Deputy Chairman of Lloyds TSB in March 2006, becoming Chairman in May 2006.

Sir Victor is a member of the Financial Reporting Council and of the Council of Oxford University. He chairs two charities, WellBeing and UJS Hillel, as well as the Council of University College School.

Sir Victor is an Honorary Fellow of the Royal College of Obstetricians and Gynaecologists, an Honorary Fellow of St Catherine's College, Oxford, a Fellow of the Royal Society of Arts and Companion of the Institute of Management.

John Peace (57)
Group Chief Executive

John Peace joined the Board of GUS in 1997, becoming Group Chief Executive in January 2000. In June 2002, he was appointed Chairman of Burberry Group plc, in advance of its partial flotation by GUS in July 2002.

John Peace joined GUS in 1970 and held several senior IT management positions before co-founding CCN in 1980. This was the company formed by GUS to market information services to retailers and other lending organisations. In 1991, he was appointed Chief Executive of CCN, which was by then one of Europe's largest information services companies.

During the mid-nineties, CCN was combined with a number of other US and European businesses to form a global information services organisation called Experian, with John Peace as its Chief Executive worldwide.

John Peace is Chairman of the Board of Governors of Nottingham Trent University, a member of the President's Committee of the CBI and a Fellow of the Royal Society of Arts.

David Tyler (53)
Group Finance Director

David Tyler graduated from Cambridge University, where he read Economics, in 1974.

He spent the first 11 years of his career working for Unilever in a variety of financial, commercial and strategic jobs. In 1986 he joined County NatWest where he worked in senior financial control roles. He then worked for Christie's International from 1989 to 1996 as Finance Director and as President of Christie's America.

David Tyler has been Group Finance Director of GUS since February 1997. Aside from his financial role, he also has responsibility for the development of Group strategy. He is a non-executive director of Burberry Group plc.

He is a Fellow of the Chartered Institute of Management Accountants and a Member of the Association of Corporate Treasurers.

Andy Hornby (39)
Non-Executive Director

Andy graduated from Oxford University, with an MA in English, before joining the Boston Consulting Group where he spent three years working principally on media and retail projects. From there he went to Harvard Business School and obtained an MBA. On his return, Andy joined Blue Circle, where from 1993 to 1995 he was Business Development Director of Blue Circle Home Products. He moved from there to ASDA where he held a number of senior general management roles culminating in him becoming Managing Director of George, ASDA's clothing business.

In November 1999, Andy joined the board of Halifax as Chief Executive, Halifax Retail. Following the merger of Bank of Scotland and Halifax in September 2001, he became Chief Executive of the Retail Division of HBOS plc and on 1 July 2005 was appointed Chief Operating Officer for HBOS plc. From 1 August 2006, Andy will be Group Chief Executive of HBOS plc.

Andy joined the Board of GUS in January 2004.

Sir Alan Rudge (68)
Non-Executive Director

Sir Alan Rudge was Deputy Chief Executive of BT until November 1997 and Chairman of WS Atkins until March 2001. He joined the Board of GUS in 1997 and until March 2005 was President of CELTEL International BV and a non-executive director on the Board of SESA AG. He is currently Chairman of the ERA Foundation Ltd and Pro Chancellor of Surrey University. Sir Alan is the senior independent director of GUS.

Sir Alan has a PhD in Electrical Engineering and is a Fellow of the Royal Society and the Royal Academy of Engineering. He is a past President of the Institution of Electrical Engineers and past Chairman of the Engineering and Physical Sciences Research Council.

John Coombe (61)
Non-Executive Director

John Coombe was educated at Haberdashers' Aske's School in Elstree and City of London College. He qualified as a chartered accountant with Dixon Wilson & Co in 1969, before taking up the position of Management Accountant at BOC Ltd. He moved to the Charterhouse Group plc in 1973 and became Group Treasurer, before being appointed Finance Manager of Charter Consolidated plc in 1984.

In 1986, John Coombe joined Glaxo Holdings as Group Financial Controller and, in 1992, was appointed Finance Director. He continued in this role through Glaxo's transformational mergers with Welcome and SmithKline Beecham, becoming Chief Financial Officer of GlaxoSmithKline plc in 2000. He retired from GlaxoSmithKline in March 2005.

John Coombe joined the Board of GUS in April 2005. His other business appointments include member of the Supervisory Board of Siemens AG, non-executive director of HSBC Holdings plc, Chairman of Hogg Robinson plc and member of the Code Committee of the Panel on Takeovers and Mergers. Until 2003, he was a member of the UK Accounting Standards Board. He is also a trustee of the Royal Academy of Arts Trust, where he chairs the audit committee.

Terry Duddy (50)
Chief Executive, Argos Retail Group

Terry Duddy began his career at Letraset in 1978, initially in personnel management and later in product management. He joined the Dixons Stores Group in 1984, where he held various commercial positions, including Sales Director of Currys, Product Marketing Director of the Dixons Stores Group and, latterly, Managing Director of PC World.

Terry Duddy joined GUS in August 1998 as Chief Executive of the newly acquired Argos, becoming a director of GUS later that year. In 2000 he was appointed Chief Executive of the Argos Retail Group.

Don Robert (47)
Chief Executive Officer, Experian Group

Don Robert graduated from Oregon State University with a degree in Business Administration. He began his career with U.S. Bancorp, a multi-state bank holding company, where he held positions of increasing responsibility over 15 years. From there he joined Credco, Inc., the nation's largest specialist credit reporting company, as President. In 1995, Credco was acquired by First American Corporation and over the next six years Don Robert held positions as Executive Vice President of Mortgage Origination Services and President of First American's Consumer Information and Services Group.

In 2001, Don Robert joined Experian from First American, becoming Chief Executive Officer of Experian North America in December 2002. In February 2005, he took responsibility for Experian globally as Chief Executive Officer of Experian Group.

Don Robert joined the Board of GUS in April 2005. His other business appointments include director and compensation committee chairman of First Advantage Corporation, member of the Chapman University Board of Counselors and past Chairman of the Consumer Data Industry Association.

Frank Newman (64) (USA)
Non-Executive Director

Frank Newman, who joined the Board of GUS in 2001, is Chairman Emeritus of Bankers Trust Corporation, having served as its Chairman and Chief Executive Officer from 1995 to 1999. He now serves as Chairman of the Board of Directors and CEO of Shenzhen Development Bank.

Before joining Bankers Trust, Mr Newman was the Deputy Secretary of the United States Treasury Department. He served in the Treasury Department from early 1993 until late 1995. As Deputy Secretary, Mr Newman was the number two official and Chief Operating Officer of the department.

Previously, Mr Newman spent six years with BankAmerica Corporation, where he was Chief Financial Officer and Vice-Chairman of the Board. Prior to joining BankAmerica in 1986, he was Executive Vice President and Chief Financial Officer of Wells Fargo Bank.

Mr Newman is a director of Dow Jones & Company and Shenzhen Development Bank. He is a member of the advisory board of Renault and Nissan. He is also a board member of three public-purpose organisations: the Carnegie Hall Society, Cornell University Weill Medical College, and MDRC (public policy research).

Oliver Stocken (64)
Non-Executive Director

After qualifying with Arthur Andersen, Oliver Stocken became a director of NM Rothschild & Sons and subsequently Managing Director of Barclays Australia and of Barclays Merchant Bank in London.

At the inception of BZW Holdings in 1986 he was a member of the Board, becoming Chief Operating Officer in 1990 and later Finance Director. In May 1993 he became Group Finance Director, Barclays PLC, finishing this role in September 1999.

Oliver Stocken was appointed to the Board of GUS in April 2000 and chairs the Remuneration Committee. He is Deputy Chairman of 3i plc and a non-executive director of Standard Chartered plc, Pilkington plc, Rutland Trust plc and Stanhope plc.

Oliver Stocken is also Chairman of the Board of Trustees of the Natural History Museum; Council Member and Treasurer of the Royal College of Art; Treasurer and Member of the Committee of the MCC, and Trustee of the Henley River & Rowing Museum.

Secretary
Gordon Bentley

Auditors
PricewaterhouseCoopers LLP

Stockbrokers
JPMorgan Cazenove
Merrill Lynch

Solicitors
Linklaters
Berwin Leighton Paisner

Registered Office
One Stanhope Gate
London W1K 1AF
Company No.146575

Registrars and Transfer Office
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Corporate Governance Committee
Sir Victor Blank (Chairman)
John Peace
Sir Alan Rudge
Gordon Bentley

Audit Committee
John Coombe (Chairman)
Andy Hornby
Frank Newman
Sir Alan Rudge
Oliver Stocken

Remuneration Committee
Oliver Stocken (Chairman)
John Coombe
Andy Hornby
Frank Newman
Sir Alan Rudge

Nomination Committee
Sir Victor Blank (Chairman)
John Coombe
Andy Hornby
Frank Newman
John Peace
Sir Alan Rudge
Oliver Stocken

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2006.

Principal activities and business review

GUS is a retail and business services group. Its activities comprise general merchandise retailing through Argos Retail Group and information and customer relationship management services through Experian. A review of the results for the year and an indication of future developments appear on pages 4 to 27.

Research and development investment has been a high priority for the Group in driving growth, particularly in relation to product development at Experian as indicated in the Business Review on page 16. Research expenditure totalled £3.3m during the year (2005: £2m) and the amount charged to the Group income statement in the year was £3.3m (2005: £2m).

Profit and dividends

The Group income statement on page 54 shows a profit for the financial year of £595m (2005: £645m). The directors recommend the payment of a final dividend of 21.9p per ordinary share to be paid on 4 August 2006 to shareholders on the register on 7 July 2006. An interim dividend of 9.6p per ordinary share was paid on 3 February 2006 giving a total dividend for the year of 31.5p per new consolidated GUS ordinary share (2005: 29.5p per old GUS ordinary share). In addition, a distribution of the Group's shares in Burberry by dividend in specie was made to shareholders on 13 December 2005 (see page 69).

Directors

The names and biographical details of the directors are shown on pages 28 and 29. Particulars of directors' remuneration, service contracts and their interests in the shares of the Company are shown in the Report on directors' remuneration and related matters on pages 40 to 51. There were no changes in the directors' interests in shares between the end of the financial year and 24 May 2006 except for the exercise of 4,394 options under the Company's SAYE share option scheme by each of Sir Victor Blank, Terry Duddy, Oliver Stocken and David Tyler details of which are set out on page 47.

Don Robert and John Coombe joined the Board on 1 April 2005. Lady Patten retired from the Board on 31 January 2006.

The directors retiring by rotation at this year's Annual General Meeting are Sir Alan Rudge, Oliver Stocken and David Tyler who, each being eligible, offer themselves for re-election.

During the year, the Company maintained liability insurance and third party indemnification provisions for its directors and officers.

Corporate governance

The Company's statement on corporate governance is set out on pages 32 to 39.

Acquisitions and disposals

On 18 April 2005 the Group announced that Argos had agreed to buy 33 Index stores from Littlewoods Limited and this transaction completed in July 2005. The purchase price was £44m.

On 5 May 2005 the Group announced that Experian had acquired LowerMyBills.com, a leading online generator of mortgage and other loan application leads in the US. The purchase price was $330m, plus a maximum performance related earn-out of $50m over two years.

On 19 May 2005 the Group announced that it had successfully completed the offering of its remaining stake in Lewis Group, realising proceeds of £140m.

On 28 October 2005 the Group announced the disposal of Wehkamp, its home shopping business in the Netherlands. The business was sold for €320m and the sale was completed in January 2006.

On 13 December 2005 the Group successfully demerged its remaining 65% stake in Burberry to GUS shareholders. This was accompanied by a consolidation of GUS shares.

On 14 December 2005 the Group announced Experian had acquired PriceGrabber.com, a leading provider of online comparison shopping services in the US. The purchase price was $485 million.

The cash cost of other acquisitions, all of which were made by Experian, amounted to £359m. These included the acquisition of ClarityBlue, a leading provider in the UK of bespoke marketing database solutions for major companies (at a purchase price of £85m plus a maximum performance related earn-out of up to £15m over three years).

Substantial shareholdings

As at 24 May 2006, the Company had been notified of the following interests in the nominal value of its issued share capital:

	Nominal value of issued share capital £	Percentage of nominal value of issued share capital %
The Goldman Sachs Group Inc.	9,681,333	3.9
Legal & General Investment Management Limited	9,317,905	3.7
Barclays plc	8,211,655	3.3

Save for the above, no person has reported any material interest of 3 per cent or more or any non-material interest equal to or more than 10 per cent of the nominal value of the issued share capital of the Company.

Purchase of own shares

At last year's Annual General Meeting, authority was given for the Company to purchase, in the market, up to 99 million of its own shares, representing approximately 9.9 per cent of its issued Ordinary share capital. At an Extraordinary General Meeting held on 12 December 2005 a new authority was given for the Company to purchase, in the market, up to 85,140,000 of its own shares, representing approximately 9.89 per cent of the Company's expected issued Ordinary share capital after the share consolidation that accompanied the Burberry demerger.

The authority to make market purchases expires at this year's Annual General Meeting when shareholders will be asked to give a similar authority. Details are contained in the accompanying circular to shareholders.

The Company did not make any purchases of its own shares during the year under review.

Interests in own shares

Details of the Company's interests in its own shares are set out in note 30 to the financial statements on page 87.

Donations

The Group's support for charitable causes is mainly channelled through the work of the GUS Charitable Trust. The Trust's income from the Company in respect of the year ended 31 March 2006 was £1.1m (2005: £1.4m). In addition to cash contributions, the Group's employees are encouraged to give their time and skills for the benefit of a variety of charitable causes.

The Group made no political donations and incurred no items of political expenditure.

Employment of disabled persons

Disabled persons, whether registered or not, have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. In addition to complying with legislative requirements, procedures ensure that disabled employees are fairly treated and that their training and career development needs are carefully managed. For those employees becoming disabled during the course of their employment, the Group is supportive, whether through retraining or redeployment, so as to provide an opportunity for them to remain with the Group.

Employee involvement

The Group is intent on motivating and keeping staff informed on matters that concern them in the context of their employment and involve them through local consultative procedures. Where there are recognition agreements with trade unions, the consultation process is established through national and local trade union representatives and through joint consultation committees.

Information on matters of concern to employees and about the financial and economic factors affecting the Group's performance is also disseminated through management channels, conferences, meetings, publications and internet sites.

Schemes offering share options or the acquisition of shares are available for most employees. This encourages their contribution to the Group's performance.

Creditor payment

For all trade creditors, it is Group policy to:-

- Agree and confirm the terms of payment at the commencement of business with that supplier;
- Pay in accordance with any contract agreed with the supplier or as required by law; and
- Review continually the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationship.

Trade creditors of the Group at 31 March 2006 were 31 days (2005: 30 days) based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. The Company has no trade creditors.

Annual General Meeting

The 88th Annual General Meeting of the Company will be held at the Radisson SAS Portman Hotel, 22 Portman Square, London W1H 7BG at 11.30am on Wednesday, 19 July 2006. The Notice of Meeting is included in a separate circular to shareholders which accompanies this Annual Report. It is also available on the Company's website: www.gusplc.com.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

By Order of the Board

Gordon Bentley
Secretary
24 May 2006
Registered Office:
One Stanhope Gate
London
W1K 1AF

Corporate governance

Combined Code

The Board of GUS is responsible for the Group's system of corporate governance. The Board is committed to good governance and to maintaining the highest standards of integrity in all the Group's activities. This statement describes how the Company has applied the main and supporting principles set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council (the 'Code'). GUS complied throughout the year under review with the Code's provisions except for certain formal requirements in relation to the terms of reference of the Audit Committee which is explained later in this statement.

The Board

At the date of this report, the Board consists of a Chairman, a Group Chief Executive and eight other directors (three executive directors and five non-executive directors). The names and biographical details of the directors are shown on pages 28 and 29 of this report. In January 2006, Lady Patten retired from the Board.

The five non-executive directors are all determined by the Board to be independent in character and judgment and there are no relationships or circumstances which could affect, or appear to affect, a non-executive director's judgment. They are appointed for three-year renewable terms. Sir Alan Rudge is the senior independent director.

The Chairman and the non-executive directors meet, at least annually, as a group without the executive directors present. At the conclusion of such meetings, the Chairman withdraws so that, under the leadership of the senior independent director, the non-executive directors have the opportunity to discuss any appropriate issues and, at least annually, appraise the Chairman's performance, taking account of any views expressed by the executive directors.

The Chairman was appointed chairman of Lloyds TSB Group plc in May 2006 and has a number of pro bono appointments (see page 28). He retired as chairman and as a director of Trinity Mirror plc in May 2006. Prior to accepting appointment to the board of Lloyds TSB Group plc and nomination as chairman, the Chairman discussed the proposed appointment with the Nomination Committee. The Nomination Committee (chaired by the senior independent director) and the Board also discussed the proposed appointment without the Chairman being present and were satisfied that he would continue to be able to devote sufficient time to fulfil his role as Chairman of GUS and be available as needed to carry out his responsibilities to GUS.

The Board has six scheduled meetings each year and meets more frequently as required. It met on ten occasions during the year under review. One of these meetings took place at Experian in Nottingham and one meeting at the head office of Argos Retail Group (ARG) in Milton Keynes. The business conducted at the additional unscheduled meetings included finalisation of the terms of the Burberry demerger and GUS share consolidation and the formal approval of an acquisition by Experian and a divestment by ARG. It is inevitable that there will be occasions when circumstances arise to prevent directors from attending meetings. In such circumstances, the usual practice is for the absent director to review the Board papers and convey any views on specific issues to the Chairman. The time commitment expected of non-executive directors is not restricted to Board and Committee meetings. They are available for consultation on specific issues falling within their particular fields of expertise and additional time is spent visiting the Group's businesses and meeting informally with the Chairman and executive directors.

There is a formal schedule of matters specifically reserved to the Board for decision. The Board establishes overall Group strategy, approves the Group's operating budget and monitors performance through the receipt of monthly reports and management accounts.

The approval of acquisitions and divestments, for the most part, is a matter reserved for the Board save that it delegates to the Group Chief Executive the responsibility for such activities to a specified level of authority. There are authority levels covering capital expenditure which can be exercised by the Group Chief Executive or by the Chairman and Group Chief Executive jointly. Beyond these levels of authority, projects are referred to the Board for approval. Other matters reserved for the Board include:

- Approval of interim and annual financial statements.
- Approval of the Group's budget.
- Treasury policies.
- Internal controls and risk management.
- Succession planning.
- Corporate responsibility.

The division of responsibilities between the Chairman and the Group Chief Executive is clearly established, set out in writing and agreed by the Board. The Group Chief Executive is responsible for day to day management with the chief executives of ARG and Experian being responsible for the performance of each of these businesses respectively. The Chairman and the Company Secretary work closely together in planning a forward programme of Board meetings and establishing their agendas. For scheduled Board meetings, the agenda usually comprises reports from the Group Chief Executive, supported by reports from the chief executive of each of ARG and Experian and the Group Finance Director. The January meeting focuses on strategy, the March/April meeting deals with the approval of operating budgets for the coming financial year, while the May and November meetings cover the approval of preliminary and interim financial statements respectively. Members of senior management below Board level are often invited to make presentations to the Board and participate in certain aspects of the strategy review.

The Chairman ensures that the Board is supplied in a timely manner with information in a form and of a quality to enable it to discharge its duties. The practice is to have the agenda and supporting papers in directors' hands four clear days ahead of each meeting. Additional information is also provided to directors including monthly management accounts irrespective of whether or not a Board meeting is scheduled for that month. Arrangements are made for non-executive directors to visit the Group's businesses to see their operations at first hand and have the opportunity to discuss them with local management.

There is in place a procedure under which the directors, in furtherance of their duties, are able to take independent professional advice, if necessary, at the Company's expense. The Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to his advice and services.

All directors receive induction on joining the Board. A customised induction process is conducted for new directors taking into account their particular experience and background. This includes information on the Group and its activities, meetings with senior management and site visits. Additional training and updates on particular issues are arranged for directors as appropriate. During the year under review, briefings were provided on the new UK Listing, Disclosure and Prospectus Rules, changes in UK pensions legislation and UK Company Law reform legislation. The Company Secretary is responsible for advising the Board on all corporate governance matters, a responsibility he discharges in part through his membership of the Corporate Governance Committee.

A formal evaluation of the performance of the Board and its committees was conducted during the year under review. This process was carried out with the advice and assistance of an independent consultant using a questionnaire. The questionnaire was designed to enable directors to comment on the functioning of the Board and board processes, to assess strengths and weaknesses and to draw out views that may be helpful not only for the performance of the GUS Board but also its successors following the proposed demerger. The findings were discussed by the Board and used to consider opportunities for improvement. In addition, the Audit and Remuneration Committees conducted internal reviews of their effectiveness using a questionnaire. The responses to the questionnaires were reviewed and discussed by each Committee and, where areas for improvement were identified, actions have been agreed. Individual appraisals of directors have been undertaken by the Chairman. In the case of the Chairman, the appraisal was carried out by the senior independent director.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and, thereafter, in accordance with the Company's Articles of Association. This ensures compliance with the Code by providing that all directors are required to submit themselves for re-election at least once every three years. Sir Alan Rudge and Oliver Stocken retire by rotation this year. As indicated earlier, the non-executive directors are appointed for specified terms. Mr Stocken was appointed to the Board on 1 April 2000 and, accordingly, he has now completed two full three year terms of office. Following the performance evaluation and individual appraisal referred to earlier, the Chairman and the Board believe that Sir Alan Rudge and Oliver Stocken should be re-elected and confirm that the performance of each continues to be effective and to demonstrate commitment to the role.

The letters of appointment for non-executive directors, including the Chairman, are available for inspection by any person at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to the meeting and during the meeting).

Board Committees

The Board has appointed a number of committees including the following principal committees: Nomination Committee, Remuneration Committee, Audit Committee and Corporate Governance Committee. In January 2006, Oliver Stocken was appointed Chairman of the Remuneration Committee in succession to Lady Patten and John Coombe was appointed Chairman of the Audit Committee in succession to Oliver Stocken. In order to ensure that undue reliance is not placed on particular individuals, all independent non-executive directors serve on the Audit, Remuneration and Nomination Committees.

The attendance of directors at meetings of the Board and the principal Board Committees was as follows:

Board member	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Number of meetings during year	10	5	8	2	2
Sir Victor Blank (note 1)	10	–	–	2	2
Mr John Peace (note 1)	10	–	–	2	2
Mr John Coombe	10	5	8	2	–
Mr Terry Duddy	9	–	–	–	–
Mr Andy Hornby	9	5	8	2	–
Mr Frank Newman	9	3	4	1	–
Mr Don Robert	8	–	–	–	–
Sir Alan Rudge	9	4	6	2	2
Mr Oliver Stocken	9	5	8	2	–
Mr David Tyler (note 1)	10	–	–	–	–
Former director who served during the year					
Lady Patten (Note 2)	5	4	6	1	–

Notes:

1. Sir Victor Blank attended four out of five Audit Committee meetings and all Remuneration Committee meetings. John Peace attended all meetings of the Audit Committee and Remuneration Committee. David Tyler attended all meetings of the Audit Committee.
2. Lady Patten retired from the Board on 31 January 2006.

Nomination Committee

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. The members of the Nomination Committee are Sir Victor Blank (Chairman), the five non-executive directors and John Peace (Group Chief Executive). Membership of the Committee remained constant throughout the year under review save for the retirement of Lady Patten in January 2006. The Committee is chaired by the senior independent director on any matter concerning the chairmanship of the Company. The Company Secretary is the Secretary to the Committee.

The Nomination Committee has written terms of reference covering the authority delegated to it by the Board. These include the following duties: to review regularly the composition (including the skills, knowledge and experience required) of the Board and make recommendations to the Board with regard to any changes; to give full consideration to succession planning for directors and other senior executives; and to identify and nominate, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee's terms of reference are available on request and can be viewed on the Company's website at www.gusplc.com.

During the period under review the Nomination Committee had responsibility for nominating candidates for appointments to the boards of each of ARG and Experian after the proposed separation including candidates for the positions of Chairman, Chief Executive

Corporate governance continued

and Finance Director of each company. These nominations were subsequently approved by the GUS Board and announced on 28 March 2006.

Before nominating Oliver Stocken and John Peace as candidates for appointment as Chairman of ARG and Experian respectively, the Committee evaluated the balance of skills, knowledge and experience required for the roles. The Committee gave particular weight to the need, so far as practicable, to ensure stability and continuity for each of the businesses during the period of transition and the importance of ensuring that the successful candidates complemented the skills and experience of the respective Chief Executives. In the light of these considerations and the quality of internal candidates, these positions were not openly advertised and external search consultants were not instructed.

In the case of ARG, Oliver Stocken offered exceptional skills, knowledge and experience at Board level of a range of FTSE 100 companies and industries. This is complemented by his expertise as a former Chairman of the GUS Audit Committee and current Chairman of the GUS Remuneration Committee. The Committee was satisfied that Mr Stocken's other board appointments and commitments would not place constraints on his ability to fulfil properly the role of Chairman of ARG.

In the case of Experian, the Committee considered that John Peace, with his unrivalled experience of the growth of Experian's businesses and markets, was an outstanding candidate. There was the need for the Chairman to have the capacity to address strategically the significant development potential of Experian and the ability to develop the new company's corporate character and its values during a period of transition. The Chairman also needed to have a close working relationship with Experian's Chief Executive and its experienced global management team. The appointment of Mr Peace does not meet fully the independence criteria set out in the Code but the Committee was strongly of the opinion that his appointment was in the best interests of the new company and its shareholders. The Committee also recognised the importance of a strong and experienced senior independent director. The Committee considered that Sir Alan Rudge has the necessary skills and experience to complement John Peace and Don Robert in their roles of Chairman and Chief Executive.

The nominations of Terry Duddy as Chief Executive of ARG and Don Robert as Chief Executive of Experian were made unanimously by the Committee following the recommendation of the GUS Chairman and Group Chief Executive. Mr Duddy and Mr Robert currently serve on the Board of GUS, have extensive knowledge and experience of their respective businesses and have demonstrated their exceptional skills and leadership in their current roles. In the case of the nominations of Richard Ashton as Finance Director of ARG and Paul Brooks as Finance Director of Experian, recommendations were made to the Committee by the GUS Chairman and Group Chief Executive. Mr Ashton joined ARG as Finance Director in October 2001. Mr Brooks joined Experian in April 1999 and, since 2001, has been Experian's Global Chief Financial Officer.

In nominating John Coombe and Andy Hornby for appointment to the Board of ARG and Sir Alan Rudge and David Tyler to the Board of Experian, all as non-executive directors, the Committee considered that these individuals offered significant knowledge and experience and an important element of continuity to ARG and Experian respectively that would be invaluable during the period of transition. The Nomination Committee was particularly pleased that David Tyler indicated his willingness to be considered for appointment as a non-executive director of Experian. In his current role over the last nine years he has exercised strong independent oversight over a range of diverse businesses and demonstrated outstanding financial skills and independence of mind in contributing to the Board.

Remuneration Committee

The Remuneration Committee comprises the five independent non-executive directors: Oliver Stocken (Chairman), John Coombe, Andy Hornby, Frank Newman and Sir Alan Rudge. The Chairman and Group Chief Executive are invited to attend Committee meetings and each attended all Committee meetings in the year under review. Lady Patten was also a member of the Committee until her retirement from the Board on 31 January 2006. The application of corporate governance principles in relation to directors' remuneration is described in the report on directors' remuneration and related matters on pages 40 to 51.

Audit Committee

The Audit Committee comprises five non-executive directors: John Coombe (Chairman), Andy Hornby, Frank Newman, Sir Alan Rudge and Oliver Stocken. Lady Patten was also a member of the Committee until her retirement from the Board on 31 January 2006. The Committee has at least two members possessing what the Code describes as recent and relevant financial experience. John Coombe, a chartered accountant, was chief financial officer of GlaxoSmithKline plc prior to joining the Board and the Audit Committee. Oliver Stocken, a chartered accountant, was group finance director of Barclays PLC between 1993 and 1999 and was Chairman of the Audit Committee from July 2000 until December 2005. The other members of the Committee offer a wide range of experience from positions at the highest level both in the UK and the US (the directors' biographical details appear on pages 28 and 29).The Chairman, Group Chief Executive and Group Finance Director are normally expected to attend Committee meetings and each attended all meetings in the year under review except for one meeting in the case of the Chairman.

The main role and responsibilities of the Committee are set out in written terms of reference which are reviewed annually. They are available on request and can be viewed at the Company's website at www.gusplc.com. As reported last year, during 2005 the Committee's terms of reference were amended to formally reflect that in reporting to the Board, the Committee identifies any matters in respect of which it considers that action or improvement is needed and makes recommendations as to the steps to be taken; and in monitoring and reviewing the effectiveness of the audit process, the Committee takes into consideration relevant UK professional and regulatory requirements.

The Committee's principal oversight responsibilities cover internal control and risk management, internal audit, external audit (including auditor independence) and financial reporting.

The Committee normally meets at least four times a year and met five times during the year under review (including a risk management presentation during a Board visit to Experian in Nottingham). The external auditors, the Group Head of Risk Assurance and the Heads of Internal Audit of ARG and Experian generally attend Audit Committee meetings. In addition, the Committee meets the external auditors without management present.

The Audit Committee has a structured programme linked to the Group's financial calendar. During the year under review, the Committee undertook the following activities:

— Reviewed the Preliminary Announcement/Annual Report and Financial Statements and the Interim Announcement and considered reports from the external auditors identifying any accounting or judgmental issues requiring its attention;

— Reviewed the statement in the Annual Report on the system of internal control;

— Reviewed and approved audit plans for the external and internal auditors;

- Considered quarterly reports from the Group Head of Risk Assurance and Heads of Internal Audit of ARG and Experian on the results of internal audit reviews, significant findings, management audit plans and timeliness of resolution;
- Reviewed reports on the Group's risk management process and risk profile;
- Reviewed, at each scheduled meeting, a report on any material litigation involving Group companies;
- Reviewed presentations on risk and its identification, management and control in ARG and Experian with senior management from these businesses;
- Reviewed arrangements by which Group employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

One of the primary responsibilities of the Audit Committee is to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors. A number of factors were taken into account by the Committee in assessing whether to recommend the external auditors for re-appointment. These included:

- The quality of reports provided to the Audit Committee and the Board and the quality of advice given;
- The level of understanding demonstrated of the Group's businesses and its sectors;
- The objectivity of the external auditors' views on the controls around the Group and their ability to co-ordinate a global audit working to tight deadlines.

During the year under review, the Committee assessed the effectiveness of the external audit process covering all aspects of the audit service provided by the Company's external auditors. The Committee also reviewed a report on the external auditors' own quality control procedures.

The Committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides. Non-audit fees paid to the Company's auditors, PricewaterhouseCoopers LLP, in respect of the year under review exceeded the audit fee and included fees relating to acquisitions, the Burberry demerger and GUS share consolidation and preparatory work in connection with the proposed demerger of ARG and Experian. The Committee has established control processes to safeguard the objectivity and independence of the external auditors and to ensure that the independence of the audit work undertaken by the external auditors is not compromised.

The Committee has established a policy covering the type of non-audit work that can be assigned to the external auditors. The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance. These services are:

- Further assurance services - where the external auditors' deep knowledge of the Group's affairs means that they may be best placed to carry out such work. This may include, but is not restricted to, shareholder and other circulars, regulatory reports and work in connection with acquisitions and divestments.
- Taxation services - where the external auditors' knowledge of the Group's affairs may provide significant advantages which other parties would not have. Where this is not the case, the work is put out to tender.
- General - in other circumstances, the external auditors may provide services, provided that proposed assignments are put out to tender and decisions to award work are taken on the basis of demonstrable competence and cost effectiveness.

  However, certain areas of work are specifically prohibited including work related to accounting records and financial statements that will ultimately be subject to external audit and management of, or significant involvement in, internal audit services.

The Audit Committee Chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out in the policy.

The Committee receives half-yearly reports providing details of assignments and related fees carried out by the external auditors in addition to their normal work. Fees in respect of such assignments carried out in the year under review were:

	£m
Further assurance services	4
Taxation services	3

Corporate Governance Committee

To assist in its monitoring of corporate governance issues, the Board has established a Corporate Governance Committee with written terms of reference covering the authority delegated by the Board. These include keeping under review all legislative, regulatory and corporate governance developments that might affect the Company's operations and making recommendations to the Board in relation to them. The members of the Corporate Governance Committee are Sir Victor Blank, John Peace, Sir Alan Rudge and Gordon Bentley, the Company Secretary. The Committee met on two occasions during the year under review.

Accountability and Audit

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board reviews annually the effectiveness of the key procedures which have been established to provide internal control and has done so in respect of the year under review.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group including those risks relating to social, environmental and ethical matters. This process was in place throughout the year under review and up to the date of approval of the Annual Report and meets the requirements of the guidance entitled "Internal Control: Guidance for Directors on the Combined Code" issued by the Institute of Chartered Accountants in England and Wales in 1999. The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board.

The key procedures, which operated throughout the year, were as follows:

Risk assessment:

- The Group set out its objectives clearly as part of its medium term planning process. These objectives were then incorporated as part of the budgeting and planning cycle and supported by the use of both financial and non-financial key performance indicators.
- Senior management from ARG and Experian made presentations on risk to the Audit Committee which reported regularly to the Board on the risks facing the Group's businesses.

Corporate governance continued

- The detailed assessment of strategic risks is delegated to the Group Chief Executive. His review was carried out as part of the annual budgeting and the monthly reporting and re-forecasting cycles.
- The Audit Committee has delegated responsibility from the Board for considering operational, financial and compliance risks on a regular basis and received its annual report on the controls over these risks. This included risks arising from social, environmental and ethical matters.

Control environment and control activities:

- The Group consists of two major trading divisions, ARG and Experian each with its own management and control structures.
- The Group has established procedures for delegated authority which ensure that decisions that are significant, either because of the value or the impact on other parts of the Group, are taken at an appropriate level.
- The Group has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include internal controls, insurance and specialised treasury instruments.
- The Group sets out principles, policies and standards to be adhered to by ARG and Experian. These include risk identification, management and reporting standards, ethical principles and practice, accounting policy, treasury policy and policy on fraud and whistleblowing. The divisions operate within this framework under their own policies and procedures laid down in organisation and authority manuals.

Information and communication:

- The Group has a comprehensive system of budgetary control including monthly performance reviews for each major business. These reviews are at a detailed level within ARG and Experian and at a high level for the Board.
- On a monthly basis, the achievement of business objectives, both financial and non-financial, was assessed using a range of performance indicators. These indicators were regularly reviewed to ensure that they remain relevant and reliable.
- The Group had whistleblowing procedures in place for employees to report suspected improprieties.

Monitoring:

- A range of procedures was used to monitor the effective application of internal control in the Group, including management assurance through confirmation of compliance with standards, and independent assurance through internal audit reviews and review by specialist third parties.
- The internal audit department's responsibilities include reporting to the Audit Committee on the effectiveness of internal control systems focusing on those areas considered to be of greatest risk to the Group.
- Follow-up processes were used to ensure there was an appropriate response to changes and developments in risks and the control environment.

Relations with institutional shareholders

The Company recognises the importance of communicating with its shareholders and does this through its Annual and Interim Reports, at the Annual General Meeting and through the processes described below.

Although most shareholder contact is with the Group Chief Executive and the Group Finance Director, supported by management specialising in investor relations, it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue with shareholders takes place.

At each of its scheduled Board meetings, the Board reviews a summary report of all important or relevant issues raised by shareholders during the course of meetings and discussions with them. Additionally, the Board (and in particular, the non-executive directors) obtains an independent insight into the views of major shareholders by annually commissioning research from a third party adviser across a balanced sample of GUS shareholders. The latter typically control some 20 to 30 per cent of the Company's issued share capital. The findings of the research are presented to the Board by the third party adviser.

Through these processes, the Board is kept abreast of key issues. There is also a direct line of communication to the Chairman available to shareholders particularly if there are issues of concern, whether about performance, strategy or governance. During the year, the Chairman wrote to the company's largest shareholders emphasising the importance the Board attaches to open communication and confirming his availability to meet with them. The Chairman also confirmed the availability of Sir Alan Rudge, as senior independent director, should shareholders have concerns which contact through the normal channels of the Chairman, the Group Chief Executive and the Group Finance Director had failed to resolve or for which such contact was inappropriate. Shareholders were also offered the opportunity to meet the Company's non-executive directors.

Shareholders who do not support a particular AGM resolution do not always seek engagement with the Company to explain their actions or request further information. The Company is keen to understand their reasons for the lack of support and to have a dialogue with shareholders on these issues. Its policy, therefore, insofar as is practicable, is to seek engagement with shareholders on such issues.

Directors, including the Chairmen of the Audit and Remuneration Committees, attend the Annual General Meeting and are available to answer shareholders' questions. Voting at the Annual General Meeting is by way of a show of hands by members present at the meeting unless a poll is validly called. Following each vote on a show of hands, unless a poll is validly called, the level of proxies lodged on each resolution, the balance for and against the resolution and the number of abstentions is displayed. The results of voting at the Annual General Meeting are also added to the Company's website as soon as possible after each meeting.

Corporate Responsibility

At GUS we have interpreted Corporate Responsibility (CR) to mean taking due regard of society's expectations of large companies: expectations which seem to be for steadily higher standards of conduct and for the Company to take increased responsibility for the direct and indirect effects of its operations. Our understanding can be set out as follows:

- The principal duty of the Group is to maximise return to its shareholders but it must do so in a manner consistent with legal and ethical norms in the societies that it operates within. These norms lead to a set of explicit and implicit ethical obligations for the Company.
- Failure to recognise appropriate ethical obligations can lead to sanctions against the Company that will damage its performance or assets. This is not judged to be in the interests of shareholders.
- Companies that are quick to respond to shifts in social attitudes are often better placed to take advantage of new markets and opportunities as they arise. A company with a positive social reputation will also benefit from increased customer and employee loyalty, leading in turn to advocacy on its behalf from these important groups.

— An important element of the management of CR is therefore its identification of risks and opportunities arising from a more holistic understanding of the social context of the Group's businesses than might otherwise have been the case.

— A large and complex group like the GUS Group cannot satisfy every individual stakeholder on every one of their concerns. Therefore, GUS seeks to prioritise its response based on the current and likely future significance of the issue to the business.

We therefore concentrate on ensuring compliance with the explicit norms (regulations, laws etc), but also include implicit norms and the possible sanctions into our management of risk, and constantly scan the horizon for significant changes. This strategy is illustrated in the diagram below:

GUS has identified eight significant corporate responsibilities as its priorities: social and environmental topics that significantly affect our business. These have been compared against the conclusions of other commentators and stakeholders to ensure consistency with wider opinion.

To meet these responsibilities, GUS has set out a number of CR principles - broad statements of intent encapsulating our philosophy on CR. These are intended to underpin and provide direction for the group businesses

Supply chain

— Responsibility: Improving labour, environmental and social practices in the Group's supply chain.

— Statement of intent: We care about human rights in our own workplace and want to be sure that our suppliers and business partners demonstrate similar concern. We make these organisations aware of our requirements and take all reasonable steps to ensure they are met.

Employment practices

— Responsibility: Providing a working environment that is conducive to the recruitment and retention of the widest possible range of talented staff.

— Responsibility: Provision of a safe and healthy place of work.

— Statement of intent: We are committed to high standards of employment practice and wish to be recognised as a good employer. We aim to reward people fairly and to provide equality of opportunity, personal development and training, and a safe and healthy workplace.

Customers

— Responsibility: Protection of consumer privacy and the proper handling and use of customer information.

— Responsibility: Providing products of the appropriate quality, including responsible product sourcing and retailing, product safety and reliability.

— Responsibility: Serving customers to their complete satisfaction.

— Statement of intent: We believe we serve the best interests of our customers by recognising them as individuals. We are committed to responding to their needs, providing what they want, respecting their privacy and making every effort to earn their trust.

Environment

— Responsibility: Improving the Group's environmental performance, principally our use of energy, the impact of our transport fleet and our use of bulk materials such as paper and packaging.

— Statement of intent: In GUS, we do not handle toxic substances or manage industrial processes. Nevertheless, GUS is one of the largest companies in the UK and it has a responsibility to consider its impact upon the environment. We are committed to continuous improvement in our environmental performance, particularly through minimising waste, increasing energy efficiency and reducing our consumption of materials.

Community relations

— Responsibility: Developing strong community relationships in support of our business objectives.

— Statement of intent: We value our relationships with the community around us and believe that thriving businesses depend upon thriving communities. Our community programmes are therefore rooted in our business strategy and are an important management responsibility.

Managing our responsibilities

— Statement of intent: We are determined to stay abreast of society's expectations in social responsibility and to implement change enthusiastically. We will listen hard to our stakeholders and report honestly on our actions and progress.

— Statement of intent: We know that we can learn from other companies, as well as from the many examples of good practice within our own organisation. We will benchmark our performance, both externally and internally, using quantifiable performance indicators.

— Statement of intent: We believe that good corporate citizenship ultimately resides in the hearts and minds of our people. Our aim is to ensure that these wider social responsibilities influence the way we manage, reward and develop our people in order to become part of our culture.

As far as possible, GUS seeks to integrate the understanding and control of these issues in its mainstream business practice. The Group has a number of policies, procedures and verification systems in place to underpin its management in this area. These are described below, following the disclosure guidelines of the Association of British Insurers (ABI), which refer to social, ethical and environmental matters (SEE) in place of the term CR.

With regard to the Board

— The Board takes regular account of the significance of social, environmental and ethical matters to the businesses of the Company. The responsibility for such matters lies with the

Corporate governance continued

Company Secretary who ensures that they feature regularly on the Board's agenda. The Corporate Governance Committee also keeps under review the Group's policies in relation to CR and external stakeholders' views on CR issues. The Company Secretary is supported in this work by a CR group which meets under his chairmanship and which draws on staff with relevant expertise from across all of the Group's businesses. It includes experts in communication, risk management, internal audit, community affairs, consumer rights and the environment. It is supported by external advisers.

— There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process includes the identification and assessment of the significant risks to the Company's short and long term value arising from SEE matters, as well as the opportunities to enhance value that may arise from an appropriate response.

— The Board receives adequate information to make this assessment and, in this context, reference should be made to the key procedures described earlier in the section on accountability and audit. Account is taken of SEE matters in any training programmes deemed appropriate on the appointment of new directors.

With regard to policies, procedures and verification

— The Board has identified supply chain issues as an area of potential risk that might significantly affect the Company's short and long term value. GUS has substantial buying power, giving it some degree of responsibility for the actions of the suppliers with which it deals. GUS takes seriously its own social responsibility and seeks to guard against the risk to its reputation through a potential association with undesirable practices. To this end, the Board has approved a set of Principles that merchandise suppliers and business partners are asked to endorse. These are set out in more detail in the separately published CR Report. Third party audit programmes are now in place in ARG, with merchandise suppliers and business partners being selected for audit based on risk and significance to the business. The Experian supply base presents, in general, a much lower risk of social and labour concerns.

— The Group has a range of policies and procedures covering the other CR issues identified above which are described in the separately published CR Report.

— The Company's policies and procedures for managing risks to short and long term value arising from SEE matters are as described earlier in the section on accountability and audit.

— An important aspect of the Company's SEE procedures is that they should be subject to verification. Internal audits covering CR areas are undertaken on an annual basis, either directly sponsored by the CR Group or undertaken as part of the general audit assurance plan. In the year under review, the audits included data protection reviews, health and safety compliance, HR compliance, reviews of supplier sustainability and an audit covering the Waste Electrical and Electronic Equipment ("WEEE") legislation, as well as a number of audits aimed at providing assurance over our ability to serve customers to their complete satisfaction.

— External verification is provided by Acona, a CR consultancy practice. Partners from Acona advise GUS on matters relating to CR, including taking part in the CR group and CR reporting activity. Specifically with regard to CR reporting, Acona reviews data collection systems and examines the data for completeness and accuracy. It also verifies that all claims in the report can be supported by evidence. The conclusions from Acona's work are available in full in the separately published CR Report.

Performance highlights

A detailed review of the Group's performance against its principal CR responsibilities can be found in the CR Report, but important developments during the year under review included:

— Experian Employee Health (North America): Experian in North America is seeing the benefits of its HealthMatters programme which aims to improve employee health and also to help lower the company's overall health care costs. 78% of employees took the health assessment and most have signed up for health improvement programs. At December 2005, 326 employees had increased their exercise to at least three times per week, 94 employees had stopped using tobacco and 214 had reduced their weight to a healthy level.

— Experian's work on financial literacy (UK): Experian has continued its drive to help improve financial literacy. A new resource called 'Getting credit: A beginner's guide' has been developed in conjunction with the Basic Skills Agency to help teachers deliver numeracy and financial literacy content. A teacher's pack and set of lesson plans are available which follow a consumer choosing, applying for and managing credit. The pack was awarded the Personal Finance Education Group quality mark in March 2006.

— ARG community programme: Argos launched 'Tick to Give' - a customer fundraising scheme in support of its charity partner Help the Hospices. Argos customers are invited to tick a box on their product selection slips if they wish to make a donation to the charity. When the slip is taken to the till, 20p is added to the final total, which is then donated to the charity. In its first few months this very simple system has already raised £30,000, and seems likely to collect around £100,000 p.a.

— ARG supplier programme: The coverage of ARG's audit programme has continued to increase such that 72% of direct source vendors (by turnover) have been audited, many of them several times. ARG has worked with a number of suppliers during 2005/6 to offer detailed guidance on its Code of Practice: the company has produced a comprehensive guide for suppliers, illustrated with photographs intended to help the management of supplier companies understand how to improve. The guide has been translated into Mandarin Chinese and formed the basis of face to face presentations with 60 suppliers.

Community

GUS takes an active role in community activities, supporting charities and working directly with local projects:

— Taking part in these activities is popular with our staff - they feel that they are contributing to their communities and that the Company is supporting them in this. They are also able to learn new skills when working together.

— Developing stronger communities, either locally or nationally, has knock-on benefits for the business: It can make customers feel more predisposed towards GUS, it can create a better environment for commerce and trade and it can increase awareness of the Company, attracting a wider pool of high quality recruits.

— The resources of the Group can have a profound impact on charitable and community projects, through both direct giving and also through the in-kind contribution of the Group businesses.

As in previous years, the GUS community engagement programme in 2005/6 included two elements working together: the work of the GUS Charitable Trust and the activities planned and delivered through Experian and ARG. Many of the Group's most successful

projects have seen the cash contribution from the Trust being amplified by the in-kind support from the business, resulting in a gearing effect that doubles or triples the impact of the project.

The GUS Charitable Trust

The GUS Charitable Trust ("The Trust") is the principal channel for the Group's direct financial support to community projects. These donations are often supplemented by in-kind contributions from the Group's businesses such as the donation of goods, the supply of staff time or the provision of facilities.

The Trust, which is an independent registered charity, has three Trustees: Sir Victor Blank (Chairman), David Morris and Gordon Bentley.

It focuses on three areas:-

— Medical research.

— Work with children and the elderly.

— Education.

The Trust is also developing its support for environmental initiatives.

The Trust's income from GUS in respect of the year ended 31 March 2006 was £1.1m. In that year the Trust made awards totalling £1.0m. Major awards were as follows:

	£'000
PRIME – an ME CFS project	111
Kidscape	92
Prostate Cancer Charter for Action	75
Disabled Living Foundation	57
Wavemakers	50
Help the Hospices	50
Business in the Community Breakfast Club	50
ICAN	35
Staywise/Royal Berkshire Fire Authority	30
National Library for the Blind	26
Connection at St Martins	25
CHICKS	20
Community Links	20
National Association of Toy Libraries	20
	661

Socially Responsible Investment

During the last year, GUS has been included in a number of third-party benchmarks of CR activity. These results are not always consistent, but - taken together - they give an impression that GUS is typically found in the upper half, or upper quartile of most such rating systems. Many of these ratings are produced in connection with 'socially responsible investment' mechanisms, and the Group also listed in a number of 'best in class' indices, the two most notable of which are the Dow Jones Global Sustainability Index (DJGSI) and FTSE4Good.

Report on directors' remuneration and related matters

1. Remuneration Committee

1.1 Role

The Remuneration Committee is responsible for:

- determining the remuneration level and structure for executive directors and approving that of selected executives who report to the executive directors;
- communicating to shareholders on remuneration policy and the Committee's work on behalf of the Board;
- reviewing and recommending the design of the Company's share schemes.

The remuneration of non-executive directors and the Chairman is a matter reserved for the Board as a whole. No director is involved in any discussions as to his or her own remuneration.

The Remuneration Committee has written terms of reference which are available on request from the Company Secretary and are also published on the Company's website (www.gusplc.com).

1.2 Membership and meetings

The Remuneration Committee is a Board committee consisting exclusively of the following independent non-executive directors:

Lady Patten of Wincanton (Chairman until 31 December 2005)
Oliver Stocken (Chairman from 1 January 2006)
John Coombe
Andy Hornby
Frank Newman
Sir Alan Rudge

The Committee met on eight occasions during the year. Attendance at these meetings is set out in the corporate governance statement on page 33. Lady Patten retired from the Board on 31 January 2006.

1.3 Advisors

In making its decisions, the Committee consults with the Chairman, the Group Chief Executive and the Group Director of Human Resources who are invited to attend meetings of the Committee as and when appropriate.

The Committee also appointed Kepler Associates and Towers Perrin. Kepler advised on the following:

- executive remuneration matters;
- profit calibration for the setting of annual bonus targets; and
- review and confirmation of the total shareholder return of GUS plc and the comparator group companies for the 2002 Performance Share Plan, the performance cycle of which ended on 31 March 2005.

Towers Perrin advised on executive remuneration issues and provided salary survey data.

Other than the above remuneration advice, no other services were provided to the Company by Kepler Associates and Towers Perrin respectively.

In addition, the following advisors have been retained on behalf of the Company, and provide information to the Committee on relevant matters being considered by the Committee:

- Watson Wyatt – retirement benefits and pensions advice.
- Linklaters – legal services in respect of executive remuneration. They also provide corporate legal services to GUS plc.
- PricewaterhouseCoopers – tax services in respect of company share schemes. They also provide audit and tax services to GUS plc as disclosed in note 6 of the financial statements.
- Abacus – administrative support on various share schemes.

2. Remuneration policy

The Committee has reviewed the remuneration policy for executive directors in light of the future separation of the Group. The Committee has determined that the policy remains appropriate for the coming year. The long-term plans will continue to operate as before and awards will be rolled over, as appropriate. Policy for the years following separation will be a matter for the relevant remuneration committees.

2.1 Principles

The reward strategy aims to align executive director and senior management remuneration with shareholders' interests and to attract and retain the best talent for the benefit of the Group. The key principles are:

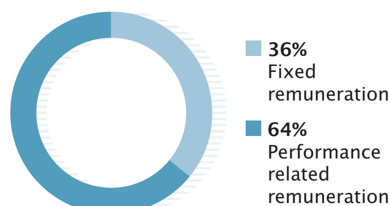
1. To provide competitive performance-related compensation which influences performance, and helps attract and retain executives by providing the opportunity to earn substantial rewards for outstanding performance.
2. To apply demanding performance conditions to deliver sustained profitable growth in all our businesses, thereby aligning incentives to shareholders' interests.
3. To provide a balanced portfolio of incentives – bonus, options and shares.
4. To pay market-competitive base salary levels but no higher than this.
5. To provide accountability and transparency.

Consistent with the strategy, salaries are set on the basis of mid-market practice amongst UK companies of comparable size. Performance-related incentives are targeted at upper quartile levels for outstanding performance to produce a highly leveraged package if our growth objectives are attained. The Company is committed to performance-related payments at all levels within the organisation.

2.2 Elements of remuneration

The remuneration package is weighted towards the performance-related elements. In fair value terms, the proportion of total pay (excluding pensions and benefits) which is variable is approximately 64 per cent, as illustrated below.

Fair value of executive director remuneration



The Remuneration Committee selects performance measures that align with the Company's strategic goals and that are transparent and clear to both directors and shareholders. Each element in the reward package is designed to support the achievement of different Company objectives, as illustrated below:

Element	Purpose	Performance measure
(a) Base salary	– Reflects the competitive salary level for the particular role. – Takes account of personal contribution, skill and performance.	– Individual contribution.
(b) Annual bonus	– Rewards the achievement of annual financial targets. – Provides opportunity to re-invest bonus in GUS shares with matching opportunities. – Aligns with shareholder interests through delivery in shares.	– Profit before tax together with efficient capital usage.
(c) Share options	– Direct link to growth objectives through EPS growth hurdle and to value creation through share price increase. – Aligns with shareholder interests.	– EPS growth measured over a continuous three-year period. – No longer a retest facility.
(d) Performance Share Plan	– Aligns with shareholder interests through delivery of shares. – Rewards out-performance compared to peers.	– Relative total shareholder return against tailored comparator group measured over a three-year period, subject to satisfactory overall financial performance.

Report on directors' remuneration and related matters continued

(a) Base salary and benefits

To ascertain the job's market value, external remuneration consultants annually review and provide data about market salary levels and advise the Remuneration Committee. Executive directors' salaries are benchmarked against a mid-market level of main board executive directors from the comparator companies in the FTSE 100 Index, currently defined as those ranked from FTSE11 – 40. Before making a final decision on individual salary awards, the Committee assesses each director's contribution to the business, to reflect individual performance and experience.

In addition to base salary, executive directors receive certain benefits in kind including a car or car allowance, private health cover and life assurance.

(b) Annual bonus

To reward annual performance, executive directors are eligible for an annual incentive with a target of 50 per cent of base salary and a maximum of 100 per cent of salary for substantially exceeding targets.

Directors are given the opportunity to defer receipt of their bonus and invest it in GUS shares under the Co-investment Plan. The number of shares acquired on behalf of the executive is matched on a sliding scale depending on the achievement against target for the relevant financial year and can be summarised as follows:

	Threshold	Target	Maximum
Bonus potential (% of base salary)	0%	50%	100%
Matching ratio	0*	1:1	2:1

*Between threshold and target the matching ratio rises from 0.25:1 to 1:1 on a straight line basis.

The release of these shares is deferred for three years including the deferred bonus. For matching shares awarded after 31 March 2004 and in subsequent years, dividends will be accrued. If an executive resigns during the three-year period he/she will forfeit the right to the matching shares and associated dividends. Matching shares awarded after 31 March 2006 are subject to compulsory rollover at the date of demerger.

Bonuses are currently awarded for achieving profit growth and meeting efficient capital usage targets. We believe that linking incentives to profit growth helps to reinforce our growth objectives. Targets are calibrated by Kepler Associates using benchmarks that reflect internal and external expectations. For 2007, these benchmarks will relate to ARG and Experian specifically as well as to GUS to ensure targets are appropriate throughout the year. Benchmarks include: broker earnings estimates; earnings estimates for competitors; straight-line profit growth consistent with median/upper quartile shareholder returns over the next three to five years; latest projections for the current year; budget; strategic plan; long-term financial goals, etc.

(c) Share options

The Executive Share Option Scheme (ESOS) is linked to share price providing a built-in performance driver for option holders and further aligns them with shareholders' interests. In addition, there is a performance test based on adjusted Earnings Per Share (EPS). This requires EPS compound annual growth to exceed compound annual retail price inflation by +4 per cent per annum over a continuous three-year period.

For options granted since January 2004 there is no retesting of the EPS performance condition. Unapproved options granted from May 2005 are subject to compulsory rollover at the date of demerger.

Subject to meeting the performance test, options vest three years after grant, and remain exercisable for seven years after vesting. No director may normally receive an option grant with a face value of more than one times salary in any one year. In exceptional circumstances the Remuneration Committee has discretion to grant up to two times salary.

(d) Performance Share Plan

The Performance Share Plan underpins the longer-term incentive structure by providing a share-based reward which is earned only when the Company out-performs its peers.

GUS' performance under this plan is assessed in terms of three-year total shareholder return in relation to the following group of peer companies:

Acxiom	Kingfisher	Reed Elsevier
Boots	Marks & Spencer	Reuters
DSG (formerly Dixons)	N. Brown	Signet
Equifax	Next	Tesco
Harte Hanks	Pinault Printemps Redoute	

None of the awards vest if GUS' total shareholder return (defined as share price movement plus reinvested dividends) is below the median return for the comparator group. Once GUS achieves median performance, 40 per cent of the award may vest, while 100 per cent of the award may be earned for an upper quartile return or better. This can be summarised as follows:

Position	% of performance shares that will vest
1	100
2	100
3	100
4	100
5	85
6	70
7	55
8 (median)	40
9 to 15	0

No awards will be released unless the Remuneration Committee is also satisfied with the Company's underlying financial performance over the relevant period.

The maximum grant normally available to directors is 100 per cent of salary, converted to shares at the price prevailing at the time the awards are made. In exceptional circumstances the Remuneration Committee has discretion to grant a higher amount. The awards vest, to the extent that the performance test is met, after three years. The majority of participants receive a grant of 50 per cent of salary.

During 2004, the Remuneration Committee decided to introduce dividend accrual on performance shares to strengthen alignment with shareholders. Consequently, performance shares awarded after 31 March 2004 accrue dividends. Performance shares awarded from May 2005 are subject to compulsory rollover at the date of demerger.

(e) Pensions

Pensions are offered in line with competitive practice. The retirement age for directors is 60 under arrangements which broadly provide a pension of two thirds of final salary, life assurance and ill health and dependants' pensions. Incentive payments (such as annual bonuses) are not pensionable.

Arrangements have been in place for a number of years to provide pension benefits to those UK executive directors affected by the Inland Revenue earnings cap. These are designed to provide pension benefits on salary in excess of the cap thereby placing those directors in broadly the same position as directors whose pension is unaffected by the cap.

The Finance Act 2004, together with the Pensions Act 2004, make major changes to the taxation and regulation of occupational pension schemes, and to the benefits which occupational pension schemes may provide. GUS has considered the implications of the new legislation for the provision of pensions to all of its employees and directors and has made a number of changes to its registered pension arrangements to take advantage of the new flexibility. The Company, with the agreement of the trustees of the schemes, has decided to retain a notional earnings cap for its existing and future employees, with the exception of new senior GUS and Experian executives who will be pensioned on full basic salary.

Report on directors' remuneration and related matters continued

The Company has put security in place for the unfunded pension entitlements of executives affected by the earnings cap, by establishing Secured Unfunded Retirement Benefits Schemes (SURBS) for each of GUS, Experian and ARG. Further details are provided under the disclosure of the arrangements for each director.

(f) Service contracts

All executive directors have rolling service contracts which can be terminated by the Company giving twelve months' notice. In the event of termination of the director's contract, any compensation payment is calculated in accordance with normal legal principles, including the application of mitigation to the extent appropriate in the circumstances of the case.

Further details of service contracts are outlined in Section 11.

(g) Impact of IFRS

Appropriate adjustments have been made, where relevant, to performance targets and tests under the Company's incentive plans to ensure consistency of treatment notwithstanding the transition from UK GAAP to IFRS reporting. These adjustments have been agreed by the Remuneration Committee and reviewed by the Company's auditors.

3. Non-executive directors' remuneration policy

The GUS policy on non-executive directors' remuneration is that:

- Remuneration should be in line with recognised best practice and sufficient to attract, motivate and retain high calibre non-executives.
- Remuneration should be set by reference to the responsibilities undertaken by the non-executives.
- Remuneration should be a combination of cash fees (paid monthly) and GUS shares (bought annually in July).
- Non-executive directors are obliged to retain shares awarded until their retirement from the Board. Any tax liability connected to these arrangements is the responsibility of the individual director.
- Non-executive directors should not receive share options from the Company.
- Non-executive directors do not receive any benefits in kind, with the exception of the Chairman who has the use of a Company Car.

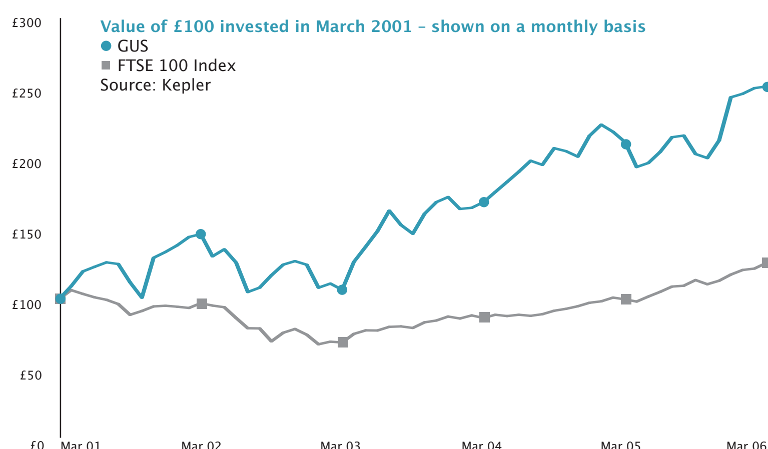
The fees of non-executive directors are normally reviewed every two years with effect from 1 July. Fees are reviewed in the light of market practice in FTSE 100 companies and anticipated number of days worked, tasks and responsibilities. Following the 2004 review, remuneration is as follows:

	Cash £	Number of shares
Chairman	267,000	15,000*
Non-executive director base fee	35,000	2,500
Senior non-executive director	10,000	–
Chairman of audit/remuneration committee	10,000	1,500

*18,000 shares with effect from July 2005.

4. Performance graph

The directors have chosen to illustrate the total shareholder return ('TSR') for GUS plc against the FTSE 100 Index for the last five financial years. In the opinion of the directors, the FTSE 100 Index is the most appropriate index against which TSR should be measured, as it is a widely used and understood index of leading UK companies.



The information set out in sections 5 to 9 below has been subject to audit.

5. Directors' emoluments

The following table shows an analysis of the emoluments of the individual directors for the year ended 31 March 2006.

	Salary and Fees £'000	Annual bonus £'000	Taxable benefits £'000	Total 2006 £'000	Total 2005 £'000
Executive directors					
Terry Duddy	710	305	25	1,040	1,364
John Peace (Note 1)	805	346	30	1,181	1,550
Don Robert (Notes 1 and 2)	$1,165	$1,165	$63	$2,393	–
David Tyler (Note 1)	500	215	20	735	959
Non-executive directors					
Sir Victor Blank (Note 3)	164	–	33	197	416
John Coombe (Note 4)	60	–	–	60	–
Andy Hornby	58	–	–	58	55
Frank Newman	58	–	–	58	55
Sir Alan Rudge	68	–	–	68	65
Oliver Stocken	81	–	–	81	77
Lady Patten of Wincanton (Note 5)	74	–	–	74	77
	3,229	1,517	143	4,889	4,618

The following shares were purchased for the non-executive directors on 21 July 2005. The value reported below is included within the remuneration reported in the above table:

	Number of shares	Value £
Sir Victor Blank	18,000	163,680
John Coombe	2,500	22,734
Andy Hornby	2,500	22,734
Frank Newman	2,500	22,734
Lady Patten of Wincanton	4,000	36,374
Sir Alan Rudge	2,500	22,734
Oliver Stocken	4,000	36,374

Notes

1. During the year under review, John Peace served as non-executive Chairman and David Tyler as a non-executive director on the board of Burberry Group plc, a listed company in which GUS retained approximately 65 per cent of the issued share capital until 13 December 2005. David Tyler served as a non-executive director until his resignation on 5 August 2005 on the board of Lewis Group Limited, a company listed in South Africa in which GUS retained approximately 54 per cent of the issued share capital until May 2005. Neither executive received any additional remuneration for such services. Don Robert served as a non-executive director of First Advantage Corporation for which he received fees of US$43,000.
2. Don Robert was appointed to the Board on 1 April 2005. Remuneration for Don Robert is reported in US Dollars as he is on the US payroll. Amounts have been converted to Sterling at the average rate for the year.
3. Sir Victor Blank received his cash remuneration (an additional £267,000) in the form of a company contribution to his defined contribution pension arrangement (see Section 10).
4. John Coombe was appointed to the Board on 1 April 2005.
5. Lady Patten of Wincanton left the Board on 31 January 2006.

Report on directors' remuneration and related matters continued

6. Share options

In May 2005, executive directors received an option grant with a face value of one times salary under the Company's executive share option schemes.

Details of options granted to executive directors, under the Company's executive share option schemes, are set out in the table below:

	Number of options at 1 April 2005 or date of appointment	Options granted during the year	Options exercised during the year	Exercise price	Share price on date of exercise	Date from which exercisable	Expiry date	Total number of options 31 March 2006
Terry Duddy								
11.06.01	150,155	–	–	612.7p		11.06.04	10.06.11	
06.06.02	80,398	–	–	653.0p		06.06.05	05.06.12	
19.06.03	85,862	–	–	675.5p		19.06.06	18.06.13	
01.06.04	82,797	–	–	809.2p		01.06.07	31.05.14	
31.05.05	–	82,702	–	858.5p		31.05.08	30.05.15	
								481,914
John Peace								
11.06.01	195,854	–	–	612.7p		11.06.04	10.06.11	
06.06.02	99,540	–	–	653.0p		06.06.05	05.06.12	
19.06.03	103,626	–	–	675.5p		19.06.06	18.06.13	
01.06.04	93,919	–	–	809.2p		01.06.07	31.05.14	
31.05.05	–	93,768	–	858.5p		31.05.08	30.05.15	
								586,707
Don Robert (Note 1)								
06.06.02	173,151	–	173,151	653.0p	921.5p	06.06.03	05.06.08	
19.06.03	145,196	–	–	675.5p		19.06.04	18.06.09	
01.06.04	134,890	–	–	809.2p		01.06.05	31.05.10	
31.05.05	–	74,334	–	858.5p		31.05.08	30.05.15	
								354,420
David Tyler								
06.06.02	58,192	–	–	653.0p		06.06.05	05.06.12	
19.06.03	62,176	–	–	675.5p		19.06.06	18.06.13	
01.06.04	58,082	–	–	809.2p		01.06.07	31.05.14	
31.05.05	–	58,241	–	858.5p		31.05.08	30.05.15	
								236,691

Notes

1. Options granted to Don Robert prior to his date of appointment to the Board in April 2005 were granted under the North America Stock Option Plan. The 2005 grant was made under the UK Executive Share Option Scheme. Don Robert exercised 173,151 options during the year when the share price was 921.5p and made a total gain of £464,910.

The exercise prices represent the average of the middle market quotations of a GUS share as derived from the Daily Official List of The London Stock Exchange for the three immediately preceding dealing days to the date on which options were granted.

The market price of the shares at the end of the financial year was 1055p; the highest and lowest prices during the financial year were 1128p and 827p respectively.

Full details of directors' shareholdings and options to subscribe are contained in the Company's Register of Directors' Interests.

SAYE share option scheme

Details of awards outstanding to directors under the Company's SAYE share option scheme are as follows:

	Number of options at 1 April 2005	Options exercised during the year	Number of options at 31 March 2006	Exercise price	Date from which exercisable	Expiry date
Sir Victor Blank	4,394	–	4,394	384p	01.05.06	31.10.06
Terry Duddy	4,394	–	4,394	384p	01.05.06	31.10.06
John Peace	4,394	–	4,394	384p	01.05.06	31.10.06
Oliver Stocken	4,394	–	4,394	384p	01.05.06	31.10.06
David Tyler	4,394	–	4,394	384p	01.05.06	31.10.06

As previously reported, a number of non-executive directors received, in 2001, invitations to participate in the Company's SAYE share option scheme. This was a 'one-off' arrangement.

On 2 May 2006, Sir Victor Blank, Terry Duddy, Oliver Stocken and David Tyler each exercised 4,394 options at an option price of 384p under the 2001 Scheme resulting in a gain of £28,517 each. The GUS share price on the date of exercise was 1033p. Sir Victor Blank and Oliver Stocken were responsible for paying tax on the gain.

7. Performance Share Plan

In May 2005, executive directors received a share award with a face value of one times salary.

Details of awards made to directors under the Performance Share Plan are as follows:

	Plan shares awarded at 31 March 2005	Plan shares awarded during the year to 31 March 2006	Plan shares released during the year to 31 March 2006	Share price on date of award	Share price on date of release	Vesting date	Total plan shares held at 31 March 2006
Terry Duddy							
06.06.02	80,398	–	80,398	653.0p	853.1p	June 2005	
19.06.03	85,862	–	–	675.5p		June 2006	
01.06.04	82,797	–	–	809.2p		June 2007	
31.05.05	–	82,702	–	858.5p		May 2008	
							251,361
John Peace							
06.06.02	99,540	–	99,540	653.0p	853.1p	June 2005	
19.06.03	103,626	–	–	675.5p		June 2006	
01.06.04	93,919	–	–	809.2p		June 2007	
31.05.05	–	93,768	–	858.5p		May 2008	
							291,313
Don Robert							
19.06.03	26,619		–	675.5p		June 2006	
01.06.04	22,481		–	809.2p		June 2007	
31.05.05	–	74,334	–	858.5p		May 2008	
							123,434
David Tyler							
06.06.02	58,192	–	58,192	653.0p	853.1p	June 2005	
19.06.03	62,176	–	–	675.5p		June 2006	
01.06.04	58,082	–	–	809.2p		June 2007	
31.05.05	–	58,241	–	858.5p		May 2008	
							178,499

Report on directors' remuneration and related matters continued

8. Co-investment plan

As explained in note 2.2 (b) on page 42, directors are given the opportunity to defer receipt of their annual bonus and have it invested in GUS shares ('invested shares'). For the year ending 31 March 2005, John Peace, Terry Duddy and David Tyler received a bonus of 100 per cent of base salary and chose to invest the whole of their 'net' bonus. Don Robert received a bonus of 100 per cent of base salary and chose to invest the whole of his bonus. The invested shares so purchased on their behalf are included in the table below and also in the table of directors' interests appearing on page 51. The related matching shares under these arrangements are also shown in the table below. They are not released until the expiry of a three-year period and the right to the matching shares is forfeited if a director resigns before then.

	Invested shares (Note 3)	Matching shares	Invested and Matching Shares released during year to 31 March 2006	Share price on date of release	Vesting date
Terry Duddy (see Notes 1 & 2)					
17.06.02			187,273	882.5p	June 2005
20.06.03	40,132	158,193			June 2006
11.06.04	37,961	209,008			June 2007
13.06.05	38,888	153,285			June 2008
John Peace (see Note 1)					
17.06.02			244,270	882.5p	June 2005
20.06.03	49,689	195,858			June 2006
11.06.04	42,178	166,256			June 2007
13.06.05	44,111	173,875			June 2008
Don Robert					
20.06.03	36,257	56,191			June 2006
11.06.04	78,512	157,024			June 2007
13.06.05	83,109	166,219			June 2008
David Tyler (see Note 1)					
17.06.02			142,490	882.5p	June 2005
20.06.03	29,049	114,501			June 2006
11.06.04	25,307	99,754			June 2007
13.06.05	27,279	107,528			June 2008

Notes

1. Invested shares for Terry Duddy, John Peace and David Tyler are purchased with the bonus net of tax. The matching share awards are made on a gross basis and are taxed at the point of vesting.
2. As previously disclosed, the Remuneration Committee agreed to grant in June 2004 an extra number of matching shares to Terry Duddy to the value of £500,000 as a one-off award. The additional shares are included in the total number disclosed above.
3. As a result of the demerger of Burberry, UK based Co-Investment Participants were entitled to receive the special dividend of Burberry shares in respect of their Invested Shares. Participants were able to dispose of their Burberry shares, without affecting their Matching Shares. The above figures reflect the adjustment to the number of Invested Shares following the demerger and share consolidation.

9. GUS plc ESOP Trust

As at 31 March 2006, the executive directors are, together with other employees of the GUS group, discretionary beneficiaries under the GUS plc ESOP Trust and, as such, each director is deemed to be interested in 10,463,212 ordinary shares in GUS held by the trustee of the Trust.

10. Retirement benefits

In lieu of Sir Victor Blank's cash remuneration of £267,000, an equivalent amount was paid in the form of a pension contribution into a defined contribution Executive Pension Plan during 2006.

Terry Duddy is a member of the Argos Pension Scheme which will provide him on retirement at age 60 with a pension of up to two thirds of the pension earnings cap, subject to Inland Revenue limits. The figures shown below are based on his capped pensionable earnings. In addition, his contract provides for the choice of a funded or unfunded scheme to provide benefits in excess of the pension earnings cap. Mr Duddy elected to have paid to him a cash sum for investment at his own discretion. The amount so paid in the year under review was £278,024. From April 2006, Mr Duddy has elected to join the ARG Secured Unfunded Retirement Benefits Scheme (see section 2.2 (e)) and will receive pension benefits on full basic salary. The cash sum ceased at 31 March 2006.

John Peace is a member of the GUS Pension Scheme. His benefits within the Scheme are not restricted by the pension earnings cap, and therefore the following pension figures reflect his tax-approved Scheme benefits. Mr Peace has elected to remain a member of the GUS Pension Scheme in 2007.

David Tyler is a member of the GUS Pension Scheme. His benefits within the Scheme are restricted by the pension earnings cap. However, his contract allows for an unfunded scheme to provide for benefits in excess of the cap (although part of this promise will be provided for by a funded arrangement which was closed to future contributions on 1 April 2002). The pension figures below reflect both his approved and unapproved entitlements. From April 2006, Mr Tyler has elected to join the GUS Secured Unfunded Retirement Benefits Scheme in respect of his unfunded entitlement.

Don Robert is provided with benefits under a US defined benefit arrangement – a Supplemental Executive Retirement Plan (SERP) – which aims to provide benefits which broadly match the pension arrangements for UK directors. He also participates in a defined contribution arrangement in the US – a 401k – and the employer contributions during the year were $8,985. The figures below are in respect of his SERP entitlement.

A number of former directors receive pensions from GUS plc under ex-gratia arrangements. Pensions paid in the year totalled £429,596 (2005: £434,197).

The table set out below provides the disclosure of directors' pension entitlements in respect of benefits from tax-exempt schemes and unfunded arrangements.

	Accrued pension at 31 March 2006 per annum (1) £'000	Accrued pension at 31 March 2005 per annum (2) £'000	Transfer value at 31 March 2006 (3) £'000	Transfer value at 31 March 2005 (4) £'000	Change in transfer value (less Director's contributions) (5) £'000	Additional pension earned to 31 March 2006 (net of inflation) per annum (6) £'000	Transfer value of the increase (less Director's contributions) (7) £'000
Terry Duddy	13	11	150	112	22	2	5
John Peace	467	415	7,655	6,080	1,575	41	672
David Tyler	142	115	1,871	1,365	490	24	300
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Don Robert	204	165	3,257	2,575	682	34	549

Notes

Columns (1) and (2) represent the deferred pension to which the directors would have been entitled had they left the Group at 31 March 2006 and 2005, respectively.

Column (3) is the transfer value of the deferred pension in column (1) calculated as at 31 March 2006 based on factors supplied by the actuary of the relevant Group pension scheme in accordance with actuarial guidance note GN11.

Column (4) is the equivalent transfer value, but calculated as at 31 March 2005 on the assumption that the director left service at that date.

Column (5) is the change in the transfer value of accrued pension during the year net of contributions by the director.

Column (6) is the increase in pension built up during the year, recognising (i) the accrual rate for the additional service based on the pensionable salary in force at the year end, and (ii) where appropriate the effect of pay changes in 'real' (inflation adjusted) terms on the pension already earned at the start of the year.

Column (7) represents the transfer value of the deferred pension in column (6).

The disclosures in columns (1) to (5) are as required by the Directors' Remuneration Report Regulations 2002.

The disclosures in columns (6) and (7) are as required by the UK Listing Authority's Listing Rules. The requirements of the Listing Rules differ from those of the Directors' Remuneration Report Regulations. The Listing Rules require the additional pension earned over the year to be calculated as the difference between the pension accrued at the end of the financial year and the pension accrued at the start of the financial year less the increase in the pension earned over the year solely due to inflation. The change in transfer value required by the Directors' Remuneration Report Regulations will be significantly influenced by the assumptions underlying the calculation at the beginning and the end of the financial year.

Report on directors' remuneration and related matters continued

11. Directors' service contracts

Terry Duddy

Terry Duddy has a service contract, dated 27 July 1999, which provides for 12 months' notice on the part of the Company and six months by the executive. The contract ends automatically when Mr Duddy reaches the normal retirement age of 60.

Under the terms of the contract, the Company reserves the option, in its absolute discretion, to terminate the executive's employment by paying in lieu of notice. The payment in lieu shall be calculated by reference to basic salary taking into account any pension contributions and benefits in kind for the duration of the notice period but without taking into account any bonus or incentive payment of any kind.

John Peace

John Peace has a service contract, dated 31 March 2000, which provides for twelve months' notice on the part of the Company and six months by the executive. The contract ends automatically when Mr Peace reaches the normal retirement age of 60.

The Company may, in its absolute discretion, make a payment in lieu of the whole or part of the notice period of salary, benefits and any bonus due for that period. The bonus will be calculated by reference to that paid in the previous financial year. The Company will use its best endeavours to procure that the executive is treated under the terms of the LTIP and share option arrangements such that he is vested to the maximum extent possible in LTIP and share options granted to him and that he is granted augmented benefits in the pension scheme as if he had remained in service for the notice period.

If the Company terminates the executive's employment contract in breach of its terms the Company will pay and the executive agrees to accept as liquidated damages, in full and final settlement of all claims arising from such termination, a payment and arrangements in respect of pension and share options computed as indicated above.

Don Robert

Don Robert has a service contract, dated 25 May 2004, which provides for 12 months' notice on the part of the Company and six months by the Executive.

The contract provides for the following payments to be made if the contract terminates in the event of the Executive's death in addition to payments due but unpaid before death: a pro rata annual bonus for the bonus year to the termination date based on the Company's performance in that bonus year (such bonus to be paid on the normal bonus payment date); a lump sum equal to 12 months' base salary to be paid no later than 90 days after the date of death. Any deferred compensation obligations will be governed in accordance with the relevant plan rules. If the employment is terminated due to the Executive's disability the Company will pay in addition to payments due but unpaid before termination; a pro rata bonus as described above. Any deferred compensation obligations will be governed in accordance with the relevant plan rules.

The employment may be terminated by the Company for cause in which event it is only obliged to pay the Executive for his base salary earned but unpaid to the termination date. Any deferred compensation obligations will be governed in accordance with the relevant plan rules. Where the Company terminates the employment without cause the Company will pay the Executive in addition to payments due but unpaid at termination the following severance amounts: his monthly salary at the times when he would normally have received payment for 12 months from the termination date; 12 months' participation in welfare benefit plans in which he participated during his employment; and an annual bonus based on a 100% achievement of objectives payable in equal monthly instalments for 12 months'. Stock options and deferred compensation plans will be treated in accordance with the plan rules. The same amounts are payable by the Company if the executive terminates the contract following material breach by the Company.

The Executive may terminate his employment for Good Reason following a change of control of the Company. Good Reason means during the six month period following a change of control a material and substantial adverse reduction or change in the executive's position or if he is reassigned to an office location more than 50 miles from Orange County, California. In this situation the Company must pay him the same amount as if he had been terminated by the Company without cause.

David Tyler

David Tyler has a service contract, dated 3 February 1997, which provides for 12 months' notice on the part of both the executive and the Company. The contract will end automatically at normal retirement age of 60.

Under the terms of the contract, the Company reserves the option, in its absolute discretion, to terminate the Executive's employment by making a payment in lieu of notice. The payment in lieu shall be calculated by reference to basic salary taking into account any pension contributions and benefits in kind for the duration of the notice period but without taking into account any bonus or incentive payment of any kind.

Chairman and non-executive directors

The Chairman and the non-executive directors do not have service contracts and their appointment may be terminated at any time without compensation. Non-executive directors are appointed for specific terms of three years and the appointment reviewed at the end of each three-year term.

12. Combined Code

The constitution and operation of the Remuneration Committee are in compliance with the principles of good governance and the Combined Code on Corporate Governance published by the Financial Reporting Council.

13. Shareholding guideline

It is one of the tenets of GUS' reward strategy that shareholders' and directors' interests be aligned. To reinforce this, the Remuneration Committee expects that, over a period of five years or so, executive directors will build a personal holding in GUS shares. This holding should be 200,000 shares in the case of the Group Chief Executive and 120,000 shares in the case of other executive directors.

To underpin this commitment, the Committee expects that, while the guideline holding remains unfulfilled, executive directors will not dispose of any shares vesting to them under any of the GUS incentive plans (save for any disposals necessary to meet tax liabilities arising from them).

14. Directors' interests

The beneficial interests of the directors, together with non-beneficial interests, in the Ordinary shares of the Company are shown below in sections (i) and (ii). Share options granted to directors, awards under the Performance Share Plan and the contingent interests in matching shares under the Co-investment Plan are shown on pages 46 to 48. The directors have no interests in the debentures of the Company or in any shares or debentures of the Company's subsidiaries.

	GUS plc	
	31 March 2006 (Notes 1 and 2)	**31 March 2005 or on date of appointment**
(i) Beneficial holdings		
Sir Victor Blank	208,980	225,000
John Coombe	12,469	3,000
Terry Duddy	282,926	151,524
Andy Hornby	6,811	5,420
Frank Newman	8,600	7,500
John Peace	434,127	294,154
Don Robert	197,878	114,769
Sir Alan Rudge	11,085	11,450
Oliver Stocken	30,627	31,500
David Tyler	269,589	182,893
(ii) Non-beneficial holdings		
Sir Victor Blank	2,580	3,000

Notes

1. The Directors' interests as at 31 March 2006 reflect the adjustment to the number of GUS shares following the share consolidation as a result of the Burberry demerger.
2. On 2 May 2006, Sir Victor Blank, Terry Duddy, David Tyler and Oliver Stocken each exercised 4,394 options under the Company's 2001 SAYE share option scheme, at an option price of 384p, and kept the resultant shares.

On behalf of the Board

Oliver Stocken
Chairman – Remuneration Committee
23 May 2006

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors set out on page 53, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the Annual Report and financial statements.

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the Company financial statements and the Report on directors' remuneration and related matters in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and the income statement of the Group and a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the Company for that period.

The directors consider that in preparing the financial statements on pages 54 to 113, appropriate accounting policies have been consistently applied, supported by reasonable and prudent judgments and estimates, that the Group financial statements comply with IFRSs as adopted by the European Union and, with regard to the Company's financial statements, that all accounting standards which they consider applicable have been followed.

The directors are responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and which enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Report on directors' remuneration and related matters comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Company has a website which contains up to date information on Group activities and published financial results. The maintenance and integrity of this website is the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Relevant Audit Information

As at 23 May 2006, so far as each director is aware, there is no relevant audit information of which the auditors are unaware and each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Going concern

After making enquiries, the directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Report of the auditors: Group financial statements

Independent auditors' report to the members of GUS plc

We have audited the group financial statements of GUS plc for the year ended 31 March 2006 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of GUS plc for the year ended and on the information in the Report on directors' remuneration and related matters that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Group financial highlights, the Directors' report, the Chairman's statement, the Business review, the Board of directors, the unaudited part of the Report on directors' remuneration and related matters and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
23 May 2006

Group income statement

for the year ended 31 March 2006

	Notes	**2006 £m**	2005 £m
Continuing operations:			
Sales	3	**7,262**	6,663
Cost of sales		**(4,103)**	(3,879)
Gross profit		**3,159**	2,784
Net operating expenses	6	**(2,505)**	(2,150)
Operating profit		**654**	634
Interest income		**98**	102
Interest expense		**(137)**	(130)
Financing fair value remeasurements		**(3)**	–
Net financing costs	9	**(42)**	(28)
Share of post tax profits of associates		**37**	42
Profit before tax	3	**649**	648
Group tax expense			
– UK		**(152)**	(163)
– Overseas		**(13)**	(13)
	10	**(165)**	(176)
Profit after tax for the financial year from continuing operations		**484**	472
Discontinued operations:			
Profit for the financial year from discontinued operations	12	**111**	173
Profit for the financial year		**595**	645
Profit attributable to:			
Equity shareholders in the parent company		**569**	596
Minority interests		**26**	49
Profit for the financial year		**595**	645
Earnings per share	14		
– Basic		**60.2p**	59.6p
– Diluted		**59.2p**	58.8p
Earnings per share from continuing operations			
– Basic		**51.2p**	47.2p
– Diluted		**50.4p**	46.7p

Non-GAAP measures

Reconciliation of profit before tax to Benchmark PBT	Notes	**2006 £m**	2005 £m
Profit before tax	3	**649**	648
exclude: amortisation of acquisition intangibles	8	**37**	11
exclude: exceptional items relating to continuing operations	8	**4**	7
exclude: store impairment charges	8	**13**	–
exclude: financing fair value remeasurements	8	**3**	–
exclude: tax expense on continuing operations' share of profit of associates	3	**1**	1
include: EBIT of discontinued operations	12	**119**	239
include: net interest of discontinued operations	12	**3**	4
Benchmark PBT	3	**829**	910

	Notes	**2006**	2005
Dividend per share (including proposed final dividend)	13	**31.5p**	29.5p

Group balance sheet

at 31 March 2006

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Goodwill	15	**3,068**	2,485
Other intangible assets	16	**532**	313
Property, plant and equipment	17	**959**	1,041
Investment in associates	18	**129**	110
Deferred tax assets	28	**314**	342
Retirement benefit assets	25	**18**	–
Trade and other receivables	20	**51**	454
Other financial assets	26	**91**	8
		5,162	4,753
Current assets			
Inventories	19	**883**	1,017
Trade and other receivables	20	**1,051**	1,134
Current tax assets		**119**	74
Other financial assets	26	**6**	31
Cash and cash equivalents	21	**221**	347
		2,280	2,603
Total assets		**7,442**	7,356
Liabilities			
Non-current liabilities			
Trade and other payables	22	**(83)**	(111)
Loans and borrowings	24	**(2,067)**	(1,676)
Deferred tax liabilities	28	**(201)**	(164)
Retirement benefit obligations	25	**–**	(112)
Other financial liabilities	26	**(8)**	–
		(2,359)	(2,063)
Current liabilities			
Trade and other payables	22	**(1,391)**	(1,512)
Loans and borrowings	24	**(174)**	(129)
Provisions	23	**(89)**	(88)
Other financial liabilities	26	**(21)**	–
Current tax liabilities		**(276)**	(253)
		(1,951)	(1,982)
Total liabilities		**(4,310)**	(4,045)
Net assets		**3,132**	3,311
Shareholders' equity			
Share capital	29	**256**	254
Share premium	29	**97**	69
Other reserves	30	**(240)**	(246)
Retained earnings	30	**3,018**	2,978
Total shareholders' equity	30	**3,131**	3,055
Minority interests in equity	30	**1**	256
Total equity		**3,132**	3,311

The financial statements on pages 54 to 101 were approved by the Board of Directors on 23 May 2006 and were signed on its behalf by:

John Peace Group Chief Executive

David Tyler Group Finance Director

Group statement of recognised income and expense

for the year ended 31 March 2006

	Notes	2006 £m	2005 £m
Net income/(expense) recognised directly in equity			
Cash flow hedges		**(2)**	–
Net investment hedge		**(9)**	–
Fair value gains in the year		**2**	6
Actuarial gains/(losses) in respect of defined benefit pension schemes		**7**	(5)
Currency translation differences		**14**	3
Recycled cumulative exchange loss in respect of divestments		**3**	3
Tax credit in respect of items taken directly to equity		**5**	7
Net income recognised directly in equity		**20**	14
Profit for the financial year		**595**	645
Net income recognised for the year		**615**	659
Cumulative adjustment for the implementation of IAS 39	39	**12**	–
Total income recognised in the year		**627**	659
Net income recognised for the year attributable to:			
Equity shareholders in the parent company		**586**	610
Minority interests		**29**	49
Net income recognised for the year		**615**	659

Cumulative adjustment for the implementation of IAS 39 attributable to:	
Equity shareholders in the parent company	**10**
Minority interests	**2**
Total	**12**

Non-GAAP measures

Group statement of net debt	Notes	2006 £m	2005 £m
Cash and cash equivalents (net of overdrafts)	36(f)	**80**	259
Available for sale assets – current	26	**–**	31
Derivatives hedging loans and borrowings		**46**	–
Debt due within one year	24	**(29)**	(35)
Finance leases	24	**(5)**	(8)
Debt due after more than one year	24	**(2,066)**	(1,674)
Net debt at end of year		**(1,974)**	(1,427)
Continuing operations		**(1,974)**	(1,631)
Discontinued operations		**–**	204
Net debt at end of year		**(1,974)**	(1,427)

Net debt at 31 March 2006 is stated after deducting £46m in respect of the fair value of derivatives related to the Group's borrowings.

Group cash flow statement

for the year ended 31 March 2006

	Notes	**2006 £m**	2005 £m
Continuing operations:			
Cash flows from operating activities			
Cash generated from operations	36(a)	**894**	796
Interest paid	36(b)	**(63)**	(60)
Interest received		**30**	26
Dividends received from associates		**27**	26
Tax paid		**(108)**	(170)
Net cash inflow from operating activities		**780**	618
Continuing operations:			
Cash flows from investing activities			
Purchase of property, plant and equipment		**(261)**	(258)
Sale of property, plant and equipment		**6**	18
Purchase of intangible assets		**(112)**	(109)
Sale of intangible assets		**2**	5
Purchase of non-current investments		**(28)**	(5)
Acquisition of subsidiaries, net of cash acquired	36(c)	**(819)**	(176)
Disposal of subsidiaries	36(d)	**360**	106
Net cash flows used in investing activities		**(852)**	(419)
Continuing operations:			
Cash flows from financing activities			
Purchase of treasury and ESOP shares		**(36)**	(222)
Issue of Ordinary shares		**29**	35
Sale of own shares		**20**	16
New borrowings	36(e)	**375**	473
Repayment of borrowings	36(e)	**(35)**	(355)
Capital element of finance lease rental payments		**(3)**	(5)
Equity dividends paid		**(284)**	(281)
Net cash flows used in financing activities		**66**	(339)
Net decrease in cash and cash equivalents – continuing operations		**(6)**	(140)
Net decrease in cash and cash equivalents – discontinued operations		**(173)**	(30)
Net decrease in cash and cash equivalents		**(179)**	(170)
Movement in cash and cash equivalents from continuing operations			
Cash and cash equivalents at 1 April – continuing operations		**84**	224
Net decrease in cash and cash equivalents		**(6)**	(140)
Exchange and other movements		**2**	–
Cash and cash equivalents at the end of the financial year – continuing operations	36(f)	**80**	84

Non-GAAP measures

Reconciliation of net decrease in cash and cash equivalents to movement in net debt	**2006 £m**	2005 £m
Net debt at 1 April – as reported	**(1,427)**	(1,200)
Cash and cash equivalents at 1 April – discontinued operations	**(173)**	(203)
Other financial assets at 1 April – discontinued operations	**(31)**	(31)
Net debt at 1 April – continuing operations	**(1,631)**	(1,434)
Net decrease in cash and cash equivalents	**(6)**	(140)
Increase in debt	**(337)**	(113)
Exchange and other movements	**–**	56
Net debt at the end of the financial year – continuing operations	**(1,974)**	(1,631)

Notes to the Group financial statements

for the year ended 31 March 2006

1. Corporate information

GUS plc (the 'Company'), which is the ultimate parent company of the GUS Group, is a public limited company incorporated and domiciled in England and listed on the London Stock Exchange. GUS is a retail and business services group.

The consolidated financial statements for the Group were approved by the Board on 23 May 2006.

2. Basis of preparation

The Group financial statements are presented in Pounds Sterling, rounded to the nearest million. They are prepared on the historical cost basis modified for the revaluation of certain financial instruments.

The principal accounting policies applied in the preparation of these financial statements are set out in note 37. These policies have been consistently applied to both years presented, unless otherwise stated.

The consolidated Group financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union. These are those standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Union at the year end. They also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Group previously reported under UK Generally Accepted Accounting Principles ('UK GAAP').

Transition to IFRS

These financial statements show the results for the years ended 31 March 2006 and 31 March 2005. The results for the year ended 31 March 2005 have been extracted from the Group's financial statements for that year and have been adjusted for the effects of changes in accounting policies on transition to IFRS. These adjustments are set out in detail on the Group's website (at www.gusplc.com/gus/investors/IFRS) and are summarised in note 38.

The Group has applied IFRS 1 'First-time adoption of International Financial Reporting Standards', and has elected to use the following exemptions:

- IFRS 3 has not been applied retrospectively to business combinations that occurred before 1 April 2004;
- The Group has used the fair value of certain of its properties as deemed cost on transition to IFRS;
- Cumulative translation differences for foreign operations have been deemed to be nil at 1 April 2004. Any gain or loss on a subsequent disposal of a foreign operation will exclude translation differences that arose before 1 April 2004.

The Group early adopted the December 2004 amendment to IAS 19 'Employee Benefits'.

Adoption of IAS 32 and IAS 39

As permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Group elected to defer implementation of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' until the year commencing 1 April 2005. The adjustment required as at 1 April 2005 is set out in note 39 below. The main adjustments that would make the comparative information comply with IAS 32 and IAS 39 relate to:

- Derivative instruments. Under UK GAAP, many derivative instruments are not accounted for at fair value, but are generally treated as off-balance sheet;
- Hedge accounting. Hedge designation under UK GAAP used to be less restrictive than IAS 39, thereby allowing designation of hedge relationships in cases where IAS 39 does not permit hedge accounting.

Recent accounting developments

IFRS 7 'Financial Instruments: Disclosures' and amendments to IAS 1 'Presentation of Financial Statements – Capital Disclosures' were issued in August 2005 and are effective for accounting periods beginning on or after 1 January 2007. These amendments revise and enhance previous disclosures required by IAS 32 and IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'. These changes are not expected to have a material effect on the results and net assets of the Group.

Other standards, amendments and interpretations not expected to have a significant effect on the Group include: IFRS 6 'Exploration for and evaluation of mineral resources', amendment to IAS 39 'Cash flow hedge accounting of forecast intragroup transactions', amendment to IFRS 1, amendment to IAS 39 and IFRS 4 'Insurance contracts', IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds' and IFRIC 7 'Applying the restatement approach' under IAS 29 'Hyperinflationary accounting'.

Standards, amendments and interpretations still under review as to their effect on the Group include: Amendment to IAS 21 'The effect of changes in foreign exchange rates: net investment in a foreign operation', IFRIC 4 'Determining whether an arrangement contains a lease', IFRIC 6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', IFRIC 8 'Scope of IFRS 2' and IFRIC 9 'Re-assessment of embedded derivatives'.

Basis of consolidation

Subsidiaries

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2. Basis of preparation (continued)

Accounting policies of subsidiaries are consistent with the policies adopted by the Group for the purposes of the Group's consolidation. The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings for the financial year ended 31 March 2006 except for those of Homebase. In respect of Homebase, the Group has consistently included financial statements for the 12 months to the end of February, which continues to be done to facilitate comparability to avoid distortions relating to the timing of Easter and the related promotions and trading patterns.

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 15 to the Parent Company's financial statements.

Associates

Associates are entities over which the Group has significant influence but not control, generally achieved by a shareholding of between 20% and 50% of the voting rights. The equity method is used to account for investments in associates and investments are initially recognised at cost.

The Group's share of net assets of its associates and loans made to associates are included in the Group balance sheet. The Group's share of its associates' post-acquisition after tax profits or losses is recognised in the Group income statement, and its share of post-acquisition movements in equity is recognised in the Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The carrying amount of an investment in an associate is tested for impairment by comparing its recoverable amount to its carrying amount whenever there is an indication that the investment may be impaired.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's best judgment at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Taxes

The Group is subject to taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective income tax and deferred tax provisions in the year in which such determination is made.

Pension benefits

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligations and net pension costs include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions may impact the amounts disclosed in the Group's balance sheet and income statement.

The expected return on plan assets is calculated by reference to the plan investments at the year-end and is a weighted average of the expected returns on each main asset type (based on market yields available on these asset types at the year-end).

The Group determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Group considers the market yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability.

Other key assumptions for defined benefit obligations and pension costs are based in part on market conditions at the relevant year-ends and additional information is disclosed in note 25.

Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') and monitored for internal management purposes by each business segment.

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of each business segment is determined based on value-in-use calculations.

These calculations require the use of estimates for cash flow projections based on financial budgets approved by management, looking forward up to five years. Cash flows are extrapolated using estimated growth rates beyond a five year period. The growth rates used do not exceed the long-term average growth rate for the businesses in which the segment operates.

Key assumptions used for value-in-use calculations are:

- Budgeted gross margin;
- Weighted average real growth rate of 2.25% used to extrapolate cash flows beyond the budget period;
- Post-tax discount rate of 7% applied to the cash flow projections.

Notes to the Group financial statements

for the year ended 31 March 2006

2. Basis of preparation (continued)

Management determine budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are post-tax and reflect specific risks relating to the relevant segments. The Group's pre-tax weighted average cost of capital is 10%.

Critical judgments

Management has made certain judgments in the process of applying the Group's accounting policies that have a significant effect on the amounts recognised in the financial statements. This includes the classification of transactions between the income statement and balance sheet. The accounting policy descriptions set out where judgment needs exercising, the most significant is detailed below:

Intangible assets

Certain costs incurred in the developmental phase of an internal project are capitalised if a number of criteria are met. Management has made certain judgments and assumptions when assessing whether a project meets these criteria, and on measuring the costs and the economic life attributed to such projects.

On acquisition, specific intangible assets are identified and recognised separately from goodwill and then amortised over their estimated useful lives. These include such items as brand names and customer lists, to which value is first attributed at the time of acquisition. The capitalisation of these assets and the related amortisation charges are based on uncertain judgments about the value and economic life of such items.

Use of Non-GAAP measures

GUS has identified certain measures that it believes provide additional useful information on the performance of the Group. This approach is comparable with that previously used but as the measures are not defined under IFRS they may not be directly comparable with other companies' adjusted measures. The Non-GAAP measures are not intended to be a substitute for, or superior to, any IFRS measures of performance.

The following are the key Non-GAAP measures identified by the Group:

Benchmark Profit Before Tax ('Benchmark PBT')

Benchmark PBT is defined as profit before amortisation of acquisition intangibles, store impairment charges, exceptional items, financing fair value remeasurements and taxation. It includes the Group's share of associates' pre-tax profit and the pre-tax profits or losses of discontinued operations up to the date of disposal or closure.

Earnings Before Interest and Tax ('EBIT')

EBIT is defined as profit before amortisation of acquisition intangibles, store impairment charges, exceptional items, net financing costs and taxation and includes the Group's share of pre-tax profits of associates.

Benchmark Earnings Per Share ('Benchmark EPS')

Benchmark EPS represents Benchmark PBT less attributable taxation and minority interests divided by the weighted average number of shares in issue, and is disclosed to indicate the underlying profitability of the Group.

Exceptional items

The separate reporting of exceptional items that are non-recurring costs gives an indication of the underlying performance of the Group. The only costs treated as exceptional items are those associated with the disposal, demerger or closure of businesses. All other restructuring costs are charged against EBIT in the divisions in which they are incurred.

Net debt

Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings (and the fair value of derivatives hedging loans and borrowings), overdrafts and obligations under finance leases.

3. Segmental information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

Primary reporting format – business segments

At 31 March 2006, the Group is organised on a worldwide basis into two core divisions:

(1) Argos Retail Group, the UK's leading multi-brand, multi-channel retailer, comprising three business segments – Argos, Homebase and ARG Financial Services; and

(2) Experian, a leading global business solutions company.

Discontinued operations comprise the businesses Burberry, Lewis and Wehkamp which were all individual segments. Additional information on discontinued operations is shown in note 12.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. There is no material impact from inter-segment transactions on the Group's results.

3. Segmental information (continued)

Segment assets consist primarily of property, plant and equipment, intangible assets including goodwill, inventories, derivatives designated as hedges of future commercial transactions, and receivables. They exclude tax assets, cash, investments and derivatives designated as hedges of borrowings.

Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future commercial transactions). They exclude items such as tax, borrowings and related hedging derivatives.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, excluding additions resulting from acquisitions through business combinations.

Year ended 31 March 2006

a) Income statement	Continuing Operations Argos £m	Homebase[1] £m	Financial Services £m	ARG Total £m	Experian £m	Central activities £m	**Total continuing £m**	Discontinued operations £m	**Total Group £m**
Sales									
Total sales	3,893	1,562	93	**5,548**	**1,725**	–	**7,273**	**653**	**7,926**
Inter-segment sales[2]	–	–	–	–	**(11)**	–	**(11)**	–	**(11)**
Sales to external customers	3,893	1,562	93	**5,548**	**1,714**	–	**7,262**	**653**	**7,915**
Profit									
Operating profit	291	39	6	**336**	**342**	**(24)**	**654**	**141**	**795**
Group share of associates' profit before tax	–	–	–	–	**38**	–	**38**	–	**38**
Segmental result	291	39	6	**336**	**380**	**(24)**	**692**	**141**	**833**
Net interest	–	–	–	–	–	**(39)**	**(39)**	**3**	**(36)**
Financing fair value remeasurements	–	–	–	–	–	**(3)**	**(3)**	–	**(3)**
Tax expense on share of profit of associates	–	–	–	–	**(1)**	–	**(1)**	–	**(1)**
Profit before tax	291	39	6	**336**	**379**	**(66)**	**649**	**144**	**793**
Group tax expense							**(165)**	**(33)**	**(198)**
Profit for the financial year							**484**	**111**	**595**
Reconciliation from EBIT to Profit Before Tax									
EBIT	291	52	6	**349**	**417**	**(20)**	**746**	**119**	**865**
Net interest	–	–	–	–	–	**(39)**	**(39)**	**3**	**(36)**
Benchmark PBT	291	52	6	**349**	**417**	**(59)**	**707**	**122**	**829**
Exceptional items (note 8)	–	–	–	–	–	**(4)**	**(4)**	**22**	**18**
Amortisation of acquisition intangibles	–	–	–	–	**(37)**	–	**(37)**	–	**(37)**
Store impairment charges	–	(13)	–	**(13)**	–	–	**(13)**	–	**(13)**
Financing fair value remeasurements	–	–	–	–	–	**(3)**	**(3)**	–	**(3)**
Tax expense on share of profit of associates	–	–	–	–	**(1)**	–	**(1)**	–	**(1)**
Profit before tax	291	39	6	**336**	**379**	**(66)**	**649**	**144**	**793**

1 The Homebase results are for the year ended 28 February 2006.
2 Inter-segment sales represent sales between Experian and Financial Services.

The Benchmark PBT for Financial Services is after deducting funding costs (see note 9).

Discontinued operations comprise the businesses Burberry, Lewis and Wehkamp which were all individual segments. Additional information on these segments is shown in note 12.

b) Balance sheet	Continuing Operations Argos £m	Homebase £m	Financial Services £m	ARG Total £m	Experian £m	Central activities £m	**Total continuing £m**	Discontinued operations £m	**Total Group £m**
Total segment assets	2,326	1,351	408	**4,085**	**2,470**	–	**6,555**	–	**6,555**
Less: goodwill	(1,153)	(726)	–	**(1,879)**	**(1,189)**	–	**(3,068)**	–	**(3,068)**
Less: segment liabilities	(575)	(320)	(59)	**(954)**	**(526)**	–	**(1,480)**	–	**(1,480)**
Segment net assets (excluding goodwill)	598	305	349	**1,252**	**755**	–	**2,007**	–	**2,007**
Goodwill									**3,068**
Net debt									**(1,974)**
Tax									**(44)**
Transaction consideration									**75**
Group net assets									**3,132**

Notes to the Group financial statements

for the year ended 31 March 2006

3. Segmental information (continued)

c) Other	Continuing Operations Argos £m	Homebase £m	Financial Services £m	ARG Total £m	Experian £m	Central activities £m	**Total continuing £m**	Discontinued operations £m	**Total Group £m**
Benchmark PBT is stated after charging:									
Depreciation of property, plant and equipment (note 17)	67	53	–	**120**	**39**	–	**159**	**16**	**175**
Amortisation of intangible assets (note 16)	14	2	1	**17**	**111**	–	**128**	**2**	**130**
Benchmark PBT includes:									
Share of profit of associates	–	–	–	–	**38**	–	**38**	–	**38**
Segment net assets includes:									
Investment in associates	–	–	–	–	**129**	–	**129**	–	**129**
Capital expenditure	155	98	1	**254**	**119**	–	**373**	**21**	**394**

Year ended 31 March 2005

a) Income statement	Continuing Operations Argos £m	Homebase[1] £m	Financial Services £m	ARG Total £m	Experian £m	Central activities £m	**Total continuing £m**	Discontinued operations £m	**Total Group £m**
Sales									
Total sales	3,652	1,580	81	**5,313**	**1,362**	–	**6,675**	**1,124**	**7,799**
Inter-segment sales[2]	–	–	–	–	**(12)**	–	**(12)**	–	**(12)**
Sales to external customers	3,652	1,580	81	**5,313**	**1,350**	–	**6,663**	**1,124**	**7,787**
Profit									
Operating profit	304	96	–	**400**	**256**	**(22)**	**634**	**242**	**876**
Group share of associates' profit before tax	–	–	–	–	**43**	–	**43**	–	**43**
Segmental result	304	96	–	**400**	**299**	**(22)**	**677**	**242**	**919**
Net interest	–	–	–	–	–	**(28)**	**(28)**	**4**	**(24)**
Tax expense on share of profit of associates	–	–	–	–	**(1)**	–	**(1)**	–	**(1)**
Profit before tax	304	96	–	**400**	**298**	**(50)**	**648**	**246**	**894**
Group tax expense							**(176)**	**(73)**	**(249)**
Profit for the financial year							**472**	**173**	**645**
Reconciliation from EBIT to Profit Before Tax									
EBIT	304	96	–	**400**	**317**	**(22)**	**695**	**239**	**934**
Net interest	–	–	–	–	–	**(28)**	**(28)**	**4**	**(24)**
Benchmark PBT	304	96	–	**400**	**317**	**(50)**	**667**	**243**	**910**
Exceptional items (note 8)	–	–	–	–	**(7)**	–	**(7)**	**3**	**(4)**
Amortisation of acquisition intangibles	–	–	–	–	**(11)**	–	**(11)**	–	**(11)**
Tax expense on share of profit of associates	–	–	–	–	**(1)**	–	**(1)**	–	**(1)**
Profit before tax	304	96	–	**400**	**298**	**(50)**	**648**	**246**	**894**

1 The Homebase results are for the year ended 28 February 2005.
2 Inter-segment sales represent sales between Experian and Financial Services.

The Benchmark PBT for Financial Services is after deducting funding costs (see note 9).

Discontinued operations comprise the businesses Burberry, Lewis and Wehkamp which were all individual segments. Additional information on these segments is shown in note 12. The Group financial information at 31 March 2005 has been adjusted from that previously published as a result of clearer IFRS interpretation becoming available. Note 38 explains these adjustments.

3. Segmental information (continued)

b) Balance sheet	Continuing Operations Argos £m	Homebase £m	Financial Services £m	ARG Total £m	Experian £m	Central activities £m	**Total continuing £m**	Discontinued operations £m	**Total Group £m**
Total segment assets	2,217	1,293	435	**3,945**	**1,492**	**–**	**5,437**	**984**	**6,421**
Less: goodwill	(1,108)	(726)	–	**(1,834)**	**(537)**	**–**	**(2,371)**	**(114)**	**(2,485)**
Less: segment liabilities	(493)	(365)	(61)	**(919)**	**(631)**	**–**	**(1,550)**	**(230)**	**(1,780)**
Segment net assets (excluding goodwill)	616	202	374	**1,192**	**324**	**–**	**1,516**	**640**	**2,156**
Goodwill									**2,485**
Net debt									**(1,427)**
Tax									**(1)**
Transaction consideration									**98**
Group net assets									**3,311**

c) Other	Continuing Operations Argos £m	Homebase £m	Financial Services £m	ARG Total £m	Experian £m	Central activities £m	**Total continuing £m**	Discontinued operations £m	**Total Group £m**
Benchmark PBT is stated after charging:									
Depreciation of property, plant and equipment (note 17)	59	44	–	**103**	**37**	**–**	**140**	**30**	**170**
Amortisation of intangible assets (note 16)	12	2	4	**18**	**81**	**–**	**99**	**2**	**101**
Benchmark PBT includes:									
Share of profit of associates	–	–	–	**–**	**41**	**–**	**41**	**2**	**43**
Segment net assets includes:									
Investment in associates	–	–	–	**–**	**103**	**–**	**103**	**7**	**110**
Capital expenditure	134	108	–	**242**	**125**	**–**	**367**	**50**	**417**

Secondary reporting format – geographical segments

The Group operates in the United Kingdom, Continental Europe, North America and the Rest of the World.

a) Sales by destination – continuing operations	**2006 £m**	2005 £m
United Kingdom	**5,919**	5,675
Continental Europe	**283**	249
North America	**1,006**	722
Rest of World	**54**	17
Total	**7,262**	6,663

b) Total segment assets	**2006 £m**	2005 £m
United Kingdom	**4,838**	4,641
Continental Europe	**142**	639
North America	**1,565**	884
Rest of World	**10**	257
Total	**6,555**	6,421

c) Capital expenditure	**2006 £m**	2005 £m
United Kingdom	**279**	281
Continental Europe	**19**	16
North America	**74**	70
Rest of World	**1**	–
Total	**373**	367

Notes to the Group financial statements

for the year ended 31 March 2006

4. Analysis of sales by category

	2006 £m	2005 £m
Sales of goods	**5,455**	5,203
Provision of services	**1,748**	1,405
Interest income	**59**	55
Total sales to external customers from continuing operations	**7,262**	6,663

5. Foreign currency

The principal exchange rates used were as follows:

	Average		Closing	
	2006	2005	**2006**	2005
US dollar	**1.79**	1.85	**1.74**	1.88
Euro	**1.46**	1.47	**1.44**	1.45

Assets and liabilities of overseas undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date and the income statement is translated into sterling at average rates of exchange.

6. Net operating expenses

(a) by function

	2006 £m	2005 £m
Net operating expenses comprise:		
Distribution costs	**1,693**	1,472
Administrative expenses	**812**	678
	2,505	2,150

(b) by nature

		Notes	2006 £m	2005 £m
Profit before tax is stated after charging/(crediting):				
Net operating lease rental expense			**336**	293
Cost of goods sold			**3,354**	3,204
Depreciation of property, plant and equipment			**159**	140
Amortisation of intangible assets			**128**	99
Employee benefit costs		7	**1,350**	1,156
Research expenditure			**3**	2
Exchange differences			**1**	1
Store impairment charges		8	**13**	–
Argos OFT fine			**–**	16
Homebase reorganisation costs			**–**	18
Audit fees	– statutory audit		**2**	2
Auditors' remuneration for non-audit services	– further assurance services		**4**	1
	– tax advisory services		**3**	2

Depreciation and amortisation as shown above are for continuing operations. Amortisation of intangible assets is charged to administrative expenses except for the amortisation of databases which is charged to cost of sales.

The guidelines covering the use of the Company's auditors for non-audit services are set out in the Corporate Governance Report on page 35.

7. Employee benefit costs and employee numbers

The aggregate employee costs for the continuing operations of the Group were as follows:

	Notes	**2006 £m**	2005 £m
Wages and salaries		**1,138**	974
Social security costs		**124**	115
Share-based payments	31	**29**	24
Pension costs – defined benefit plans	25	**39**	29
Pension costs – defined contribution plans	25	**20**	14
Total continuing operations		**1,350**	1,156

The average number of employees (including executive directors) in the continuing operations of the Group during the year was:

	2006			2005		
	Full time	**Part time**	**Full time equivalent**	Full time	Part time	Full time equivalent
Argos Retail Group						
Argos	**9,365**	**23,067**	**18,694**	8,541	22,093	17,045
Homebase	**6,442**	**12,342**	**11,463**	6,353	11,488	11,061
Financial Services	**168**	**39**	**190**	104	20	116
	15,975	**35,448**	**30,347**	14,998	33,601	28,222
Experian	**11,502**	**597**	**11,799**	11,738	858	12,174
Central activities	**74**	**–**	**74**	70	–	70
Total continuing operations	**27,551**	**36,045**	**42,220**	26,806	34,459	40,466

Remuneration of key management personnel

Key management personnel is represented by the Board of Directors, shown on pages 28 and 29, and certain senior management at ARG and Experian.

Key management compensation	**2006 £m**	2005 £m
Salaries and short-term employee benefits	**11**	11
Retirement benefits	**3**	2
Other long-term benefits	**1**	–
Share-based payments	**9**	7
	24	20

Further details of the remuneration of Directors are given in the auditable part of the Report on directors' remuneration and related matters on pages 45 to 48. Information on transactions with related parties is set out in note 35.

8. Exceptional and other adjustment items

	2006 £m	2005 £m
Exceptional items		
Continuing operations:		
Costs incurred relating to the planned Group demerger	**(4)**	–
Loss on sale of businesses	**–**	(7)
	(4)	(7)
Discontinued operations (note 12):		
Profit on disposal of Lewis Group	**36**	24
Loss on disposal of Wehkamp	**(19)**	–
Profit on disposal of shares in Burberry	**10**	3
Costs incurred relating to the demerger of Burberry	**(5)**	–
Loss on disposal of other discontinued operations	**–**	(24)
	22	3
Total exceptional items	**18**	(4)

Notes to the Group financial statements

for the year ended 31 March 2006

8. Exceptional and other adjustment items (continued)

	2006 £m	2005 £m
Other adjustment items		
Continuing operations:		
Amortisation of acquisition intangibles	**(37)**	(11)
Store impairment charges	**(13)**	–
Financing fair value remeasurements (note 9)	**(3)**	–
Total other adjustment items	**(53)**	(11)
Total exceptional and other adjustment items	**(35)**	(15)

Exceptional items

The profit on the disposal of Lewis Group relates to the placing of GUS' remaining 50% stake in May 2005. The profit in the prior year relates to the Initial Public Offering of Lewis Group in September 2004. The loss on disposal of Wehkamp relates to the sale of the business in January 2006.

The income in respect of Burberry shares in both years included that arising from the exercise or lapse of awards under executive share schemes, together with that arising on the sale of certain shares at the time of the demerger in December 2005. The costs incurred relating to the demerger of Burberry are treated as an exceptional item. The loss on sale of continuing businesses in the prior year was principally in respect of the sales by Experian of two small non-core operations.

Other exceptional items were costs in relation to the Group demerger of £4m. The prior year loss on disposal of other discontinued operations is explained in note 12.

Other adjustment items

IFRS requires that, on acquisition, specific intangible assets are identified and recognised separately from goodwill and then amortised over their useful economic lives. These include items such as brand names and customer lists, to which value is first attributed at the time of acquisition. As permitted by IFRS, acquisitions prior to 1 April 2004 have not been restated. As it did with goodwill under UK GAAP, the Group has excluded amortisation of these acquisition intangibles from its definition of Benchmark PBT.

As a result of clearer IFRS interpretation on impairment reviews, Argos Retail Group now perform store impairment tests on a store by store basis and this has led to an impairment charge at Homebase of £13m in 2006 (2005: nil).

An element of the Group's derivatives is ineffective for hedge accounting under IFRS. Gains or losses on these derivatives arising from market movements are credited or charged to financing fair value remeasurements in the Group income statement.

9. Net financing costs

	Notes	2006 £m	2005 £m
Interest income:			
Bank deposits		**7**	8
Loan notes		**8**	8
Interest on derivatives		**25**	31
Expected return on pension scheme assets	25	**58**	55
Interest income		**98**	102
Interest expense:			
Bank loans and overdrafts		**32**	13
Eurobonds, notes and perpetual securities		**69**	79
Finance leases		**–**	1
Commitment and facility utilisation fees		**1**	1
Interest expense on pension scheme liabilities	25	**51**	54
Gross interest expense		**153**	148
Less: interest charged to cost of sales		**(16)**	(18)
Interest expense		**137**	130
Net interest expense		**39**	28
Financing fair value remeasurements:			
Fair value gains on non hedging derivatives		**(13)**	–
Ineffective portion of fair value hedges of borrowings		**5**	–
Ineffective portion of net investment hedges		**(3)**	–
Net foreign exchange transaction gains		**14**	–
Financing fair value remeasurements		**3**	–
Net financing costs		**42**	28

Interest charged to cost of sales relates to Financial Services activities.

There are no comparative numbers relating to financing fair value remeasurements since the GUS Group did not adopt IAS 32 and IAS 39 until the year commencing 1 April 2005 (see note 39).

10. Tax expense

(a) Analysis of charge recognised in the Group income statement	2006 £m	2005 £m
Current tax:		
UK Corporation tax on income for the year	**94**	124
Double tax relief	**(1)**	(1)
Adjustments in respect of prior years	**(2)**	4
	91	127
Overseas tax:		
Overseas tax on income for the year	**17**	13
Adjustments in respect of prior years	**(4)**	–
Total current tax charge for the year	**104**	140
Deferred tax:		
Origination and reversal of temporary differences	**70**	31
Adjustments in respect of prior years	**(9)**	5
Total deferred tax charge for the year	**61**	36
Total tax expense in Group income statement	**165**	176

(b) Tax reconciliation

The effective tax rate for the year of 25.4% (2005: 27.2%), after adjusting for the net income from associates, is lower than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	2006 £m	2005 £m
Profit before tax	**649**	648
Plus: tax on share of profits of associates and joint ventures	**1**	1
Adjusted profit before tax	**650**	649
Adjusted profit before tax multiplied by the standard rate of Corporation tax in the UK of 30% (2005: 30%)	**195**	195
Effects of:		
Adjustments to tax charge in respect of prior periods	**(15)**	9
Income not taxable	**(6)**	(6)
Expenses not deductible	**39**	22
Utilisation of previously unrecognised tax losses	**(1)**	(1)
Tax on share of profits of associates	**(1)**	(1)
Differences in tax rates	**(28)**	(30)
Other adjustments	**(20)**	(14)
Disposal of businesses – continuing operations	**2**	2
Total tax expense in Group income statement	**165**	176

(c) The effective rate of tax on Benchmark PBT

The effective rate of tax based on Benchmark PBT of £829m (2005: £910m) is 25.6% (2005: 26.3%).

(d) Tax on items charged to equity

In addition to the amount charged to the Group income statement tax amounting to £5m (2005: £7m) has been credited directly to equity, relating mainly to share schemes and foreign exchange.

(e) Factors that may affect future tax charges

In the foreseeable future, the Group's tax charge will continue to be influenced by the profile of profits earned in the different countries in which the Group's businesses operate.

Notes to the Group financial statements

for the year ended 31 March 2006

11. Acquisitions, demerger of Burberry and disposals

(a) Acquisitions for the year ended 31 March 2006

On 5 May 2005 the Group acquired 100% of the issued share capital of LowerMyBills.com, a leading online generator of mortgage and other loan application leads in the US. On 14 December 2005 the Group acquired 100% of the issued share capital of PriceGrabber.com, a leading provider of online comparison shopping services in the US.

During the year ended 31 March 2006, the Group made several other acquisitions, none of which are considered individually material to the Group. Most of these were made by Experian, including three US-based affiliate credit bureaux, ClassesUSA, Baker Hill and Vente in North America, and ClarityBlue and FootFall in the UK. Also in the UK, Argos acquired 33 former Index stores and the Index brand from Littlewoods Limited.

In aggregate, it is estimated that these acquired businesses contributed revenues of £261m and profit after tax of £16m to the Group for the periods from their respective acquisition dates to 31 March 2006. If these acquisitions had been completed on 1 April 2005, Group revenues from the acquired businesses for the year have been estimated at £398m. Due to the acquired entities using different accounting policies prior to acquisition, previously reporting to different period ends and, in certain cases, preparing financial information on a cash basis prior to acquisition, it has been impracticable to estimate the impact on Group profit had they been owned from 1 April 2005.

Details of the net assets acquired and the provisional goodwill are as follows:

	LowerMyBills.com		PriceGrabber.com		Other acquisitions		**Total**	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	**Book value £m**	**Fair value £m**
Intangible assets	–	44	–	81	1	95	**1**	**220**
Property, plant and equipment	1	1	1	1	6	6	**8**	**8**
Deferred tax assets	8	–	–	–	10	–	**18**	**–**
Inventories	–	–	–	–	1	2	**1**	**2**
Trade and other receivables	10	10	4	4	27	24	**41**	**38**
Cash net of overdrafts	4	4	1	1	(5)	(5)	**–**	**–**
Other financial assets	1	1	1	1	6	6	**8**	**8**
Trade and other payables	(14)	(14)	(4)	(4)	(28)	(34)	**(46)**	**(52)**
Deferred tax liabilities	–	(10)	–	–	–	(12)	**–**	**(22)**
	10	36	3	84	18	82	**31**	**202**
Goodwill		177		193		309		**679**
		213		277		391		**881**
Satisfied by:								
Cash		181		276		355		**812**
Acquisition expenses		6		1		4		**11**
Deferred consideration		26		–		32		**58**
		213		277		391		**881**

In the Group cashflow statement £4m of acquisitions made by Burberry have been shown within the cash flows of discontinued operations.

The fair values set out above contain certain provisional amounts which will be finalised no later than one year after the date of acquisition. Goodwill represents the synergies, assembled workforce and future growth potential of the businesses acquired.

11. Acquisitions, demerger of Burberry and disposals (continued)

(b) Demerger of Burberry Group plc

At an Extraordinary General Meeting on 13 December 2005, the shareholders of GUS plc approved the demerger of the Group's remaining interest 65% in Burberry Group plc. On demerger, the Company declared a dividend in specie, which was satisfied by the Group's shares in Burberry Group plc. The dividend in specie represents the Group's share of the net assets of Burberry Group plc.

The Group's share of the net assets of Burberry Group plc at the date of demerger was as follows:

	£m
Intangible assets	**134**
Property, plant and equipment	**162**
Deferred tax assets	**16**
Inventories	**134**
Trade and other receivables	**110**
Other financial assets	**4**
Cash and cash equivalents	**97**
Trade and other payables	**(176)**
Current tax payable	**(19)**
Deferred tax liabilities	**(18)**
Equity minority interests	**(157)**
Group's share of net assets of Burberry Group plc on demerger	**287**

The costs associated with the Burberry demerger of £5m were charged against discontinued operations in the Group income statement.

(c) Disposal of subsidiaries for the year ended 31 March 2006

Details of the subsidiaries disposed of during the financial year are given in note 12. The net assets disposed of and the consideration received are as follows:

	Lewis Group £m	Wehkamp £m	**Total £m**
Intangible assets	–	2	**2**
Property, plant and equipment	12	14	**26**
Deferred tax assets	–	6	**6**
Inventories	14	19	**33**
Trade and other receivables	168	378	**546**
Other assets	35	4	**39**
Cash and cash equivalents	14	–	**14**
Trade and other payables	(20)	(172)	**(192)**
Retirement benefit obligations	(4)	(21)	**(25)**
Other financial liabilities	(15)	–	**(15)**
Current tax liabilities	(12)	–	**(12)**
Equity minority interests	(91)	–	**(91)**
Net assets disposed	101	230	**331**
Net proceeds received	142	220	**362**
Costs	(2)	(9)	**(11)**
Recycled cumulative exchange loss	(3)	–	**(3)**
Profit/(loss) on disposal	36	(19)	**17**
Cash flow from disposals			
Proceeds received	142	220	**362**
Costs paid	(2)	(5)	**(7)**
Net cash inflow	140	215	**355**

In the Group cash flow statement, £5m of proceeds in respect of the sale of Burberry shares (net of demerger costs) are included in the cash flows on disposal of subsidiaries.

Notes to the Group financial statements

for the year ended 31 March 2006

12. Discontinued operations

(a) The results for discontinued operations were as follows:	2006 £m	2005 £m
Sales:		
Burberry	**472**	715
Wehkamp	**161**	222
Lewis Group	**20**	187
	653	1,124
EBIT:		
Burberry	**94**	161
Wehkamp	**20**	23
Lewis Group	**5**	55
Total EBIT	**119**	239
Exceptional item - profit on Initial Public Offering of Lewis Group	**–**	24
Net interest income	**3**	4
Profit before tax of discontinued operations	**122**	267
Tax charge in respect of pre-tax profit	**(33)**	(73)
Profit after tax of discontinued operations	**89**	194
Gains/(losses) on disposal of discontinued operations:		
Gain on Burberry shares	**10**	3
Costs incurred relating to the demerger of Burberry	**(5)**	–
Loss on disposal of Wehkamp	**(19)**	–
Profit on disposal of Lewis Group	**36**	–
Disposal of home shopping and Reality businesses	**–**	(24)
Gains/(losses) on disposal	**22**	(21)
Tax charge in respect of gains/(losses) on disposal	**–**	–
Profit/(loss) after tax on disposal	**22**	(21)
Profit for the financial year from discontinued operations	**111**	173

On 19 May 2005, the Group announced the sale of its remaining 50% interest in Lewis Group Limited, and on 13 December 2005 divested its remaining 65% interest in Burberry Group plc. On 19 January 2006, the Group sold Wehkamp, the leading home shopping brand in the Netherlands. As a result, these operations have been reclassified as discontinued.

The disposal of the home shopping and Reality businesses took place in May 2003, and provision for the loss on disposal was made in the financial statements for the year ended 31 March 2003, with a further charge relating to professional fees and other costs associated with the transaction being made the following year. Following agreement of the completion statements and the settlement of certain warranty claims, a further charge was made in the year ended 31 March 2005 reflecting full and final settlement of all claims that have arisen from the disposal of these businesses. The related interest bearing loan of £140m was repaid in full in April 2006 by March UK Limited, being the element of deferred consideration in respect of this disposal.

(b) The cash flows attributable to discontinued operations comprise:	2006 £m	2005 £m
From operating activities	**(43)**	55
From investing activities	**(122)**	(74)
From financing activities	**(8)**	(11)
Net decrease in cash and cash equivalents in discontinued operations	**(173)**	(30)

13. Dividend

	2006 pence per share	2006 £m	2005 pence per share	2005 £m
Amounts recognised as distributions to equity holders during the year				
Interim	**9.6**	**82**	9.0	90
Final	**20.5**	**202**	19.0	191
Ordinary dividends paid on equity shares	**30.1**	**284**	28.0	281
Dividend in specie relating to the demerger of Burberry Group plc (note 11)	**–**	**287**	–	–
Proposed final dividend for the year ended 31 March	**21.9**	**187**	20.5	203

The proposed final dividend is not included as a liability in these financial statements and will be paid on 4 August 2006 to shareholders on the Register at the close of business on 7 July 2006. The GUS plc ESOP Trust has waived its entitlement to dividends in the amount of £3.8m (2005: £2.9m), except for the Burberry dividend in specie.

14. Basic and diluted earnings per share

The calculation of basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the Company by the weighted average number of Ordinary shares in issue during the year (excluding own shares held in Treasury and in the ESOP Trust, which are treated as cancelled).

The calculation of diluted earnings per share reflects the potential dilutive effect of employee share incentive schemes. The earnings figures used in the calculations are unchanged for diluted earnings per share.

During the year the Group demerged its remaining interest in Burberry. This was followed by a share consolidation which reduced the number of shares in issue to 849m. As a result of the share consolidation the earnings per share numbers shown below are comparable in 2005 and 2006.

Basic earnings per share:	**2006 pence**	2005 pence
Continuing operations	**51.2**	47.2
Discontinued operations	**9.0**	12.4
Continuing and discontinued operations	**60.2**	59.6
Add back of exceptional and other adjustment items, net of tax	**2.1**	1.6
Adjustment between effective and actual rates of taxation*	**–**	0.8
Benchmark earnings per share	**62.3**	62.0

Diluted earnings per share:		
Continuing operations	**50.4**	46.7
Discontinued operations	**8.8**	12.1
Continuing and discontinued operations	**59.2**	58.8
Benchmark diluted earnings per share	**61.3**	61.2

Earnings:	**2006 £m**	2005 £m
Continuing operations	**484**	472
Discontinued operations	**85**	124
Continuing and discontinued operations	**569**	596
Add back of exceptional and other adjustment items, net of tax	**21**	16
Adjustment between effective and actual rates of taxation*	**–**	8
Benchmark earnings	**590**	620

	2006 m	2005 m
Weighted average number of Ordinary shares in issue during the year	**946.7**	1,000.1
Dilutive effect of share incentive awards	**15.0**	12.6
Diluted weighted average number of Ordinary shares in issue during the year	**961.7**	1,012.7

* The tax charge used in the calculation of the effective tax rate is based on Benchmark PBT.

15. Goodwill

	Notes	Argos £m	Homebase £m	Experian £m	Other £m	**Total £m**
At 1 April 2005		1,108	726	537	114	**2,485**
Differences on exchange		–	–	33	–	**33**
Additions through business combinations	11	45	–	629	5	**679**
Disposals		–	–	–	(119)	**(119)**
Transfer to acquisition intangibles		–	–	(10)	–	**(10)**
At 31 March 2006		**1,153**	**726**	**1,189**	**–**	**3,068**
At 1 April 2004		1,108	726	391	110	**2,335**
Differences on exchange		–	–	(5)	4	**(1)**
Additions		–	–	159	–	**159**
Transfer to acquisition intangibles		–	–	(8)	–	**(8)**
At 31 March 2005		1,108	726	537	114	**2,485**

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16. Other intangible assets

	Notes	Databases £m	Internal use software £m	Internally generated software £m	Acquisition intangibles £m	**Total £m**
Cost						
At 1 April 2005		274	196	77	69	**616**
Differences on exchange		16	5	2	6	**29**
Additions through business combinations	11	1	–	–	219	**220**
Other additions		53	39	19	–	**111**
Transfer between assets		–	–	–	22	**22**
Disposal of subsidiaries		–	(15)	–	(12)	**(27)**
Disposals		(8)	(21)	(3)	–	**(32)**
At 31 March 2006		336	204	95	304	**939**
Amortisation and impairment losses						
At 1 April 2005		154	98	40	11	**303**
Differences on exchange		7	2	–	2	**11**
Transfer between assets		–	–	–	2	**2**
Charge for the year		49	32	12	37	**130**
Disposal of subsidiaries		–	(7)	–	(3)	**(10)**
Disposals		(7)	(21)	(1)	–	**(29)**
At 31 March 2006		203	104	51	49	**407**
Net Book Value at 31 March 2005		120	98	37	58	313
Net Book Value at 31 March 2006		**133**	**100**	**44**	**255**	**532**

	Databases £m	Internal use software £m	Internally generated software £m	Acquisition intangibles software £m	**Total £m**
Cost					
At 1 April 2004	257	155	86	–	**498**
Differences on exchange	(4)	(1)	–	–	**(5)**
Additions through business combinations	4	(1)	1	62	**66**
Other additions	48	46	13	–	**107**
Transfer between assets	(1)	–	–	7	**6**
Disposal of subsidiaries	–	–	(7)	–	**(7)**
Disposals	(30)	(3)	(16)	–	**(49)**
At 31 March 2005	274	196	77	69	**616**
Amortisation and impairment losses					
At 1 April 2004	139	70	44	–	**253**
Differences on exchange	(3)	–	–	–	**(3)**
Transfer between assets	(1)	–	1	–	**–**
Charge for the year	46	30	14	11	**101**
Disposal of subsidiaries	–	–	(5)	–	**(5)**
Disposals	(27)	(2)	(14)	–	**(43)**
At 31 March 2005	154	98	40	11	**303**
Net Book Value at 31 March 2004	118	85	42	–	245
Net Book Value at 31 March 2005	**120**	**98**	**37**	**58**	**313**

17. Property, plant and equipment

	Freehold properties	Leasehold properties Long leasehold	Leasehold properties Short leasehold	Plant & equipment	Assets in course of construction	**Total**
	£m	£m	£m	£m	£m	**£m**
Cost						
At 1 April 2005	299	2	413	1,309	33	**2,056**
Differences on exchange	8	–	8	13	–	**29**
Additions through business combinations	–	–	–	8	–	**8**
Additions	31	3	51	185	13	**283**
Transfer between assets	–	3	(9)	6	(12)	**(12)**
Disposal of subsidiaries	(108)	–	(66)	(165)	(3)	**(342)**
Disposals	(2)	–	(4)	(117)	–	**(123)**
At 31 March 2006	228	8	393	1,239	31	**1,899**
Depreciation						
At 1 April 2005	58	–	185	772	–	**1,015**
Differences on exchange	1	–	1	8	–	**10**
Transfer between assets	–	2	(4)	–	–	**(2)**
Charge for year	7	–	19	149	–	**175**
Impairments	–	–	1	12	–	**13**
Disposal of subsidiaries	(31)	–	(16)	(108)	–	**(155)**
Disposals	(1)	–	(2)	(113)	–	**(116)**
At 31 March 2006	34	2	184	720	–	**940**
Net Book Value at 31 March 2005	241	2	228	537	33	1,041
Net Book Value at 31 March 2006	**194**	**6**	**209**	**519**	**31**	**959**

	Freehold properties	Leasehold properties Long leasehold	Leasehold properties Short leasehold	Plant & equipment	Assets in course of construction	**Total**
	£m	£m	£m	£m	£m	**£m**
Cost						
At 1 April 2004	237	5	384	1,331	54	**2,011**
Differences on exchange	(1)	–	(2)	1	–	**(2)**
Additions through business combinations	8	–	1	2	–	**11**
Additions	21	–	36	225	28	**310**
Transfer between assets	48	–	1	–	(49)	**–**
Disposal of subsidiaries	–	–	–	(4)	–	**(4)**
Disposals	(14)	(3)	(7)	(246)	–	**(270)**
At 31 March 2005	299	2	413	1,309	33	**2,056**
Depreciation						
At 1 April 2004	52	2	174	870	–	**1,098**
Charge for the year	8	–	18	144	–	**170**
Disposal of subsidiaries	–	–	–	(3)	–	**(3)**
Disposals	(2)	(2)	(7)	(239)	–	**(250)**
At 31 March 2005	58	–	185	772	–	**1,015**
Net Book Value at 31 March 2004	185	3	210	461	54	913
Net Book Value at 31 March 2005	**241**	**2**	**228**	**537**	**33**	**1,041**

The Group has used the fair value of certain of its properties as deemed cost on transition to IFRS. The deemed cost as at 1 April 2004 includes £37m of properties carried at depreciated 1996 valuation.

The Group leases plant and equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. The net book value of assets held under finance leases and capitalised in plant and equipment is £4m (2005: £7m).

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18. Investments in associates	2006 £m	2005 £m
Cost		
At 1 April	**110**	93
Differences on exchange	**9**	(1)
Movement on acquisition of balance of shareholding	**–**	(3)
Additions	**7**	5
Impairment of trade or other receivables	**(4)**	–
Share of profit after tax	**37**	42
Dividends received	**(28)**	(26)
Disposals	**(2)**	–
At 31 March	**129**	110

Investments in associates at 31 March 2006 include goodwill of £107m (2005: £100m). The Group's share of cumulative retained profits of associated undertakings at 31 March 2006 is £57m (2005: £48m).

The Group's principal interest in associated undertakings is a 20% holding of First American Real Estate Solutions LLC ('FARES'), a US partnership, which is held by Experian. There are no other material interests in associated undertakings.

At 31 March 2006, the Group's share of the assets of FARES amounted to £215m (2005: £185m), and its share of liabilities amounted to £89m (2005: £84m). The Group's share of revenue for the year ended 31 March 2006 is £142m (2005: £142m), and its share of profit after tax is £37m (2005: £40m).

19. Inventories	2006 £m	2005 £m
Raw materials	**–**	14
Work in progress	**1**	7
Finished goods	**882**	996
	883	1,017

Inventories are stated net of impairment provisions of £113m (2005: £147m).

20. Trade and other receivables	Current 2006 £m	Non-current 2006 £m	Current 2005 £m	Non-current 2005 £m
Trade receivables:				
Hire purchase receivables	**–**	**–**	138	32
Instalment receivables	**355**	**33**	419	232
Other trade receivables	**368**	**4**	394	36
Total trade receivables	**723**	**37**	951	300
VAT recoverable	**10**	**–**	14	1
Deferred consideration receivable	**140**	**–**	–	140
Amounts owed by associates	**1**	**–**	–	–
Other prepayments and accrued income	**177**	**14**	169	13
	1,051	**51**	1,134	454

The effective interest rate during the year ended 31 March 2006 for instalment receivables is 7.7%.

The deferred consideration in respect of the disposal of the home shopping and Reality businesses of £140m was received in full by GUS plc in April 2006 from March UK Ltd.

The Group has elected to apply the provisions of IAS 32 and IAS 39 with effect from 1 April 2005. The comparative financial information is prepared in accordance with UK GAAP to the extent that it relates to recognition and measurement of financial instruments. The nature of the main adjustments that would make the information comply with IAS 32 and IAS 39 are set out in note 39.

An analysis of the maturity profile for non-current items is contained in note 27.

21. Cash and cash equivalents	2006 £m	2005 £m
Cash at bank and in hand	**134**	153
Short-term bank deposits	**87**	194
	221	347

The effective interest rate during the year ended 31 March 2006 for cash and cash equivalents is 2.7%.

22. Trade and other payables

	Current 2006 £m	**Non-current 2006 £m**	Current 2005 £m	Non-current 2005 £m
Trade creditors	**465**	**–**	502	–
VAT and other taxes payable	**72**	**–**	69	–
Social security costs	**43**	**–**	47	–
Accruals	**664**	**37**	706	51
Other creditors	**147**	**46**	188	60
	1,391	**83**	1,512	111

The Group has elected to apply the provisions of IAS 32 and IAS 39 with effect from 1 April 2005. The comparative financial information is prepared in accordance with UK GAAP to the extent that it relates to recognition and measurement of financial instruments. The nature of the main adjustments that would make the information comply with IAS 32 and IAS 39 are set out in note 39.

An analysis of the maturity profile for non-current items is contained in note 27.

23. Provisions

	Onerous leases £m	Insurance provisions £m	OFT fine £m	Other provisions £m	**Total £m**
At 1 April 2005	30	30	16	12	**88**
Amount credited/(debited) in the year	11	5	–	(3)	**13**
Utilised	(5)	(6)	–	(2)	**(13)**
Impact of discount rate movement	1	–	–	–	**1**
At 31 March 2006	**37**	**29**	**16**	**7**	**89**

	Onerous leases £m	Insurance provisions £m	OFT fine £m	Other provisions £m	**Total £m**
At 1 April 2004	30	41	–	29	**100**
Amount credited/(debited) in the year	2	(3)	16	(6)	**9**
Utilised	(3)	(8)	–	(11)	**(22)**
Impact of discount rate movement	1	–	–	–	**1**
At 31 March 2005	**30**	**30**	**16**	**12**	**88**

The onerous lease provision covers potential liabilities for onerous leases at stores which have either closed or where a decision to close has been announced. It also covers stores which are still trading but have been impaired. The onerous lease provisions for closed stores are based on the present value of expected future cash outflows using a discount rate of 4.79% (2005: 4.20%).

Insurance provisions comprise the estimated costs of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The cost of claims includes expenses to be incurred in settling claims.

Fair values of provisions do not differ materially from the recognised book values.

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24. Loans and borrowings	**Current 2006 £m**	**Non-Current 2006 £m**	Current 2005 £m	Non-Current 2005 £m
€568m 4.125% Euronotes 2007	**–**	**395**	–	375
£350m 6.375% Eurobonds 2009	**–**	**356**	–	348
£350m 5.625% Euronotes 2013	**–**	**342**	–	348
4.0% Perpetual Securities – Sterling	**–**	**76**	–	73
4.9% Perpetual Securities – Sterling	**–**	**146**	–	150
Bank loans – Sterling	**29**	**371**	35	380
Bank loans – US dollar	**–**	**380**	–	–
Bank loans – Euro	**–**	**–**	–	–
Overdrafts – Euro	**141**	**–**	73	–
Overdrafts – South African Rand	**–**	**–**	15	–
	170	**2,066**	123	1,674
Present value of obligations under finance leases	**4**	**1**	6	2
	174	**2,067**	129	1,676

The Group has elected to apply the provisions of IAS 32 and IAS 39 with effect from 1 April 2005. The comparative financial information is prepared in accordance with UK GAAP to the extent that it relates to recognition and measurement of financial instruments. The nature of the main adjustments that would make the information comply with IAS 32 and IAS 39 are set out in note 39.

For 2006 the effective interest rate of Euronotes, Eurobonds and Perpetual Securities is the nominal rate indicated above. The effective interest rate of bank loans and overdrafts is 4.9% and 3% respectively.

All the borrowings of the Group shown above are unsecured. Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

An analysis of the maturity profile for non-current items is contained in note 27.

The minimum lease payments payable under finance leases are as follows:

	2006 £m	2005 £m
Not later than one year	**4**	6
Later than one year and not later than five years	**1**	3
Total minimum lease payments	**5**	9
Future finance charges on finance leases	**–**	(1)
Present value of finance leases (as shown above)	**5**	8

	2006 £m	2005 £m
The present value of the finance leases consists of:		
Not later than one year	**4**	6
Later than one year and not later than five years	**1**	2
Total present value	**5**	8

At 31 March 2006 the Group had undrawn committed borrowing facilities available of £530m (2005: £420m) of which £100m (2005: nil) expires within one year of the balance sheet date, and £430m (2005: £420m) expires more than two years after the balance sheet date. These facilities are in place to enable the Group to finance its working capital requirements and for general corporate purposes.

25. Retirement benefit assets/obligations

a) Defined Benefit Schemes

The Group operates pension plans in a number of countries around the world and provides post-retirement healthcare insurance benefits to certain former employees.

The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan that defines the amount of contributions that are paid by the Group into an independently administered fund.

Pension arrangements for UK employees are operated principally through two defined benefit schemes (the GUS Pension Scheme and the Argos Pension Scheme) and one defined contribution scheme (the GUS Money Purchase Pension Plan). In other countries, benefits are determined in accordance with local practice and regulations and funding is provided accordingly. The GUS and Argos defined benefit schemes have rules which specify the benefits to be paid and are financed accordingly with assets being held in independently administered funds. A full actuarial funding valuation of these schemes is carried out every three years with interim reviews in the intervening years. The latest full actuarial funding valuation of the schemes was carried out as at 31 March 2004 by independent, qualified actuaries, Watson Wyatt Limited, using the projected unit method. Under the projected unit method of valuation the current service cost, when expressed as a percentage of payroll, will increase as members approach retirement due to the ageing active membership of the schemes.

The Group has early adopted the December 2004 amendments to IAS 19.

(i) The amounts recognised in the Group balance sheet are determined as follows:

	UK		Overseas		Total	
	2006	2005	**2006**	2005	**2006**	2005
	£m	£m	**£m**	£m	**£m**	£m
Market value of schemes' assets	**1,121**	819	**39**	144	**1,160**	963
Present value of funded schemes' liabilities	**(1,063)**	(892)	**(39)**	(150)	**(1,102)**	(1,042)
Surplus/(deficit) in the funded schemes	**58**	(73)	**–**	(6)	**58**	(79)
Present value of unfunded pension arrangements	**(24)**	(19)	**(4)**	(2)	**(28)**	(21)
Liability for post-retirement healthcare	**(11)**	(9)	**(1)**	(3)	**(12)**	(12)
Retirement benefit asset/(liability) recognised in the Group balance sheet	**23**	(101)	**(5)**	(11)	**18**	(112)

During the year the Group put in place arrangements to secure unfunded pension benefit arrangements already in place for certain directors and senior managers by granting charges to an independent trustee over independently managed portfolios of marketable securities owned by the Group. The amount of assets charged in this way will be adjusted annually to keep the ratio of assets charged to the discounted value of the accrued benefits secured in this way as close as possible to the corresponding ratio in the Group's registered pension schemes. The total value of the assets charged in this way at 31 March 2006 was £16m. Further details of the unfunded pension arrangements for directors appear in the Report on directors' remuneration and related matters on pages 48 and 49.

(ii) The amounts recognised in the Group income statement are as follows:

	UK		Overseas		Total	
	2006 **£m**	2005 £m	**2006** **£m**	2005 £m	**2006** **£m**	2005 £m
Current service cost	**36**	32	**3**	4	**39**	36
Interest on schemes' liabilities (note 9)	**49**	46	**2**	8	**51**	54
Expected return on schemes' assets (note 9)	**(56)**	(47)	**(2)**	(8)	**(58)**	(55)
Settlement gain in respect of unfunded liabilities of home shopping and Reality businesses	**–**	(4)	**–**	–	**–**	(4)
Total charge to Group income statement	**29**	27	**3**	4	**32**	31

(iii) The movements during the year in the net asset/(liability) recognised in the Group balance sheet are as follows:

	UK		Overseas		Total	
	2006	2005	**2006**	2005	**2006**	2005
	£m	£m	**£m**	£m	**£m**	£m
At 1 April	**(101)**	(155)	**(11)**	(23)	**(112)**	(178)
Liabilities disposed with the sale of overseas businesses	**–**	–	**25**	–	**25**	–
Total amounts recognised in the Group income statement – as disclosed above	**(29)**	(27)	**(3)**	(4)	**(32)**	(31)
Actuarial gain/(loss) recognised in the Group statement of recognised income and expense	**25**	(19)	**(18)**	1	**7**	(18)
Contributions paid by the Group	**128**	100	**2**	15	**130**	115
At 31 March	**23**	(101)	**(5)**	(11)	**18**	(112)

Notes to the Group financial statements

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25. Retirement benefit assets/obligations (continued)

(iv) The expense is recognised in the following line items in the Group income statement:

	2006 £m	2005 £m
Administrative costs	**39**	32
Net financing costs	**(7)**	(1)
Total charge to Group income statement	**32**	31

(v) The amount recognised in the Group statement of recognised income and expense is as follows:

	2006 £m	2005 £m
Loss on liabilities	**(128)**	(18)
Gain on assets	**135**	–
Total gain/(loss) included in Group statement of recognised income and expense in year	**7**	(18)
Cumulative actuarial loss included in Group statement of recognised income and expense	**(11)**	(18)

(vi) Changes in the present value of the defined benefit obligation are as follows:

	2006 £m	2005 £m
Opening defined benefit obligation	**1,075**	989
Pension liability disposed with the sale of overseas businesses	**(134)**	–
Current service cost	**39**	36
Interest cost	**51**	54
Currency loss	**3**	–
Settlement or curtailment	**(2)**	(4)
Contributions paid by employees	**9**	11
Actuarial loss on liabilities	**128**	18
Benefits paid	**(27)**	(29)
Closing defined benefit obligation	**1,142**	1,075

The total defined benefit obligation of £1,142m (2005: £1,075m) includes £1,102m (2005: £1,042m) in respect of the Group's funded arrangements and £40m (2005: £33m) in respect of the Group's unfunded arrangements.

(vii) Changes in the market value of the plan assets are as follows:

	2006 £m	2005 £m
Opening market value of plan assets	**963**	811
Pension assets disposed with the sale of overseas businesses	**(109)**	–
Expected return	**58**	55
Currency gain	**3**	–
Settlement or curtailment	**(2)**	–
Actuarial gain on assets	**135**	–
Contributions paid by the Group	**130**	115
Contributions paid by employees	**9**	11
Benefits paid	**(27)**	(29)
Closing market value of plan assets	**1,160**	963

The actual return on plan assets was £193m (2005: £55m).

Contributions include a special contribution of £100m paid into the Argos Pension Scheme in March 2006 and special contributions paid into the Argos Pension Scheme (£50m) and the GUS Pension Scheme (£26m) in March 2005. The estimated amount of contributions expected to be paid to the UK and Overseas schemes during the next financial year is £26m by the Group and £11m by employees.

Retirement benefit assets/obligations (continued)

(viii) The valuations used for IAS 19 have been based on the most recent actuarial funding valuations and have been updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 31 March 2006. The principal actuarial assumptions used to calculate the present value of the defined benefit obligation are as follows:

UK schemes

	2006 %	2005 %
Rate of inflation	**2.9**	2.9
Rate of increase for salaries	**4.7**	4.7
Rate of increase for pensions in payment and deferred pensions	**2.9**	2.9
Rate of increase for medical costs	**6.5**	6.5
Discount rate	**4.9**	5.4

Overseas schemes

	USA 2006 %	USA 2005 %	South Africa 2005 %	Netherlands 2005 %
Rate of inflation	**2.7**	2.5	6.0	2.0
Rate of increase for salaries	**n/a**	n/a	7.0	2.5
Rate of increase for pensions in payment and deferred pensions	**–**	–	6.0	2.0
Rate of increase for medical costs	**11.5**	11.5	n/a	n/a
Discount rate	**5.1**	5.0	9.0	4.8

The main financial assumption is the real discount rate, i.e. the excess of the discount rate over the rate of inflation. If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/increase by approximately £23m and the annual UK current service cost would decrease/increase by approximately £1m. The discount rate is based on market yields on high quality corporate bonds of equivalent currency and term to the defined benefit obligations.

The IAS 19 valuation assumes that mortality will be in line with standard tables for males and females. An allowance is also made for anticipated future improvements in life expectancy, by assuming that the probability of death occurring at each age will decrease by 0.25% each year. Overall, the average expectation of life on retirement in normal health is assumed to be:

– 18.9 years at age 65 for a male currently aged 65

– 22.0 years at age 65 for a female currently aged 65

– 19.6 years at age 65 for a male currently aged 50

– 22.9 years at age 65 for a female currently aged 50

(ix) The assets of the Group's defined benefit schemes and the expected rates of return are summarised as follows:

	UK		**Overseas**		UK		Overseas	
	Fair value 2006 £m	**Expected long-term rate of return 2006 %pa**	**Fair value 2006 £m**	**Expected long-term rate of return 2006 %pa**	Fair value 2005 £m	Expected long-term rate of return 2005 %pa	Fair value 2005 £m	Expected long-term rate of return 2005 %pa
Market value of schemes' assets:								
Equities	**776**	**7.9**	**–**	**n/a**	561	8.0	57	7.9
Fixed interest securities	**332**	**4.5**	**–**	**n/a**	247	5.0	39	4.4
Property	**–**	**n/a**	**–**	**n/a**	–	–	9	7.5
Other	**13**	**3.7**	**39**	**5.0**	11	3.7	40	5.2
	1,121	**6.8**	**39**	**5.0**	819	7.0	145	6.2

(b) Defined Contribution Schemes

The pension cost represents contributions payable by the Group to the fund and amounted to £20m (2005: £14m).

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26. Other financial assets and liabilities

Other financial assets	Current 2006 £m	Non-current 2006 £m
Derivative financial instruments:		
Cash flow hedge - foreign exchange contracts	**2**	**–**
Fair value hedge of borrowings - interest rate swaps	**–**	**22**
Fair value hedge of borrowings - cross currency swap	**–**	**27**
Non-hedging derivatives - equity swaps	**2**	**2**
Non-hedging derivatives - interest rate swaps	**2**	**19**
	6	**70**
Available for sale assets:		
Listed	**–**	**21**
Total other financial assets	**6**	**91**

Other financial liabilities	Current 2006 £m	Non-current 2006 £m
Derivative financial instruments:		
Fair value hedge of borrowings - interest rate swaps	**–**	**7**
Net investment hedge - foreign exchange contracts	**13**	**–**
Non-hedging derivatives - foreign exchange contracts	**6**	**–**
Non-hedging derivatives - interest rate swaps	**2**	**1**
Total other financial liabilities	**21**	**8**

The fair value of foreign currency contracts is based on a comparison of the contractual and year end exchange rates. The fair values of other derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

The cash flow hedges are intended to hedge the foreign currency exposure of future purchases of inventory. The hedged cash flows are expected to occur up to one year into the future and will be transferred to the Group income statement or inventory carrying value as applicable.

Available for sale assets at 31 March 2005 comprise £24m of listed and £7m of unlisted investments held by the Lewis Group Limited and £8m of shares of Burberry Group plc held by that company. Of the total of £39m, £31m was classified as current and £8m was classified as non-current.

UK GAAP Comparatives

The Group has elected to apply the provisions of IAS 32 and IAS 39 with effect from 1 April 2005. The comparative financial information is prepared in accordance with UK GAAP to the extent that it relates to the recognition and measurement of financial instruments. The nature of the main adjustments that would make the information comply with IAS 32 and IAS 39 are set out in note 39.

An analysis of unrecognised gains and losses on hedging at 31 March 2005 as prepared under UK GAAP is shown below:

Year ended 31 March 2005	Unrecognised gains £m	Unrecognised losses £m	Total unrecognised gains/(losses) £m
On hedges at 1 April 2004	21	–	21
Arising before 1 April 2004 and recognised during the year ended 31 March 2005	(11)	–	(11)
Arising during the year and not included in current year income	12	(2)	10
At 31 March 2005	22	(2)	20
Expected to be recognised in 2006	14	(2)	12
Expected to be recognised thereafter	8	–	8

27. Financial instruments

(a) Financial instrument disclosure for the year ended 31 March 2006

Fair values of financial assets and liabilities

Set out below is a comparison of carrying values and fair values of the Group's financial instruments:

	2006 Carrying value £m	2006 Fair value £m
Trade and other receivables	**1,102**	**1,102**
Other financial assets	**97**	**97**
Cash and cash equivalents	**221**	**221**
Financial assets	**1,420**	**1,420**
Loans and Borrowings		
€568m 4.125% Euronotes 2007	**395**	**396**
£350m 6.375% Eurobonds 2009	**356**	**357**
£350m 5.625% Euronotes 2013	**342**	**344**
4.0% Perpetual Securities	**76**	**74**
4.9% Perpetual Securities	**146**	**150**
Bank loans	**780**	**780**
Overdrafts	**141**	**141**
	2,236	**2,242**
Other financial liabilities	**29**	**29**
Trade and other payables	**1,474**	**1,474**
Financial liabilities	**3,739**	**3,745**

Additional information on financial assets

The maturity profiles of financial assets are as follows:

	Less than 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	Over 5 years £m	**Total £m**
Trade and other receivables	1,051	24	11	3	–	13	**1,102**
Other financial assets	6	33	8	24	5	21	**97**
Cash and cash equivalents	221	–	–	–	–	–	**221**
	1,278	**57**	**19**	**27**	**5**	**34**	**1,420**

Analysed by currency:	**Total £m**
At 31 March 2006	
Sterling	**928**
US dollar	**226**
Euro	**240**
Other	**26**
Total	**1,420**

Analysed by interest rate profile:	**Total £m**
At 31 March 2006	
Floating	**229**
Fixed	**302**
Non-interest bearing	**889**
Total	**1,420**

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27. Financial instruments (continued)

Additional information on financial liabilities
The contractual repricing dates of liabilities exposed to interest rate risk are as follows:

	Less than 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	Over 5 years £m	**Total £m**
Loans and Borrowings							
€568m 4.125% Euronotes 2007	–	395	–	–	–	–	**395**
£350m 6.375% Eurobonds 2009	–	–	–	356	–	–	**356**
£350m 5.625% Euronotes 2013	–	–	–	–	–	342	**342**
4.0% Perpetual Securities	–	76	–	–	–	–	**76**
4.9% Perpetual Securities	–	146	–	–	–	–	**146**
Bank loans	780	–	–	–	–	–	**780**
Overdrafts	141	–	–	–	–	–	**141**
Effect of interest rate swaps	474	(437)	284	(138)	167	(350)	**–**
Other financial liabilities	21	1	–	–	–	7	**29**
Trade and other creditors payable	1,391	34	19	2	4	24	**1,474**
	2,807	**215**	**303**	**220**	**171**	**23**	**3,739**

Analysed by currency:

	Total £m
At 31 March 2006	
Sterling	**2,392**
US dollar	**704**
Euro	**619**
Other	**24**
Total	**3,739**

Analysed by interest rate profile:

	Floating £m	Fixed £m	Non-interest bearing £m	**Total £m**
At 31 March 2006				
Loans and borrowings	921	1,315	–	**2,236**
Effect of interest rate swaps	474	(474)	–	**–**
Other	7	70	1,426	**1,503**
Total	**1,402**	**911**	**1,426**	**3,739**

Analysed by maturity profile:

	Less than 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	Over 5 years £m	**Total £m**
At 31 March 2006							
Loans and Borrowings	170	997	371	356	–	342	**2,236**
Other financial liabilities	21	1	–	–	–	7	**29**
Trade and other creditors payable	1,391	34	19	2	4	24	**1,474**
Total	**1,582**	**1,032**	**390**	**358**	**4**	**373**	**3,739**

(b) Financial instrument disclosure for the year ended 31 March 2005
The Group has elected to apply the provisions of IAS 32 and IAS 39 with effect from 1 April 2005. The comparative financial information shown below is prepared in accordance with UK GAAP. The nature of the main adjustments that would make the information comply with IAS 32 and IAS 39 are set out in note 39.

27. Financial instruments (continued)

Fair values of financial assets and liabilities
Set out below is a comparison of carrying values and fair values of the Group's financial instruments:

	2005 Carrying value £m	2005 Fair value £m
Trade and other receivables due after one year	455	455
Other financial assets – investments	31	34
Cash and cash equivalents	347	347
Financial assets	833	836
Loans and borrowings	(1,797)	(1,820)
Obligations under finance leases	(8)	(8)
Trade and other creditors payable after one year	(74)	(74)
Financial liabilities	(1,879)	(1,902)
Derivative financial instruments held to manage the interest and currency profile:		
Interest rate swaps	–	13
Currency swaps and forward foreign currency exposure	2	9
Equity swaps held to hedge National Insurance liabilities on employee share incentive schemes	3	3

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, including finance lease obligations, is as follows:

	2005 £m
In one year or less	129
In one to two years	395
In two to five years	1,000
In more than five years	355
Total	1,879

Additional information on financial assets
The interest rate risk profile of the Group's financial assets by currency, after taking account of interest rate swaps, is as follows:

	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is earned £m	Total £m	Fixed rate financial assets: Weighted average interest rate %	Fixed rate financial assets: Weighted average period for which rate is fixed years	Financial assets on which no interest is earned: Weighted average period until maturity years
At 31 March 2005							
Sterling	144	69	36	249	11	2	2
US dollar	–	–	2	2	–	–	2
Euro	160	–	12	172	–	–	2
South African rand	–	32	–	32	27	2	–
Total	304	101	50	455			

Additional information on financial liabilities
The interest rate risk profile of the Group's financial liabilities by currency, after taking account of interest rate and currency swaps, is as follows:

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m	Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average period for which rate is fixed years	Financial liabilities on which no interest is paid: Weighted average period until maturity years
At 31 March 2005							
Sterling	3	306	32	341	5	2	3
US dollar	616	330	13	959	3	2	3
Euro	418	70	18	506	2	1	3
South African rand	108	1	–	109	–	–	–
Other	(47)	–	11	(36)	–	–	2
Total	1,098	707	74	1,879			

The floating rate liabilities accrue interest at rates generally determined by local regulation and market conditions. The negative liabilities at 31 March 2005 arose from forward foreign currency sales undertaken to hedge net investments overseas.

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28. Deferred tax	2006 £m	2005 £m
The movements on the net deferred tax account are as follows:		
Net deferred tax assets at 1 April	**178**	229
Differences on exchange	**–**	(2)
Income statement charge (note 10) (2005: includes £6m relating to discontinued operations)	**(61)**	(42)
Acquisition of subsidiaries	**(22)**	(14)
Disposal of subsidiaries	**(4)**	–
Tax charged to equity (see Group statement of recognised income and expense)	**5**	7
Transfers	**14**	–
Other movements	**3**	–
Net deferred tax assets at 31 March	**113**	178

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred tax assets	Accelerated depreciation £m	Intangibles £m	Share option and award schemes £m	Asset provisions £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 April 2005	3	107	13	64	19	136	**342**
Differences on exchange	–	(2)	–	–	2	4	**4**
Income statement charge (note 10)	–	(4)	2	(17)	(2)	(10)	**(31)**
Acquisition of subsidiaries	–	(7)	–	–	–	–	**(7)**
Disposal of subsidiaries	–	–	–	(15)	–	–	**(15)**
Transfers	–	–	–	14	–	–	**14**
Tax charged to equity	–	–	8	2	–	(8)	**2**
Other movements	–	–	1	4	–	–	**5**
At 31 March 2006	**3**	**94**	**24**	**52**	**19**	**122**	**314**

(b) Deferred tax liabilities	Property valuations £m	Accelerated depreciation £m	Intangibles £m	Share option and award schemes £m	Asset provisions £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 April 2005	45	19	22	3	–	5	70	**164**
Differences on exchange	1	–	–	–	–	1	2	**4**
Income statement charge (note 10)	(2)	18	(1)	–	(1)	(2)	18	**30**
Acquisition of subsidiaries	–	–	15	–	–	–	–	**15**
Disposal of subsidiaries	(15)	–	–	(3)	–	–	7	**(11)**
Tax charged to equity	–	–	–	–	–	–	(3)	**(3)**
Other movements	1	–	–	–	1	–	–	**2**
At 31 March 2006	**30**	**37**	**36**	**–**	**–**	**4**	**94**	**201**

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred tax assets of £5m (2005: £5m) in respect of losses that can be carried forward against future taxable income. In addition, the Group did not recognise deferred tax assets of £45m (2005: £45m) in respect of capital losses that can be carried forward against future taxable gains. These losses are available indefinitely.

Deferred tax liabilities of £1,168m (2005: £625m) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

29. Share capital and share premium

Year ended 31 March 2006	Notes	Number of shares m	Share capital £m	Share premium £m
At 1 April 2005		1,017.2	254	69
Allotted under share option schemes	31	4.8	2	28
Share consolidation		(142.8)	–	–
Balance at 31 March 2006		**879.2**	**256**	**97**

Year ended 31 March 2005	Notes	Number of shares m	Share capital £m	Share premium £m
At 1 April 2004		1,014.0	254	35
Allotted under share option schemes	31	6.7	1	34
Shares cancelled on purchase		(3.5)	(1)	–
Balance at 31 March 2005		**1,017.2**	**254**	**69**

Authorised share capital
At 31 March 2006 and 31 March 2005 the authorised share capital of the Company amounted to £313m. At 31 March 2006 this comprised 1,075,000,000 Ordinary shares of 29 3/43p (2005: 1,250,000,000 Ordinary shares of 25p). At 31 March 2006, 879,240,912 Ordinary shares of 29 3/43p each had been allotted, called up and fully paid. At 31 March 2005, 1,017,236,451 Ordinary shares of 25p each had been allotted, called up and fully paid. The change in the par value of the Company's shares was in connection with the share consolidation.

Share consolidation
At an Extraordinary General Meeting on 13 December 2005, the shareholders of GUS plc approved a consolidation of GUS shares, replacing 1,023m Ordinary shares of 25p each with 880m Ordinary shares of 29 3/43p each. The share consolidation was designed to keep the GUS share price at approximately the same level, subject to normal market movements, before and after the demerger of the Group's remaining interest in Burberry Group plc. For every 1,000 Ordinary shares of 25p each held immediately prior to the demerger, shareholders received 305 Ordinary shares of 0.05p each in Burberry Group plc and 860 Ordinary shares of 29 3/43p each in GUS plc.

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30. Reconciliation of movements in equity

				Total Retained earnings				
Year ended 31 March 2006	Notes	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	**Attributable to equity holders £m**	Equity minority interests £m	**Total equity £m**
Balance at 1 April 2005		254	69	2,978	(246)	**3,055**	256	**3,311**
Cumulative adjustment for the implementation of IAS 39	39	–	–	–	10	**10**	2	**12**
Balance at 1 April 2005, as restated		254	69	2,978	(236)	**3,065**	258	**3,323**
Profit for the financial year		–	–	569	–	**569**	26	**595**
Net income recognised directly in equity for the financial year		–	–	5	12	**17**	3	**20**
Employees share option schemes:								
– value of employee services		–	–	35	–	**35**	–	**35**
– proceeds from shares issued		2	28	–	–	**30**	–	**30**
Decrease in minority interests arising due to corporate transactions		–	–	–	–	**–**	(277)	**(277)**
Purchase of ESOP shares		–	–	–	(16)	**(16)**	–	**(16)**
Equity dividends paid during the year	13	–	–	(284)	–	**(284)**	–	**(284)**
Dividend in specie relating to the demerger of Burberry Group plc	11	–	–	(287)	–	**(287)**	–	**(287)**
Dividends paid to minority shareholders		–	–	–	–	**–**	(7)	**(7)**
Other movements		–	–	2	–	**2**	(2)	**–**
Total equity at 31 March 2006		**256**	**97**	**3,018**	**(240)**	**3,131**	**1**	**3,132**

				Total Retained earnings				
Year ended 31 March 2005	Notes	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	**Attributable to equity holders £m**	Equity minority interests £m	**Total equity £m**
Balance at 1 April 2004		254	35	2,642	(72)	**2,859**	160	**3,019**
Profit for the financial year		–	–	596	–	**596**	49	**645**
Net income recognised directly in equity for the financial year		–	–	12	2	**14**	–	**14**
Employees share option schemes:								
– value of employee services		–	–	35	–	**35**	–	**35**
– proceeds from shares issued		1	34	–	–	**35**	–	**35**
Increase in minority interests arising due to corporate transactions		–	–	–	–	**–**	62	**62**
Shares cancelled on purchase		(1)	–	(30)	–	**(31)**	–	**(31)**
Purchase of treasury and ESOP shares		–	–	–	(176)	**(176)**	–	**(176)**
Equity dividends paid during the year	13	–	–	(281)	–	**(281)**	–	**(281)**
Dividends paid to minority shareholders		–	–	–	–	**–**	(11)	**(11)**
Other movements		–	–	4	–	**4**	(4)	**–**
Total equity at 31 March 2005		**254**	**69**	**2,978**	**(246)**	**3,055**	**256**	**3,311**

There are no significant statutory, contractual or exchange control restrictions on distributions by Group undertakings.

Cumulative goodwill of £1,709m (2005: £1,709m) has been charged to reserves in respect of acquisitions before 1 April 1998, including £1,678m (2005: £1,678m) in respect of subsidiary undertakings and £31m (2005: £31m) in respect of associated undertakings.

30. Reconciliation of movements in equity (continued)

Other reserves is analysed as follows:

Year ended 31 March 2006	Treasury and ESOP shares £m	Hedging reserve £m	Translation reserve £m	**Total other reserves £m**
At 1 April 2005	(248)	–	2	**(246)**
Cumulative adjustment for the implementation of IAS 39	–	10	–	**10**
At 1 April 2005, as restated	(248)	10	2	**(236)**
Purchase of ESOP shares	(16)	–	–	**(16)**
Net income recognised directly in equity for the financial year	–	(2)	14	**12**
Balance at 31 March 2006	**(264)**	**8**	**16**	**(240)**

Year ended 31 March 2005	Treasury and ESOP shares £m	Hedging reserve £m	Translation reserve £m	**Total other reserves £m**
At 1 April 2004	(72)	–	–	(72)
Purchase of treasury and ESOP shares	(176)	–	–	(176)
Net income recognised directly in equity for the financial year	–	–	2	2
Balance at 31 March 2005	**(248)**	**–**	**2**	**(246)**

Treasury and ESOP shares represent the cost of shares in GUS plc purchased by the GUS plc ESOP Trust (‘the Trust’) to satisfy the Group’s obligations under its share incentive plans and shares purchased in share buy-backs. During the year the Trust purchased 4,082,187 (2005: 2,600,000) shares at a cost of £36m (2005: £22m). In the year ended 31 March 2005 a further 22,140,000 shares were purchased at a cost of £200m by way of share buy-backs. Of these 3,500,000 shares with a cost of £30m were cancelled.

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31. Share-based payment arrangements

(a) Options in respect of the Ordinary shares of the Company

During the year ended 31 March 2006, GUS plc had three share option arrangements for its employees. Details of these share option arrangements are as follows:

(i) Summary of arrangements

Arrangements	The 1998 Approved and Non-Approved Executive Share Option Schemes	The North America Stock Option Plan	Savings related share option schemes
Nature	Grant of options	Grant of options	'Save as you earn' scheme
Vesting Conditions:			
– Service period	3 years	1, 2 and 3 years	3 or 5 years
– Performance/Other	EPS growth performance condition[1]	n/a	Saving obligation over the vesting period
Expected outcome of meeting performance criteria (at grant date)	Condition is satisfied	n/a	n/a
Maximum term	10 years	6 years	3.5 or 5.5 years
Method of settlement	Share distribution	Share distribution	Share distribution
Expected departures (at grant date)	5%	1 year – 0% 2 years – 15% 3 years – 20%	3 years[2] – 30% 5 years[2] – 50%
Option exercise price calculation[3]	Market price over the 3 dealing days preceding the grant	Market price over the 3 dealing days preceding the grant	20% discount to market price over the 3 dealing days preceding the grant

[1] The performance condition for the Executive Share Option Scheme requires average Benchmark EPS growth to exceed the average growth in the general index of retail prices by at least 4% p.a. over a 3 year period. The period of assessment commences at the beginning of the financial year of grant. This is not a market based performance condition as defined by IFRS 2.

[2] The stated values for expected departures include participants that do not meet the saving requirement of the scheme.

[3] Three day averages are calculated by taking middle market quotations of a GUS plc share from the London Stock Exchange.

Options were exercised throughout the year. The weighted average share price during the year was £9.32 (2005: £8.71).

(ii) Information relating to option valuation techniques

The Company uses the Black Scholes model to determine an appropriate value of the option grants. Inputs into the model are calculated as follows:

Expected volatility – Calculated as an average over the expected life with an assumption made for volatility in each year of the expected life. Volatility in the first year is assumed to be the same as implied volatility on grant date. Volatility for year 4 and beyond is assumed to remain at the long run (10 year observed) historic volatility. Linear interpolation is assumed for years 2 and 3.

Expected dividend yield – Yields are based on the current consensus analyst forecast figures at the time of grant. The inputs utilised are an average of the forecast over the next three financial years.

Risk-free interest rate – Rates are obtained from the UK government Debt Management Office website which details historical prices and yields for gilt strips.

Expected option life to exercise – The Executive Share Option Scheme has an expected life of four years, the North American Stock Option Plan has an expected life of 3.75 years and the Sharesave Schemes have expected lives of either three or five years.

Share price on grant date – The closing price on the day the options are granted.

Option exercise price – Exercise price as stated in the term of each award.

31. Share-based payment arrangements (continued)

The weighted average estimated fair values and the inputs into the Black-Scholes models are as follows:

Arrangements	The 1998 Approved and Non-Approved Executive Share Option Schemes		The North America Stock Option Plan		Savings related share option schemes	
	Weighted average 2006	Weighted average 2005	**Weighted average 2006**	Weighted average 2005	**Weighted average 2006**	Weighted average 2005
Fair value (£)	**1.60**	1.71	**1.52**	1.65	**2.46**	2.42
Share price on grant date (£)	**8.53**	8.26	**8.48**	8.25	**8.96**	8.46
Exercise price (£)	**8.61**	8.12	**8.59**	8.10	**6.87**	6.48
Expected volatility	**27.8%**	27.0%	**27.4%**	27.0%	**25.5%**	25.6%
Expected dividend yield	**4.0%**	3.8%	**4.0%**	3.8%	**3.8%**	3.9%
Risk free interest rate	**4.3%**	5.2%	**4.3%**	5.2%	**4.1%**	5.1%
Expected option life to exercise	**4 years**	4 years	**3.75 years**	3.75 years	**3.56 years**	3.45 years

Options granted during 2006 had a weighted average fair value of £1.82 (2005: £1.94).

(iii) Reconciliation of movement in the number of share options

	Number of options 2006	**Weighted average exercise price £ 2006**	Number of options 2005	Weighted average exercise price £ 2005
Outstanding at beginning of year	**27,741,725**	**6.34**	29,682,249	5.71
New grants	**8,335,298**	**8.12**	8,285,234	7.55
Forfeitures[1]	**(1,469,207)**	**6.53**	(1,940,133)	5.96
Exercised options	**(5,881,782)**	**6.09**	(8,237,057)	5.40
Expired options	**(525,869)**	**6.60**	(48,567)	5.49
Outstanding at end of year	**28,200,165**	**6.90**	27,741,725	6.34
Exercisable at end of year	**5,928,451**	**6.41**	4,925,280	6.03

[1] For the Sharesave schemes, this includes non-leavers who have failed the savings requirement.

(iv) Share options outstanding at the end of the year

Share options outstanding at the end of the year had the following exercise prices and remaining contractual lives:

As at 31 March 2006					As at 31 March 2005				
Range of exercise prices £	**Number of options**	**Weighted average exercise price £**	**Weighted average remaining lives: Expected years**	**Weighted average remaining lives: Contractual years**	Range of exercise prices £	Number of options	Weighted average exercise price £	Weighted average remaining lives: Expected years	Weighted average remaining lives: Contractual years
0 – 6	**5,171,594**	**4.56**	**0.7**	**1.4**	0 – 6	7,508,503	4.69	1.4	2.6
6 – 7	**12,437,703**	**6.61**	**1.2**	**4.8**	6 – 7	14,890,809	6.53	1.6	5.7
7 – 8	**100,535**	**7.57**	**1.6**	**6.6**	7 – 8	116,387	7.57	2.6	7.7
8 – 9	**10,490,333**	**8.39**	**3.9**	**6.0**	8 – 9	5,217,655	8.11	3.1	8.1

Notes to the Group financial statements

for the year ended 31 March 2006

31. Share-based payment arrangements (continued)

(b) Share awards in respect of the Ordinary shares of the Company

(i) Summary of arrangements

Arrangements	Co-Investment Plan – Matching Shares	Performance Share Plan
Nature of arrangement	Grant of shares[1]	Grant of shares
Vesting Conditions:		
– Service period	4 years	3 years
– Performance	Benchmark profit performance of Group/Division assessed against specified targets	Distribution percentage determined by ranking 'Total shareholder return' relative to a comparator group
Expected outcome of meeting performance criteria (at grant date)	Participants meet target performance	Currently 60%[2]
Maximum term	6 years	3 years
Method of settlement	Share distribution	Share distribution
Expected departures (at grant date)	7%	5%

[1] The Matching Shares are a nil consideration option and have been classified as an award of shares because the nature of the award is the same.

[2] The Performance Share Plan performance condition is considered a 'Market-based' performance condition under IFRS 2. It has been valued using a Monte Carlo simulation with historic volatilities and correlations measured over the three year period preceding valuation. On conversion to IFRS, the fair value of awards was calculated as 60% of the share price at date of grant. The performance condition was initially valued at 60% on conversion to IFRS accounting standards. This valuation will be applied to all new grants for a three year period (until 2007). In 2007 the Monte Carlo simulation will be re-run. The revaluation will be brought forward if factors arise that suggest an earlier re-run is warranted.

The grant date for the Co-Investment plan is the start of the financial year in which performance is assessed. This is before the quantity of the share award is determined. The underlying value of the award is known at the grant date, subject to the outcome of the performance condition. The value of awarded shares reflects the performance outcome at the date of issue to participants.

(ii) Information relating to share grant valuation techniques

The value of awards is determined as the observed market closing rate on the date awarded grants are issued to participants. For the Co-Investment scheme, this occurs after the first year of performance is assessed. The Performance Share Plan's market based performance condition is included in the fair value measurement on grant date and is not revised for actual performance.

Under the share awards, participants have an entitlement to dividend distributions from the issue date until point of vesting. The observed market rate on the day of valuation is considered inclusive of future dividend distributions. No modifications are made for dividend distributions or other factors.

There were 2,635,145 shares granted during 2006 (2005: 2,432,536), with a weighted average award fair value of £7.69 (2005: £7.28).

(c) Summary of the total cost of share-based compensation in respect of Ordinary shares in the Company

	2006 £m	2005 £m
Share option awards	**13**	11
Share grant awards	**16**	13
Total expense recognised (all equity settled)	**29**	24

32. Operating leases

	2006 £m	2005 £m
Future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:		
Less than one year	**339**	302
Between one and five years	**1,237**	1,142
More than five years	**2,544**	2,569
	4,120	4,013

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

33. Commitments

	2006 £m	2005 £m
Capital expenditure for which contracts have been placed		
– Property, plant and equipment	**54**	91
– Intangible assets	**1**	–
	55	91

34. Contingencies

In the United States, there are a number of pending and threatened litigation claims involving Experian. Experian vigorously defends such claims. The directors do not believe that the outcome of any such pending or threatened litigation will have a material adverse effect on the Group's financial position. However, as is inherent in legal proceedings, there is a risk of outcomes unfavourable to the Group.

35. Related parties

The ultimate parent company of the Group is GUS plc which is incorporated in the United Kingdom. The principal subsidiary and associate undertakings at 31 March 2006 are shown in note 15 to the financial statements of the ultimate parent company.

The following transactions were carried out with related parties of the GUS Group:

Associates

During the year Experian companies made net sales and recharges, under normal commercial terms and conditions that would be available to third parties, to First American Real Estate Solutions LLC ('FARES') of £12m (2005: £10m). Amounts receivable from FARES are shown within note 20. These amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in the year. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Subsidiaries

During the year there were no other material related party transactions. Transactions between the ultimate parent company and its subsidiaries, and between its subsidiaries, have been eliminated on consolidation.

Key management personnel

Remuneration of key management personnel is disclosed in note 7. During the year there were no material transactions or balances between the Group and its key management personnel or members of their close family.

Notes to the Group financial statements

for the year ended 31 March 2006

36. Notes to the Group cash flow statement

	Notes	2006 £m	2005 £m
(a) Cash generated from operations			
Profit after tax		**484**	472
Adjustments for:			
Group tax expense		**165**	176
Share of post tax profits of associates		**(37)**	(42)
Net financing costs		**42**	28
Operating profit		**654**	634
Loss on sale of businesses	8	**–**	7
Loss on sale of property, plant and equipment		**–**	1
Depreciation and amortisation		**295**	241
Credit in respect of share incentive schemes		**30**	37
Decrease/(increase) in inventories		**5**	(182)
Decrease/(increase) in receivables		**13**	(3)
Decrease in other financial assets		**7**	–
(Decrease)/increase in payables		**(110)**	61
Cash generated from operations		**894**	796
(b) Interest paid			
Interest paid on bonds, bank loans and overdrafts		**(63)**	(59)
Interest element of finance lease rental payments		**–**	(1)
Total interest paid		**(63)**	(60)
(c) Acquisition of subsidiaries			
Purchase of subsidiary undertakings		**(819)**	(199)
Net cash acquired with subsidiary undertakings		**–**	23
Net cash outflow for acquisition of subsidiaries		**(819)**	(176)
(d) Disposal of subsidiaries			
Proceeds of disposal of shares in Burberry		**5**	4
Proceeds of disposal of Wehkamp		**215**	–
Proceeds of disposal of shares in Lewis		**140**	105
Sale of other businesses		**–**	(3)
Cash inflow from disposal of subsidiaries		**360**	106
(e) Financing			
Debt due within one year:			
Repayment of borrowings		**(35)**	(334)
New borrowings		**–**	93
Debt due after more than one year:			
Repayment of borrowings		**–**	(21)
New borrowings		**375**	380
Net cash flow from debt financing		**340**	118
(f) Analysis of cash and cash equivalents			
Cash at bank and in hand (including overnight deposits)		**168**	153
Term deposits		**53**	194
Cash and cash equivalents per Group balance sheet		**221**	347
Overdrafts		**(141)**	(88)
Cash and cash equivalents per Group cash flow statement		**80**	259
Analysed as:			
Cash and cash equivalents - continuing operations		**80**	84
Cash and cash equivalents - discontinued operations		**–**	175
		80	259

(g) Major non-cash transactions

The Group did not enter into any new finance lease arrangements during the year (2005: nil).

37. Summary of significant accounting policies

Revenue recognition

Revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised as follows:

Argos Retail Group (‘ARG’)

Sales of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue on goods to be delivered is recognised when the customer accepts delivery. A provision for estimated returns is made, representing the profit on goods sold during the year which will be returned and refunded after the year end. Revenue is reduced by the value of sales returns provided for during the year.

The Group operates a variety of sales promotion schemes that give rise to goods being sold at a discount to standard retail price. These include redemption of loyalty card points, staff discounts, Friends and Family evenings and the redemption of promotional vouchers. Revenue is adjusted to show sales net of all related discounts.

Interest income

Within ARG Financial Services (‘ARGFS’), interest income on customer storecard accounts and loans is recognised on a time-proportion basis using the effective interest method. Where ARGFS acts as an agent in arranging the sales of a variety of third party provided financial services products, only the commission received is included in the income statement and it is classified as revenue.

When a receivable is impaired, the carrying amount is reduced to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate. Unwinding of the discount continues to be recognised as interest income.

Experian

Provision of services

Revenue is recognised in respect of the provision and processing of data, subscription to services, software and database customisation and development and sale of software licences, maintenance and related consulting services.

Revenue in respect of the provision and processing of data is recognised in the year in which the service is provided. Subscription revenues, and revenues in respect of services to be provided by an indeterminate number of acts over a specified period of time, are recognised on a pro rata basis. Customisation, development and consulting revenues are recognised by reference to the stage of completion of the work. Revenue from software licences is recognised upon delivery. Revenue from maintenance agreements is recognised on a pro rata basis over the term of the maintenance period.

Where a single arrangement comprises a number of individual elements which are capable of operating independently of one another, the total revenues are allocated amongst the individual elements based on an estimate of the fair value of each element. Where the elements are not capable of operating independently, or reasonable measures of fair value for each element are not available, total revenues are recognised on a pro rata basis over the contract period.

Foreign currency translation

Functional and presentation currency

The Group’s consolidated financial statements are presented in Sterling.

Transactions and balances

Transactions in foreign currencies are recorded in the functional currency of the relevant Group entity at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to financing fair value remeasurements in the Group income statement except when deferred in equity, as qualifying net investment hedges or cash flow hedges.

Translation differences on non-monetary available for sale financial instruments, are reported as part of the fair value gain or loss in equity.

Group entities

The results and financial position of Group entities whose functional currencies are not Sterling are translated into Sterling as follows:

– Assets and liabilities are translated at the closing rate at the date of that balance sheet;

– Income and expenses are translated at the average exchange rate for the year; and

– All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments, primarily foreign exchange contracts, designated as hedges of such investments, are taken to equity. Tax charges and credits attributable to those exchange differences are taken directly to equity. When a foreign operation is sold, such exchange differences are recognised in the Group income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Notes to the Group financial statements

for the year ended 31 March 2006

37. Summary of significant accounting policies (continued)

Share-based payments

IFRS 2 'Share-based payment', applies to equity instruments, such as share options granted since 7 November 2002, but the Group has elected to adopt full retrospective application of the standard.

The Group has a number of equity-settled, share-based compensation plans. The fair value of options and shares granted is recognised as an expense after taking into account the Group's best estimate of the number of awards expected to vest. The Group revises the vesting estimate at each balance sheet date. Non market performance conditions are included in the vesting estimates. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes, Monte Carlo model and closing market price is most appropriate to the award. Market based performance conditions are included in the fair value measurement on grant date and are not revised for actual performance.

Dividend distribution

Dividend distributions are recognised in the Group's financial statements in the year in which the dividends are approved in general meeting by the Company's shareholders. Interim dividends are recognised when paid.

Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary and/or associate acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in the carrying amount of the investment. Goodwill is stated at cost less any impairment. Goodwill is not amortised but is tested annually for impairment. An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its fair value.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at the business segment level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Group income statement.

Goodwill is allocated to cash-generating units ('CGUs') and monitored for internal management purposes by business segment. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, allocated where necessary on the basis of relative fair value.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. Intangible assets acquired separately from the acquisition of a business are capitalised at cost. Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and to use or sell the asset and how the asset will generate probable future economic benefit.

The cost of other intangible assets with finite useful economic lives is amortised over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired they are written down to the higher of fair value less costs to sell and value in use.

Databases

Capitalised databases comprise the fair value of databases acquired as part of a business combination or the data purchase and data capture costs of internally developed databases. Databases are held at cost and are amortised on a straight line basis over 3 to 7 years.

Completed technology

The fair value of completed technology acquired as part of a business combination is capitalised as an intangible asset. Completed technology is held at fair value on acquisition and amortised on a straight line basis over 3 to 8 years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are held at cost and are amortised on a straight line basis over 3 to 5 years.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight line basis over 3 to 5 years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Acquisition intangibles

Trademarks and licences

Trademarks and licences acquired as part of a business combination are carried at cost and are amortised on a straight line basis over their estimated useful lives up to 20 years based on their contractual lives.

37. Summary of significant accounting policies (continued)

Trade names

Legally protected or otherwise separable trade names acquired as part of a business combination are capitalised at fair value on acquisition and amortised on a straight line basis over 3 to 8 years based on management's expectations to retain trademarks within the business.

Customer relationships

Contractual and non-contractual customer relationships acquired as part of a business combination are capitalised at fair value on acquisition and amortised on a straight line basis over 3 to 8 years, based on management's estimate of the average lives of customer relationships.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows:

– Freehold properties are depreciated over 50 years;

– Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;

– Plant, vehicles and equipment are depreciated over 2 to 10 years according to the estimated life of the asset;

– Equipment on hire or lease is depreciated over the shorter of the estimated life of the asset and the period of the lease;

– Land is not depreciated.

Financial instruments

As permitted by IFRS 1, the Group elected to defer implementation of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' until the year commencing 1 April 2005. In accordance with these standards,
UK GAAP has been applied in the comparative year.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

The gross margin from sales on extended credit terms is recognised at the time of sale. The finance charges relating to these sales are credited to the Group income statement using the effective interest method.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Group income statement. The cost of unrecoverable trade receivables is recognised in the Group income statement immediately.

Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless they are part of a fair value hedge accounting relationship. Initial differences between proceeds of fixed rate borrowings and the redemption values are recognised in the Group income statement over the period of the borrowings using the effective interest rate method. Borrowings that are subject to a fair value hedge accounting relationship are measured at amortised cost plus or minus the fair value attributable to the risk being hedged.

Interest accrued on borrowings is included in accruals, under trade and other payables.

Incremental borrowing costs which are directly attributable to the issue of debt are capitalised and amortised over the expected life of the borrowing using the effective interest rate method. All other borrowing costs are expensed in the year in which they are incurred.

Accounting for derivative financial instruments and hedging activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates, interest rates and social security obligations in respect of share-based payments. Derivative instruments utilised by the Group include interest rate swaps, currency swaps, forward currency contracts and equity swaps.

Up to 31 March 2005

Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to net interest over the period of the contract. Forward currency contracts are accounted for as hedges, with the instrument's impact on profit deferred until the underlying transaction is recognised in the Group income statement. Financial instruments hedging the risk on foreign currency assets are revalued at the balance sheet date and the resulting gain or loss is offset against that arising from the translation of the underlying assets into sterling and taken to reserves.

From 1 April 2005

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

– Fair value hedges – hedges of the fair value of recognised assets or liabilities or a firm commitment; or

– Cash flow hedges – hedges of highly probable forecast transactions; or

– Net investment hedges – hedges of net investments in foreign operations.

Notes to the Group financial statements

for the year ended 31 March 2006

37. Summary of significant accounting policies (continued)

The Group documents the relationship between hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effectiveness testing is performed at every reporting date throughout the life of the hedge to confirm that the hedge remains highly effective. Movements on the hedging reserve in equity are shown in the Group statement of recognised income and expense.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group income statement, offsetting any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The ineffective portion of a fair value hedge is recognised in financing fair value remeasurements in the Group income statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Group income statement.

Amounts accumulated in equity are recycled in the Group income statement in the period when the hedged item will affect the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Group income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Group income statement.

Net investment hedges

Any gain or loss on the hedging instrument relating to the effective portion of the hedge of a net investment in a foreign operation is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in financing fair value remeasurements in the Group income statement. Gains and losses accumulated in equity are included in the Group income statement when the foreign operation is disposed of.

Non-hedging derivatives

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in financing fair value remeasurements in the Group income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not carried at fair value with unrealised gains or losses reported in the Group income statement.

Fair value estimation

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. Up to 31 March 2005 the appropriate quoted market price for financial assets and liabilities is the current mid-market price. As of 1 April 2005, the appropriate quoted market price for financial liabilities is the current offer price and for financial assets the current bid price.

The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of short-term trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk including currency risk and interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's Treasury function seeks to reduce or eliminate the Group's exposure to foreign exchange, interest rate and other financial risks. It also ensures surplus funds are managed and controlled in a prudent manner which will protect capital sums invested and ensure adequate short term liquidity, while maximising returns. 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 are subject to regular Group Internal Audit reviews.

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

37. Summary of significant accounting policies (continued)

For segmental reporting purposes, certain subsidiaries designate contracts with third parties and Group Treasury as cash flow hedges. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The Group's risk management policy is to hedge fully its known quantifiable foreign exchange transaction risks (i.e. committed payments or receipts at the time they become committed) which will arise as a result of foreign currency cash flows. The Group's policy is to cover up to 100% of any other foreign exchange transaction risks expected to arise as a result of uncertain, but probable, foreign currency cash flows up to one year forward.

The Group has a policy of hedging highly probable foreign currency denominated transactions. This is achieved primarily by entering into forward foreign exchange contracts. A number of these transactions are treated as cash flow hedges under IAS 39.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies and the use of forward exchange contracts.

Credit risk
In the case of deposits and derivative financial instruments, the Group is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the contract party. This credit risk is minimised by a policy under which the Group only enters into such contracts 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. The general credit risk on derivative financial instruments utilised by the Group is therefore not considered to be significant. There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers, internationally dispersed, with no concentration on particular industries or markets. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The maximum credit risk of financial assets is represented by the carrying value net of any applicable provision for impairment.

Liquidity risk
The Group maintains a mixture of long-term and short-term committed facilities that are designated to ensure the Group has sufficient available funds for operations and planned expansions.

Interest rate risk
The Group has a policy of maintaining between 30% and 70% of net debt at rates that are fixed for more than one year. 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.

Inventories
Inventories are stated at the lower of cost and net realisable value. The Group uses a weighted average cost base for general retail goods. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Impairment of non-financial assets
Assets that are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the Group balance sheet. For the purposes of the Group cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Deferred taxation
Deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is calculated using tax rates that have been substantively enacted at the balance sheet date.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions
Provisions are recognised when:

– The Group has a present legal or constructive obligation as a result of past events;

– It is more likely than not that an outflow of resources will be required to settle the obligation; and

– The amount has been reliably estimated.

Notes to the Group financial statements

for the year ended 31 March 2006

37. Summary of significant accounting policies (continued)

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Leases

Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Group income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and its lease term.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases are charged to the Group income statement on a straight line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the period of the lease. Guaranteed rental uplifts payable are recognised on a straight line basis over the length of the lease.

Employee benefits

a) Pension obligations

The GUS Defined Benefit Scheme and The Argos Defined Benefit Scheme

The pension asset/liability recognised in the Group balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields available at the assessment date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the Group statement of recognised income and expense. As allowed by IFRS 1, the cumulative deficit on defined benefit pension schemes (and similar benefits) at transition date has been recognised in full as an adjustment to equity. Post-transition, the Group is applying the rules of the 2004 amendement to IAS 19, recognising actuarial gains and losses immediately in the Group statement of recognised income and expense.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

The pension cost recognised in the income statement comprises the cost of benefits accrued plus interest on the defined benefit obligation less expected return on the plan assets over the year. Any amounts amortised over the year are also included in the pension cost.

The GUS Defined Contribution Scheme

The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost recognised in the Group income statement represents the contributions paid by the Group to the fund over the year.

b) Other post-employment obligations – Post-retirement healthcare costs

The Group operates schemes which provide post-retirement healthcare benefits to certain retired employees and their dependent relatives. The principal scheme relates to former employees in the UK and, under this scheme, the Group has undertaken to meet the cost of post-retirement healthcare insurance for all eligible former employees and their dependents who retired prior to 1 April 1994.

The expected costs of these benefits is calculated using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are recognised in the Group statement of recognised income and expense. These obligations are valued annually by independent qualified actuaries.

38. Summary of the impact of IFRS on the comparative period

Detailed indicative disclosures in respect of the effect of IFRS on the reported position and results for the year ended 31 March 2005 were issued on 14 June 2005, and are available on the Company website at www.gusplc.com/gus/investors/ifrs. A summary of the impact of IFRS on certain key reported figures is set out below. Since that date, Burberry and Wehkamp have been reclassified as discontinued operations (note 12), and some further adjustments have been made as a result of clearer IFRS interpretation becoming available. The effect of these changes on the IFRS financial statements is shown below.

Adjustments to comparative information issued on 14 June 2005

As set out in note 8, the results for the year ended 31 March 2005 have been adjusted as a result of clearer guidance now available with regard to cash generating units. It has been the policy of Argos Retail Group to use a geographic clustering approach when looking at whether store assets should be impaired, but emerging practice requires impairment reviews to be performed on a store by store basis. As a result of this change, there is an impairment charge at Homebase of £36m, relating to the balance sheet at 31 March 2004 on transition to IFRS. There was no impairment charge in the year ended 31 March 2005. The Homebase store impairment charge has been determined on a store by store basis by comparing the carrying value of property, plant and equipment with the net present value of their future cash flows. The store impairment charge also triggers the creation of an onerous lease provision of £12m at 31 March 2004. Additional onerous lease provisions of £2m were provided for in the year ended 31 March 2005.

The results for the year ended 31 March 2005 have also been adjusted as a result of clearer guidance now available on the accounting treatment of 'Guaranteed Rental Uplifts' payable on certain leased premises. Such uplifts are now recognised on a straight line basis over the length of the lease. The effect has been to reduce the retained earnings reserve and net assets by £2m at 31 March 2005 (2004: £1m) and to reduce profit for the year to 31 March 2005 by £1m.

Other adjustments to the 2005 restatement to IFRS published in June 2005 relate to acquisition intangibles and taxation. £8m of acquisition intangibles have been reclassified from goodwill and these intangibles have now been fully amortised with £8m charged to the Group income statement in 2005. The tax adjustments relate to the recognition of taxation liabilities on earlier acquisitions with no material impact on the Group income statement for 2005.

Group income statement

Reported sales are reduced due to the different presentation required under IFRS in respect of discontinued operations. This restatement is set out in the segmental analysis at note 3. IFRS adjustments in respect of other key items within the Group income statement are as follows:

		Year ended 31 March 2005		
	Notes	Operating profit £m	Profit before tax £m	Profit for the financial year £m
As reported under UK GAAP		**680**	**693**	**423**
IFRS reclassifications:				
Lewis Group	a	(55)	(79)	–
Other discontinued operations	a	–	27	–
Tax expense of associates		–	(1)	–
Minority interests	b	–	–	49
		(55)	(53)	49
IFRS remeasurements:				
Share based payments	c	(7)	(7)	(7)
Catalogue costs	d	(1)	(1)	(1)
Reversal of goodwill amortisation	e	207	207	207
Amortisation of acquisition intangibles	e	(4)	(4)	(4)
Interest earned on pension scheme assets	f	–	2	2
Deferred tax charges	g	–	–	(29)
Other		3	6	8
		198	203	176
As reported under IFRS on 14 June 2005		**823**	**843**	**648**
Further adjustments:				
Reclassification of Burberry (note 12)		(164)	(169)	–
Reclassification of Wehkamp (note 12)		(22)	(23)	–
Adjustment for depreciation on store impairment charges		8	8	8
Adjustment for onerous leases		(2)	(2)	(2)
Adjustment for further amortisation of acquisition intangibles		(8)	(8)	(8)
Adjustment for guaranteed rental uplifts		(1)	(1)	(1)
As reported under IFRS, as restated		**634**	**648**	**645**

Notes to the Group financial statements

for the year ended 31 March 2006

38. Summary of the impact of IFRS on the comparative period (continued)

Group balance sheet	Notes	31 March 2005 £m	1 April 2004 £m
Capital employed as reported under UK GAAP		**3,070**	**2,971**
Pension liabilities	f	(226)	(227)
Catalogue costs	d	(15)	(14)
Lease incentives	h	(34)	(34)
Amortisation of acquisition intangibles	e	(4)	–
Reversal of UK GAAP goodwill amortisation charged after transition	e	207	–
Goodwill impairment on transition		(3)	(3)
Deferred taxation	g	186	210
Dividends	i	203	191
Other		–	(5)
		314	118
As reported under IFRS on 14 June 2005		**3,384**	**3,089**
Further adjustments:			
Adjustment for store impairment charges, net of depreciation		(23)	(31)
Adjustment for amortisation of acquisition intangibles		(8)	–
Adjustment for recognition of taxation liabilities		(26)	(26)
Adjustment for onerous lease		(14)	(12)
Adjustment for guaranteed rental uplifts		(2)	(1)
As reported under IFRS, as restated		**3,311**	**3,019**

Notes:

a Under IFRS, the Group income statement down to profit after tax excludes the results of discontinued operations.

b The concept of a group differs under IFRS and minority interests are regarded as equity holders of the Group. Thus rather than deducting a minority interest in arriving at profit for the financial year, the profit for the year is instead attributed to the different types of equity holders.

c IFRS requires that the fair value of all share-based payments is charged to the Group income statement over the vesting period. Depending on the type of scheme concerned, the recognition, or timing, or both, of the charges to profit may differ compared with UK GAAP.

d Under UK GAAP, catalogue costs were expensed over the period in which the catalogues generated revenue. These costs are expensed as incurred under IFRS.

e Goodwill amortisation charged under UK GAAP after the transition date, 1 April 2004, is reversed in the IFRS financial statements. Goodwill will be subject to an annual impairment review. IFRS also requires that, on acquisition, specific intangible assets are identified and then amortised over their useful economic lives. These include items such as brand names and customer lists, to which value is first attributed at the time of acquisition.

f Under IFRS, the pension charge principally comprises a current service cost, charged to operating profit, and a financing item reported within net interest.

Under IAS 19, GUS has adopted the option that requires the full actuarial value of the surplus or deficit of pension schemes and other post-retirement benefits to be shown on the balance sheet. Any movements in the pension assets and liabilities arising from actuarial gains and losses are recognised immediately in full through the SORIE.

g Under UK GAAP, tax relief on goodwill written off to reserves in respect of pre-1998 US acquisitions was credited each year against the tax charge in the Group income statement. Under IFRS, a deferred tax asset is set up for this future relief at the time of the acquisition; as the tax relief is received, it is credited against this deferred tax asset. This asset is the most significant tax related adjusting item on the transition from UK GAAP to IFRS.

h Under UK GAAP, property lease incentives were recognised over the period to the first rent review. Under IFRS, these are recognised over the full term of the lease.

i Under IFRS, a dividend that is proposed but not yet authorised is not included as a liability in the financial statements.

39. Transitional adjustments on first time adoption of IAS 32 and IAS 39

As permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Group elected to defer implementation of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' until the year commencing on 1 April 2005, with an appropriate adjustment recognised in opening equity.

The principal impact of IAS 32 and IAS 39 on the Group's financial statements relates to the recognition of derivative financial instruments at fair value. Financial assets and liabilities which arise on derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value, with the changes in value reflected through the Group income statement. The accounting treatment of derivatives which qualify for hedge accounting depends on how they are designated. The different accounting treatments are explained below:

Fair value hedges

The Group uses interest rate and cross currency swaps to hedge the exposure to interest rates and currency movements of its loans and borrowings. Under UK GAAP, interest amounts payable or receivable in respect of derivative financial instruments held for hedging interest rate and currency movements on loans and borrowings were recognised as adjustments to net interest over the period of the derivative contract. Derivative financial instruments were not recognised at fair value in the balance sheet.

Under IAS 39, derivative financial instruments which meet the 'fair value' hedging requirements are recognised in the balance sheet at fair value, with corresponding fair value movements recognised in the Group income statement.

Cash flow hedges

The Group hedges the foreign currency exposure on inventory purchases. Under UK GAAP, foreign currency derivatives were held off balance sheet. Under IAS 39, derivative financial instruments which qualify for cash flow hedging are recognised on the balance sheet at fair value, with corresponding fair value changes deferred in equity.

Net investment hedges

The gains or losses on the translation of currency borrowings and foreign exchange contracts used to hedge the Group's net investments in foreign entities are recognised in equity. Provided the hedging requirements of IAS 39 are met and the hedging relationship is fully effective, this treatment does not differ from UK GAAP.

The effect of adopting IAS 32 and IAS 39 on the balance sheet as at 1 April 2005 is as follows:

	31 March 2005 £m	Transitional adjustment £m	1 April 2005 £m
Current assets			
Other financial assets	31	36	67
	31	36	67
Current liabilities			
Trade and other payables	(1,600)	(3)	(1,603)
Other financial liabilities	–	(5)	(5)
	(1,600)	(8)	(1,608)
Non-current liabilities			
Loans and borrowings	(1,676)	(11)	(1,687)
Deferred tax liabilities	(164)	(5)	(169)
	(1,840)	(16)	(1,856)
Other assets and liabilities	6,720	–	6,720
Total equity	**3,311**	**12**	**3,323**

Report of the auditors' parent company financial statements

Independent auditors' report to the members of GUS plc

We have audited the parent company financial statements of GUS plc for the year ended 31 March 2006 which comprise the Parent company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on directors' remuneration and related matters that is described as having been audited.

We have reported separately on the group financial statements of GUS plc for the year ended 31 March 2006.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Report on directors' remuneration and related matters and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Report on Directors' Remuneration and related matters to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Group financial highlights, the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Corporate governance statement, the Board of directors and the Business review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Report on Directors' remuneration and related matters to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Report on Directors' Remuneration and related matters to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Report on directors' remuneration and related matters to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
- the parent company financial statements and the part of the Report on directors' remuneration and related matters to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

23 May 2006

Parent company balance sheet

at 31 March 2006

	Notes	2006 £m	2006 £m	2005 £m	2005 (Restated) (Note 1) £m
Fixed assets					
Tangible assets	3		**3**		3
Investments in group undertakings	4		**3,243**		3,220
			3,246		3,223
Current assets					
Debtors – due within one year	5	6,282		6,675	
– due after more than one year	5	83	**6,365**	156	6,831
Current liabilities					
Creditors – amounts due within one year	6		**(6,241)**		(6,418)
Net current assets			**124**		413
Total assets less current liabilities			**3,370**		3,636
Creditors – amounts due after more than one year	7		**(1,851)**		(1,451)
Retirement benefit obligations	14		**(12)**		(21)
Net assets			**1,507**		2,164
Capital and reserves					
Called up share capital	10		**256**		254
Share premium account	10		**97**		69
Profit and loss account	11		**1,154**		1,841
Total equity shareholders' funds			**1,507**		2,164

The financial statements on pages 103 to 113 were approved by the Board of Directors on 23 May 2006 and were signed on its behalf by:

John Peace Group Chief Executive

David Tyler Group Finance Director

Notes to the parent company financial statements

for the year ended 31 March 2006

1. Summary of significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985, and were approved by the Board on 23 May 2006. They have been prepared on a going concern basis and under the historical cost convention, and in accordance with the Companies Act 1985 and applicable UK Generally Accepted Accounting Principles (UK GAAP).

The Company's financial statements are included in the GUS plc consolidated financial statements for the year ended 31 March 2006. As permitted by section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996) 'Cash Flow Statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the GUS Group.

The GUS plc consolidated financial statements for the year ended 31 March 2006 contain financial instrument disclosures which comply with FRS 25 'Financial Instrument: Disclosure and Presentation'. Consequently, the Company has taken advantage of the exemption in FRS 25 not to present separate financial instrument disclosures for the Company.

The principal accounting policies, which have been applied on a consistent basis with previous years, unless otherwise stated, are noted below.

New standards and prior year adjustments

The Company has applied the following standards for the first time for the year ended 31 March 2006:

a) FRS 17 'Retirement Benefits';
b) FRS 20 'Share-based Payment';
c) FRS 21 'Events after the Balance Sheet Date';
d) FRS 23 'The Effects of Changes in Foreign Exchange Rates';
e) FRS 25 'Financial Instruments: Disclosure and Presentation';
f) FRS 26 'Financial instruments: Measurements';
g) FRS 28 'Corresponding Amounts'.

The adoption of these standards represents changes in several accounting policies and the comparative amounts have been restated accordingly, except where the exemption to restate comparatives has been taken. The adoption of FRS 17, FRS 20 and FRS 21 has resulted in a prior year adjustment with comparative figures restated (see below). FRS 23, FRS 25, FRS 26 and FRS 28 do not affect comparatives and only apply to the current year and a cumulative adjustment of £7m for the implementation of FRS 26 has been recognised in the opening profit and loss account reserve at 1 April 2005.

The Company has now adopted the full requirement of FRS 17 that requires the full actuarial valuation of the surplus or deficit on pension schemes to be included on the balance sheet. This has resulted in an increase in shareholders' funds of £2m at 31 March 2005 and an increase in shareholders' funds of £7m at 31 March 2006 due to the recognition of actuarial gains and losses on the Company's pension obligations, net of deferred taxation. There is no material effect on reported profit for either year.

FRS 20 requires that the fair value of all share-based payments be charged to profit and loss account over the vesting period. This has resulted in a reduction of £2m in the reported profit for the year ended 31 March 2005 and an increase of £2m in the reported profit for the year ended 31 March 2006 as a result of increased staff costs. In addition, under FRS 20, the issuance by the Company of share incentives to employees of its subsidiaries is now treated as additional capital contributions. Accordingly, the Company's investment in group undertakings has been increased by £63m at 31 March 2005 and £86m at 31 March 2006 with a corresponding increase in shareholders' funds.

FRS 21 requires that dividends proposed, but not yet authorised, are not recognised in the financial statements. This has given rise to (i) an increase of £100m in reported profit for the year ended 31 March 2005 and an increase in reported profit of £2m for the year ended 31 March 2006 as dividend income from subsidiary undertakings is now only recognised when such dividends have been approved and (ii) an increase in shareholders' funds at 31 March 2005 of £200m due to the additional write back of the dividend to the Company's shareholders proposed at 31 March 2005.

Analysis of Prior Year Adjustments

	FRS 17 £m	FRS 20 £m	FRS 21 £m	**Total £m**
Adjustments to opening shareholders' funds at 1 April 2004	(9)	44	88	**123**
Adjustments to profit and loss account for the year ended 31 March 2005	–	(2)	112	**110**
Amounts recognised in the profit and loss account reserve in the year ended 31 March 2005	11	21	–	**32**
Adjustments to opening shareholders' funds at 1 April 2005	2	63	200	**265**

Tangible fixed assets

Land is not depreciated. Freehold properties are depreciated over 50 years by equal annual instalments. Leasehold premises with unexpired lease terms of 50 years or less are depreciated by equal annual instalments over the remaining period of the lease. Plant, vehicles and equipment are depreciated by equal annual instalments over two to ten years according to the estimated life of the asset.

1. Summary of significant accounting policies (continued)

Leases
Gross rental income receivable and payable in respect of operating leases is recognised on a straight line basis over the periods of the leases.

Investments in Group undertakings
Investments in Group undertakings are stated at cost less provision considered necessary for any impairment.

Impairment of fixed assets
Where there is an indication of impairment, fixed assets are subject to review for impairment in accordance with FRS 11 'Impairment of Fixed Assets and Goodwill'. Any impairment is recognised in the year in which it occurs.

Cash
Cash includes cash in hand, deposits held at call with banks and other short-term highly liquid investments.

Financial Instruments

Borrowings and borrowing costs
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost unless they are part of a fair value hedge accounting relationship. Initial differences between proceeds and the redemption values are recognised in the profit and loss account over the period of the borrowings using the effective interest rate method. Borrowings that are subject to a fair value hedge accounting relationship are measured at amortised cost plus or minus the fair value attributable to the risk being hedged.

Interest accrued on borrowings is included in accruals, under creditors.

Incremental borrowing costs which are directly attributable to the issue of debt are capitalised and amortised over the expected life of the borrowing using the effective interest rate method. All other borrowing costs are expensed in the year in which they are incurred.

Derivative financial instruments
The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates, interest rates and social security obligations in respect of share-based payments. Derivative instruments utilised by the Company include interest rate swaps, currency swaps, forward currency contracts and equity swaps.

Up to 31 March 2005
Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to net interest over the period of the contract. Forward currency contracts are accounted for as hedges, with the instrument's impact on profit deferred until the underlying transaction is recognised in the income statement. Financial instruments hedging the risk on foreign currency assets are revalued at the balance sheet date and the resulting gain or loss is offset against that arising from the translation of the underlying assets into sterling and taken to reserves.

From 1 April 2005
Derivatives are initially accounted and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. The Company designates derivatives as a hedge of the fair value of an asset or liability ('fair value hedge').

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains or losses from re-measuring the corresponding hedging instrument are recognised in the profit and loss account.

Changes in the fair value derivatives or other hedging instruments transacted as hedges of financial items, but for which hedge accounting has not been applied, are recognised in the profit and loss account as they arise.

In order to qualify for hedge accounting, the Company documents in advance the relationship between the item being hedged and the hedging instrument. The Company also documents and demonstrates an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. The effectiveness testing is re-performed at each period and to ensure that the hedge remains highly effective.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not carried at fair value with unrealised gains or losses reported in the profit and loss account.

Notes to the parent company financial statements

for the year ended 31 March 2006

1. Summary of significant accounting policies (continued)

Deferred taxation
Deferred taxation is provided in respect of timing differences that have originated but not reversed at the balance sheet date and is determined using the tax rates that are expected to apply when the timing differences reverse. Deferred tax assets are recognised only to the extent that they are expected to be recoverable.

ESOP Trust and Treasury shares
The GUS plc Employee Share Ownership Plan Trust ('the Trust') is a separately administered trust. Liabilities of the Trust are guaranteed by the Company and the assets of the Trust mainly comprise shares in the Company. The assets, liabilities and expenses of the Trust are included in the Company's financial statements as if they were the Company's own.

Own shares held by the Trust, together with treasury shares repurchased by the Company, are shown as a deduction from shareholders' funds at cost.

Share-based payments
The Group has a number of equity-settled share-based compensation plans. The fair value of options and shares granted is recognised as an expense after taking into account the Group's best estimate of the number of awards expected to vest. The Group revises the vesting estimate at each balance sheet date. Non market peformance conditions are included in the vesting estimates. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes, Monte Carlo model and closing market price is most appropriate to the award. Market based performance conditions are included in the fair value measurement on grant date and are not revised for actual performance.

The issuance by the Company of share incentives to employees of its subsidiaries represents additional capital contributions. An addition to the Company's investment in group undertakings is reported with a corresponding increase in shareholders' funds.

Pension costs
The Company operates the GUS Defined Benefit Scheme, whose assets are held in an independently administered fund (details on assumptions regarding the scheme are set out in note 25 to the Group financial statements). The liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

The Company also operates the GUS Defined Contribution Scheme, whose assets are also held in an independently administered fund. The cost of providing these benefits, comprises the amount of contributions payable to the scheme in respect of the year.

Dividend distribution
Dividend distributions are recognised in the Company's financial statements in the year in which the dividends are approved in general meeting by the Company's shareholders. Interim dividends are recognised when paid.

2. Profit and loss account disclosures

The Company profit on ordinary activities after taxation was £6m (2005: £130m).

The aggregate employee costs for the Company were as follows:	**2006 £m**	2005 £m
Wages and salaries	**7**	7
Social security costs	**2**	2
Share-based payments	**7**	10
Pension costs – defined benefit plans	**4**	2
Total	**20**	21

The Company employed an average of 65 (2005: 70) employees, including executive directors, during the year.
Details of the remuneration of Directors are given in the auditable part of the Report on directors' remuneration and related matters on pages 45 to 48.

The Company audit fee was £0.3m (2005: £0.3m). Non-audit services relating to tax advisory services and other advice amounted to £2.0m (2005: £1.2m) and £2.4m (2005: £0.1m) respectively.

During the year the Company paid £721m (2005: £281m) of equity dividends to shareholders, including £437m dividend in specie relating to the demerger of Burberry Group plc. The directors propose a final dividend of 21.9p per share (totalling £187m) for the year ended 31 March 2006. This dividend is not included as a liability in the current year financial statements as it has not been approved. For further details see note 13 in the GUS Group financial statements.

3. Tangible fixed assets

	Freehold properties £m	Short leasehold properties £m	Plant, vehicles & equipment £m	**Total £m**
Cost				
At 1 April 2005 and 31 March 2006	1	1	2	**4**
Depreciation				
At 1 April 2005 and 31 March 2006	–	–	1	**1**
Net Book Value at 31 March 2005 and 31 March 2006	**1**	**1**	**1**	**3**

There is no material difference between the net book value of properties carried at valuation and their historical cost equivalents.

4. Investments in group undertakings

	£m
Cost	
At 1 April 2005 as previously reported	3,162
Prior year adjustment – FRS 20 (note 1)	63
At 1 April 2005 as restated	3,225
Additions	23
Transfer from subsidiary undertaking	440
Disposals	(440)
At 31 March 2006	**3,248**
Impairment charges	
At 1 April 2005 and 31 March 2006	5
Net Book Value at 31 March 2005	3,220
Net Book Value at 31 March 2006	**3,243**

Additions in the year comprised the fair value of the share incentives issued to employees of subsidiary undertakings. During the year the whole of the Group's holdings of ordinary and preference shares in Burberry Group plc was transferred to the Company from a subsidiary undertaking at the book value of £440m. Disposals comprise £437m in respect of the shares in Burberry Group plc distributed to the Company's shareholders by way of dividend in specie and £3m in respect of Burberry shares sold externally after the demerger.

The Company's principal subsidiary undertakings are listed in note 15.

5. Debtors

	Due within one year	**Due after more than one year**	Due within one year (Restated Note 1)	Due after more than one year (Restated Note 1)
	2006 £m	**2006 £m**	2005 £m	2005 £m
Amounts owed by subsidiary undertakings	**6,111**	**–**	6,663	–
Taxation recoverable	**22**	**–**	–	–
Deferred tax assets	**–**	**7**	–	16
VAT recoverable	**1**	**–**	1	–
Deferred consideration receivable	**140**	**–**	–	140
Prepayments and accrued income	**4**	**–**	11	–
Other financial assets (note 9)	**4**	**76**	–	–
	6,282	**83**	6,675	156

The deferred consideration of £140m in respect of the disposal of the home shopping and Reality businesses was received by the Company in April 2006 from March UK Limited.

Notes to the parent company financial statements

for the year ended 31 March 2006

6. Creditors – amounts due within one year	2006 £m	2005 (Restated) (Note 1) £m
Loans and overdrafts (note 8)	**218**	35
Amounts owed to subsidiary undertakings	**5,954**	6,335
Taxation	**–**	20
Accruals	**28**	9
Other creditors	**20**	19
Other financial liabilities (note 9)	**21**	–
	6,241	6,418

7. Creditors – amounts due after more than one year	2006 £m	2005 £m
Loans (note 8)	**1,843**	1,451
Other financial liabilities (note 9)	**8**	–
	1,851	1,451

8. Loans and overdrafts	2006 £m	2005 £m
Repayable wholly within five years:		
€568m 4.125% Eurobonds 2007	**395**	375
£350m 6.375% Eurobonds 2009	**356**	348
Bank loans	**750**	415
Overdrafts	**218**	–
	1,719	1,138
Repayable after more than five years:		
£350m 5.625% Eurobonds 2013	**342**	348
	2,061	1,486

The amounts due to be repaid within five years are repayable as follows:		
Within one year	**218**	35
Between one and two years	**775**	–
Between two and five years	**726**	1,103
	1,719	1,138

All borrowings of the Company are unsecured.

9. Other financial assets and liabilities

a) Other financial assets	Due within one year 2006 £m	Due after more than one year 2006 £m
Derivative financial instruments:		
Interest rate swaps	2	**41**
Currency swaps	–	**27**
Equity swaps	2	**2**
Available-for-sale assets		
Listed investments	–	**6**
Total other financial assets	**4**	**76**

b) Other financial liabilities		
Derivative financial instruments:		
Interest rate swaps	**2**	**8**
Foreign exchange contracts	**19**	**–**
Total other financial liabilities	**21**	**8**

Disclosures in respect of the financial instruments of the Company are included within note 27 to the Group financial statements.

10. Share capital and share premium

Year ended 31 March 2006	Number of shares m	Share capital £m	Share premium £m
At 1 April 2005	1,017.2	254	69
Allotted under share option schemes	4.8	2	28
Share consolidation	(142.8)	–	–
Balance at 31 March 2006	**879.2**	**256**	**97**

Year ended 31 March 2005	Number of shares m	Share capital £m	Share premium £m
At 1 April 2004	1,014.0	254	35
Allotted under share option schemes	6.7	1	34
Shares cancelled on purchase	(3.5)	(1)	–
Balance at 31 March 2005	**1,017.2**	**254**	**69**

Authorised share capital

At 31 March 2006 and 31 March 2005 the authorised share capital of the Company amounted to £313m. At 31 March 2006 this comprised 1,075,000,000 Ordinary shares of 29 3/43p (2005: 1,250,000,000 Ordinary shares of 25p). At 31 March 2006, 879,240,912 Ordinary shares of 29 3/43p each had been allotted, called up and fully paid. At 31 March 2005, 1,017,236,451 Ordinary shares of 25p each had been allotted, called up and fully paid. The change in the par value of the Company's shares was in connection with a share consolidation.

Share consolidation

At an Extraordinary General Meeting on 13 December 2005, the shareholders of GUS plc approved a consolidation of GUS shares, replacing 1,023m Ordinary shares of 25p each with 880m Ordinary shares of 29 3/43p each. The share consolidation was designed to keep the GUS share price at approximately the same level, subject to normal market movements, before and after the demerger of the Group's remaining interest in Burberry Group plc. For every 1,000 Ordinary shares of 25p each held immediately prior to the demerger, shareholders received 305 Ordinary shares of 0.05p each in Burberry Group plc and 860 Ordinary shares of 29 3/43p each in GUS plc.

11. Reserves

	Treasury and ESOP shares £m	Profit and loss account £m	**Total profit and loss account reserve £m**
At 1 April 2005 as previously stated	(248)	1,824	**1,576**
Prior year adjustment – FRS 17	–	2	**2**
Prior year adjustment – FRS 20	–	63	**63**
Prior year adjustment – FRS 21	–	200	**200**
At 1 April 2005 as restated	(248)	2,089	**1,841**
Cumulative adjustment for the implementation of FRS 26	–	7	**7**
Profit for the financial year	–	6	**6**
Equity dividends paid during the year	–	(284)	**(284)**
Dividend in specie relating to the demerger of Burberry Group plc	–	(437)	**(437)**
Actuarial gain in respect of defined benefit pension schemes	–	8	**8**
Credit in respect of share incentive schemes	–	28	**28**
Purchase of ESOP shares	(16)	–	**(16)**
Tax credit in respect of items taken to equity	–	1	**1**
At 31 March 2006	**(264)**	**1,418**	**1,154**

Treasury and ESOP shares represent the cost of shares in GUS plc purchased by the GUS plc ESOP Trust ('the Trust') to satisfy the Group's obligations under its share incentive plans and shares purchased in share buy-backs. During the year the Trust purchased 4,082,187 (2005: 2,600,000) shares at a cost of £36m (2005: £22m). In the year ended 31 March 2005 a further 22,140,000 shares were purchased at a cost of £200m by way of share buy-backs. Of these 3,500,000 shares with a cost of £30m were cancelled.

Notes to the parent company financial statements

for the year ended 31 March 2006

12. Commitments

(a) Capital commitments
There are no significant capital commitments relating to the Company.

(b) Operating lease commitments
Annual commitments for land and buildings, where the commitment expires in more than five years, amounted to £1m (2005: £1m).

13. Share options and awards

The Company has not repeated the disclosures required by FRS 20 'Share-based Payment', as these are already included in note 31 of the Group financial statements.

Details of the unexercised options are shown below and include those options granted to directors of the Company. Further details of options granted to directors of the Company are contained in the Report on directors' remuneration and related matters on pages 46 and 47.

(i) Options and awards in respect of the Ordinary shares of the Company	**2006 m**	2005 m
The GUS plc Performance Share Plan	**2.1**	1.9
The GUS plc Co-Investment Plan	**6.0**	4.6
The 1998 Approved and Non-Approved Executive Share Option Schemes	**13.7**	13.5
The North America Stock Option Plan	**5.4**	5.4
The GUS plc Savings Related Share Option Scheme	**9.1**	8.8
Other share schemes	**0.1**	0.1
	36.4	34.3

(ii) Awards under the GUS plc Performance Share Plan
During the year ended 31 March 2006, awards were made under this plan in respect of 767,507 (2005: 752,358) Ordinary shares in the Company. At 31 March 2006 awards in respect of 2,111,640 (2005: 1,939,013) of Ordinary shares remained outstanding and, as indicated in note 11, shares have been purchased by the GUS plc ESOP Trust to meet obligations under this plan. These awards include those granted to directors, further details of which are contained in the Report on directors' remuneration and related matters on page 47.

During the year ended 31 March 2006, 569,827 (2005: 427,726) Ordinary shares were transferred from the Trust to beneficiaries of the GUS plc Performance Share Plan.

(iii) Awards under the GUS plc Co-Investment Plan
During the year ended 31 March 2006, awards were made under this plan in respect of 1,654,305 (2005: 2,321,962) Ordinary shares in the Company. At 31 March 2006 awards in respect of 6,050,860 (2005: 4,556,040) Ordinary shares remained outstanding and, as indicated in note 11, shares have been purchased by the GUS plc ESOP Trust to meet obligations under this plan. These awards include those granted to directors, further details of which are contained in the Report on directors' remuneration and related matters on page 48.

During the year ended 31 March 2006, 910,880 (2005: 297,821) Ordinary shares were transferred from the Trust to beneficiaries of the GUS plc Co-Investment Plan.

(iv) Options under the 1998 Approved and Non-Approved Executive Share Option Schemes
Unexercised options granted under these schemes in respect of Ordinary shares in the Company are as follows:

Number of shares 2006	Number of shares 2005	Exercise price	Period of exercise
182,625	315,029	375.7p	From 07.04.2003 to 06.04.2010
1,016,274	1,832,707	612.7p	From 11.06.2004 to 10.06.2011
130,707	179,961	635.0p	From 17.12.2004 to 16.12.2011
1,106,158	2,844,460	653.0p	From 06.06.2005 to 05.06.2012
181,226	747,744	554.0p	From 23.12.2005 to 22.12.2012
3,234,502	3,751,549	675.5p	From 19.06.2006 to 18.06.2013
72,481	88,333	757.0p	From 02.12.2006 to 01.12.2013
3,245,338	3,562,323	809.2p	From 01.06.2007 to 31.05.2014
146,506	173,610	867.0p	From 24.11.2007 to 23.11.2014
3,883,511	–	858.5p	From 31.05.2008 to 30.05.2015
526,756	–	881.0p	From 22.11.2008 to 21.11.2015
13,726,084	13,495,716		

During the year ended 31 March 2006, 3,603,506 (2005: 4,005,563) Ordinary shares were issued following the exercise of such share options.

13. Share options and awards (continued)

(v) Options under the North America Stock Option Plan

Unexercised options granted under the scheme in respect of Ordinary shares in the Company are as follows:

Number of shares 2006	Number of shares 2005	Exercise price	Period of exercise
27,057	200,407	381.3p	From 14.06.2001 to 13.06.2006
6,983	6,983	526.0p	From 06.12.2001 to 05.12.2006
421,964	650,813	612.7p	From 11.06.2002 to 10.06.2007
854,905	1,436,910	653.0p	From 06.06.2003 to 05.06.2008
42,206	57,244	554.0p	From 23.12.2003 to 22.12.2008
1,292,235	1,535,436	675.5p	From 19.06.2004 to 18.06.2009
28,054	28,054	757.0p	From 02.12.2004 to 01.12.2009
1,270,788	1,458,033	809.2p	From 01.06.2005 to 31.05.2010
23,689	23,689	867.0p	From 24.11.2005 to 23.11.2010
1,353,910	–	858.5p	From 31.05.2006 to 30.05.2011
39,835	–	881.0p	From 22.11.2006 to 21.11.2011
5,361,626	5,397,569		

All such options are to be satisfied by the transfer of already issued Ordinary shares and shares have been purchased for this purpose by the GUS plc ESOP Trust. During the year ended 31 March 2006, 1,221,312 (2005: 1,637,297) Ordinary shares were transferred to beneficiaries following the exercise of such share options.

(vi) Options under savings related share option schemes

Unexercised options granted under the scheme in respect of Ordinary shares in the Company are as follows:

Number of shares 2006	Number of shares 2005	Exercise price	Period of exercise
–	1,669	384.0p	From 01.05.2004 to 31.10.2004
2,119,222	2,299,567	384.0p	From 01.05.2006 to 31.10.2006
1,090	900,375	523.0p	From 01.09.2005 to 28.02.2006
617,146	715,718	523.0p	From 01.09.2007 to 29.02.2008
1,247,888	1,428,403	508.0p	From 01.09.2006 to 28.02.2007
746,151	842,061	508.0p	From 01.09.2008 to 28.02.2009
1,739,952	2,067,393	648.0p	From 01.09.2007 to 29.02.2008
520,873	593,254	648.0p	From 01.09.2009 to 28.02.2010
1,531,485	–	687.0p	From 01.09.2008 to 29.02.2009
588,648	–	687.0p	From 01.09.2010 to 28.02.2011
9,112,455	8,848,440		

During the year ended 31 March 2006, 1,114,705 (2005: 2,602,142) Ordinary shares were issued following the exercise of such share options.

In addition 152,148 shares (2005: 100,356) were issued in connection with savings based share schemes in France and the United States. Savings of £710,000 (2005: £529,000) were held in these schemes giving a right to acquire 84,031 (2005: 71,113) Ordinary shares in the Company.

14. Pensions and other post-retirement benefits

The Company's employees participate in the GUS Defined Benefit and the GUS Defined Contribution pension schemes. In addition the Company provides post-retirement healthcare insurance benefits to certain former employees. The net liability in respect of the defined benefit scheme and the provision of post-retirement healthcare insurance benefits is recognised in the Company's balance sheet in accordance with the requirements of FRS 17. There are no material pension costs or contributions payable in respect of the Company's participation in the GUS Defined Contribution scheme.

Notes to the parent company financial statements

for the year ended 31 March 2006

14. Pensions and other post-retirement benefits (continued)

(i) The movements during the year in the net liability recognised in the Company's balance sheet were as follows:	**2006 £m**	2005 £m
At 1 April	**21**	60
Total amounts recognised in the Company's profit and loss account – as disclosed below	**1**	(3)
Actuarial gain recognised in equity	**(8)**	(16)
Contributions paid	**(2)**	(20)
At 31 March	**12**	21

(ii) The amounts recognised in the Company's balance sheet are determined as follows:	**2006 £m**	2005 £m
Fair value of schemes' assets	**347**	265
Present value of funded schemes' liabilities	**(332)**	(267)
Surplus/(deficit) in the funded schemes	**15**	(2)
Present value of unfunded pension arrangements	**(15)**	(10)
Liability for post-retirement healthcare	**(12)**	(9)
Retirement benefit liability recognised in the Company balance sheet	**(12)**	(21)

The retirement benefit liability is shown before deferred tax. The associated deferred tax asset of £4m (2005: £6m) is included within debtors (note 5).

(iii) The amounts recognised in the Company's profit and loss account were as follows:	**2006 £m**	2005 £m
Current service cost	**4**	2
Interest on schemes' liabilities	**17**	17
Expected return on schemes' assets	**(20)**	(18)
Settlement gain in respect of unfunded liabilities of home shopping and Reality businesses	**–**	(4)
Total charge/(credit) to Company profit and loss account	**1**	(3)

(iv) The amount recognised in equity:

	2006 £m	2005 £m
(Gain)/loss on assets	**(41)**	15
Experience loss/(gain) on liabilities	**2**	(51)
Loss on change of assumptions	**31**	20
Total gain recognised in equity	**(8)**	(16)

(v) The history of experience gains/(losses) on the Company's defined benefit scheme is as follows:

	2006	2005
Difference between the actual and expected return on schemes' assets:		
Amount (£m)	**(41)**	15
Percentage of schemes' assets	**11.8%**	5.7%
Experience losses/(gains) on schemes' liabilities:		
Amount (£m)	**2**	(51)
Percentage of the present value of schemes' liabilities	**0.5%**	17.8%
Total amount recognised in equity:		
Amount (£m)	**(8)**	(16)
Percentage of the present value of schemes' liabilities	**2.2%**	5.6%

(vi) Analysis of the movement in the deficit in the scheme during the year:

	2006 £m	2005 £m
Deficit at beginning of year	**(21)**	(60)
Contributions paid by the Company	**2**	20
Current service cost	**(4)**	(2)
Gain from settlement	**–**	4
Other finance income	**3**	1
Actuarial gain	**8**	16
Deficit at end of year	**(12)**	(21)

(vii) The principal actuarial assumptions used are shown in note 25 to the Group financial statements.

15. Principal subsidiary and associate undertakings

The principal subsidiary and associate undertakings at 31 March 2006, all of which are included in the Group financial statements, are listed below.

Particulars of subsidiary undertakings and other significant holdings as required by the Companies Act 1985 will be annexed to the next Annual Return of GUS plc.

At 31 March 2006	Country of incorporation	Percentage of ordinary shares held
Argos Retail Group		
Argos Limited	Great Britain	100%
Homebase Limited	Great Britain	100%
ARG Card Services Limited	Great Britain	100%
ARG Personal Loans Limited	Great Britain	100%
ARG Insurance Services Limited	Great Britain	100%
Argos Distributors (Ireland) Limited	Republic of Ireland	100%
Hampden Group Limited	Republic of Ireland	100%
Homebase House and Garden Centre Limited	Republic of Ireland	100%
Argos Retail Group (Hong Kong) Limited	Hong Kong	100%
ARG Procurement Consultancy (Shanghai) Limited	China	100%
Experian		
Experian Limited	Great Britain	100%
ClarityBlue Limited	Great Britain	100%
QAS Limited	Great Britain	100%
Experian Holding A/S	Denmark	100%
Experian A/S	Denmark	100%
Experian Holding France S.A.	France	100%
CreditInform AS	Norway	100%
ConsumerInfo.com	USA	100%
PriceGrabber.com	USA	100%
LowerMyBills.com	USA	100%
Experian Information Solutions Inc.	USA	100%
Experian Services Corporation	USA	100%
Experian Marketing Solutions Inc.	USA	100%
Associate		
First American Real Estate Solutions LLC	USA	20%

None of the above undertakings are directly held by GUS plc.

Group five year summary

Profit by division	UK GAAP 2002 £m	UK GAAP 2003 £m	UK GAAP 2004 £m	UK GAAP 2005 £m	IFRS 2005 £m	**IFRS 2006 £m**
Continuing operations:						
Argos Retail Group						
Argos	212	241	298	309	304	**291**
Homebase	–	2	102	92	96	**52**
Financial Services	(18)	(13)	(5)	–	–	**6**
	194	230	395	401	400	**349**
Experian	224	256	282	318	317	**417**
Central activities	(7)	(16)	(20)	(24)	(22)	**(20)**
	411	470	657	695	695	**746**
Discontinued operations:						
Argos Retail Group (Home Shopping, Reality and Wehkamp)	61	55	21	20	23	**20**
Burberry	90	117	141	166	161	**94**
Lewis Group	31	32	44	55	55	**5**
Property	25	26	18	–	–	**–**
	207	230	224	241	239	**119**
EBIT	618	700	881	936	934	**865**
Net interest	(67)	(58)	(54)	(26)	(24)	**(36)**
Benchmark profit	551	642	827	910	910	**829**
Include: amortisation of acquisition intangibles (UK GAAP: goodwill)	(99)	(143)	(193)	(207)	(11)	**(37)**
Include: exceptional items relating to continuing operations	(72)	(90)	53	(7)	(7)	**(4)**
Include: store impairment charges	–	–	–	–	–	**(13)**
Include: financing fair value remeasurements	–	–	–	–	–	**(3)**
Include: tax expense on continuing operations' share of profits of associates	–	–	–	(1)	(1)	**(1)**
Exclude: EBIT of discontinued operations	(207)	(230)	(224)	(241)	(239)	**(119)**
Exclude: net interest of discontinued operations	–	–	(2)	(4)	(4)	**(3)**
Profit before tax	173	179	461	450	648	**649**
Group tax expense on continuing operations	(104)	(93)	(125)	(144)	(176)	**(165)**
Profit after tax from continuing operations	69	86	336	306	472	**484**
Profit for the financial year from discontinued operations	189	182	164	166	173	**111**
Profit for the financial year	258	268	500	472	645	**595**
Attributable to						
Equity shareholders in the parent company	257	251	473	423	596	**569**
Minority interests	1	17	27	49	49	**26**
Profit for the financial year	258	268	500	472	645	**595**

Balance sheet						
Tangible and intangible fixed assets (other than goodwill)	1,039	1,221	1,197	1,327	1,354	**1,491**
Fixed asset investments	278	295	103	114	118	**150**
Working capital	1,416	1,053	765	978	684	**366**
Trading assets	2,733	2,569	2,065	2,419	2,156	**2,007**
Goodwill	1,422	2,436	2,338	2,333	2,485	**3,068**
Tax (UK GAAP: and dividends)	(257)	(286)	(363)	(353)	(1)	**(44)**
Transaction consideration	(22)	(37)	131	98	98	**75**
Net borrowings (including non-recourse borrowings)	(1,485)	(2,086)	(1,200)	(1,427)	(1,427)	**(1,974)**
Net assets	2,391	2,596	2,971	3,070	3,311	**3,132**

Earnings and dividends	2002	2003	2004	2005	2005	**2006**
Earnings per share	25.7p	25.1p	47.4p	42.3p	59.6p	**60.2p**
Benchmark earnings per share	41.7p	47.8p	60.7p	63.8p	62.0p	**62.3p**
Dividend per share	21.7p	23.3p	27.0p	29.5p	29.5p	**31.5p**
Dividend cover	1.92	2.05	2.25	2.16	2.10	**1.98**
Interest cover	9.3	12.0	16.3	33.7	39.0	**24.0**

Years ended 31 March 2002, 2003, 2004 and 2005 are shown under UK GAAP, presented in an IFRS format. The nature and magnitude of the adjustments required to show this information under IFRS are expected to be similar to those disclosed in note 38 to the Group financial statements.

Shareholder Information

Ordinary shareholders

There were 45,149 holders of Ordinary shares at 31 March 2006 and their holdings can be analysed as follows:

	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary shares '000s	Percentage of Ordinary shares
Over 1,000,000	150	0.3	627,150	72.7
100,001 – 1,000,000	431	1.0	146,703	17.0
10,001 – 100,000	1,192	2.7	36,661	4.2
5,001 – 10,000	1,509	3.3	10,243	1.2
2,001 – 5,000	5,645	12.5	16,973	2.0
1 – 2,000	36,222	80.2	25,481	2.9
	45,149	100.0	863,211	100.0

Shareholders are further analysed as follows:

	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary shares '000s	Percentage of Ordinary shares
Corporates	9,661	21.4	809,517	93.8
Individuals	35,488	78.6	53,694	6.2
	45,149	100.0	863,211	100.0

Registrar

Enquiries concerning holdings of the Company's shares and notification of the holder's change of address should be referred to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (telephone: 0870 600 3987). A text phone facility for those with hearing difficulties is available by telephoning 0870 600 3950.

Electronic communications

Shareholders can arrange to receive future GUS annual and interim reports electronically and to submit voting instructions online at shareholder meetings by registering at www.shareview.co.uk/gusplc. This service is provided by Lloyds TSB Registrars and gives access to a comprehensive range of shareholder information, including dividend payment details.

GUS website

A full range of investor relations information on GUS is available at www.gusplc.com. This includes webcasts of results presentations given to analysts and fund managers together with the slides accompanying those presentations.

Dividend Reinvestment Plan

The GUS Dividend Reinvestment Plan ('DRIP') enables shareholders to use their cash dividends to purchase GUS shares. Shareholders who wish to participate in the DRIP for the first time, in respect of the final dividend to be paid on 4 August 2006, should return a completed and signed DRIP mandate form to be received by the Registrar, by no later than 14 July 2006. For further details please contact Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA (telephone: 0870 241 3018).

Share price information

The latest GUS share price is available on the GUS website (www.gusplc.com) and also on the Financial Times Cityline Service (telephone: 0906 843 2740 - calls charged at 60p per minute)).

Share dealing facility

Existing or potential investors can buy or sell GUS shares using a postal dealing service provided by JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA (telephone: 020 7155 5155).

Financial calendar and Annual General Meeting arrangements

Final dividend record date	7 July 2006
First quarter trading update	12 July 2006
Annual General Meeting	19 July 2006
Final dividend to be paid	4 August 2006

The Annual General Meeting will be held at the Radisson SAS Portman Hotel, 22 Portman Street, London W1H 7BG and begins at 11.30am on Wednesday, 19 July 2006.

Following the announcement of the demerger of the remaining two businesses of GUS, further dates relating to the financial calendar and Annual General Meeting arrangements in respect of the 2007 financial year will be posted on the GUS website.

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