Financial statements

Profit and loss account

Underlying profit before taxation (excluding exceptional items) for the 52 weeks ended 27 April 2002 increased by 7 per cent to £297.2 million (2000/01 £277.8 million before Freeserve). On this basis earnings per share increased by 13 per cent to 11.6 pence per share.

UK Retail division operating profit before exceptional items was £253.6 million (£244.8 million), an increase of 4 per cent. This includes net profits of £9.5 million (2000/01 £nil) on the disposal of fixed assets and associated costs. The international division achieved operating profit of £15.2 million (£22.3 million), reflecting the planned start up losses incurred in establishing our new businesses in France, Spain and Hungary.

Net exceptional costs for the year were £14.9 million. A gain of £15.1 million was recognised on the sale of 29 per cent of the Group's shareholding in Wanadoo S.A. This was offset by a £30.0 million write down in the value of the Group's 15 per cent stake in P. Kotsovolos S.A. There was no attributable tax credit. The net exceptional gain in 2000/01 principally comprised the profit recognised on the sale of the Group's 79 per cent shareholding in Freeserve plc to Wanadoo S.A.

Net interest receivable was £12.4 million compared with net interest payable of £4.2 million (excluding Freeserve) in 2000/01. The improvement results from cash generation within the business and a restructuring of borrowings to lower interest rate debt, including the issue of a 1 per cent bond exchangeable into Wanadoo shares and the conversion of certain core funding from Norwegian kroner to euro debt.

The taxation rate on underlying profits was 21.9 per cent (2000/01 restated 23.5 per cent). This rate comprises a current year charge of 22.2 per cent, together with a 0.3 per cent credit in respect of prior year items. It also reflects the adoption of Financial Reporting Standard 19 that requires full provision for deferred tax. As required by the standard, the prior year's taxation charge has been restated on the same basis.

The directors have recommended the payment of a final dividend of 4.675 pence per share, making total dividends for the period of 6.05 pence (5.5 pence). This represents a year on year increase of 10 per cent. The dividend is approximately twice covered by earnings.

Consolidated balance sheet

Net operating assets at 27 April 2002 increased by 19 per cent to £965.2 million (28 April 2001 £812.2 million). Net operating assets in the UK Retail division increased by 32 per cent to £201.7 million (£153.2 million) due to significant investment in new stores and systems. Net operating assets within the International Retail division increased by 17 per cent to £732.0 million (£623.7 million) reflecting the acquisition of 24.3 per cent of UniEuro S.p.A in Italy, the acquisition of SuperRadio in Denmark, and store expansion in Sweden, Denmark, Finland, Ireland, Spain, France and Hungary. Net operating assets in the European Property division were lower at £31.5 million (£35.3 million), but profits rose by 7 per cent to £16.0 million on a tightly managed capital base.

Fixed asset investments

During the year the Group sold 51.3 million shares in Wanadoo S.A. that it had received as consideration for the sale of its majority shareholding in Freeserve plc. Of the remaining shareholding, 88.8 million shares are currently subject to lock up arrangements that expire on or before February 2004.

In May 2001, the Group issued a €260 million 1 per cent three year bond, exchangeable into 37.5 million Wanadoo shares at a price of €6.94 per share.

Cash flow

The Group had a net cash inflow before management of liquid resources and financing of £129.0 million (2000/01 net outflow £64.6 million). Of this the sale of Wanadoo shares, net of acquisitions, represented £95.8 million.

Capital expenditure in the year was £188.5 million (£181.6 million). The continuing high level of capital expenditure was funded from cash generated by operating activities after payment of tax and dividends.

EBITDA

Underlying Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) increased by 4 per cent to £389.8 million (£375.5 million excluding Freeserve). The Group has achieved consistently strong growth in EBITDA over the past five years.

Financial position

At 27 April 2002, cash and short term investments were £852.5 million (£857.4 million), including £300.0 million (£284.6 million) held under trust to meet claims under extended warranties and service contracts.

Borrowings at 27 April 2002 were £496.8 million (£657.9 million), of which £303.0 million (£462.1 million) was due after more than one year. The reduction in long term and total borrowings reflects the use of the proceeds from the sale of Wanadoo shares to repay debt.

Net funds, excluding amounts held under trust, were £55.7 million (2000/01 net borrowings £85.1 million).

Pensions

The Group continues to account for pension costs under Statement of Standard Accounting Practice 24. The Group is also required to state by way of note to the financial statements, balance sheet figures calculated under Financial Reporting Standard 17. At the end of the year, the FRS 17 valuation led to a net deficit, after deferred tax, of £53.3 million. This contrasts with the last actuarial valuation of the principal pension scheme as at April 2001, which showed the scheme assets to be in excess of future expected liabilities. The Group has announced that the scheme will be closed to new entrants with effect from 1 September 2002.

Introduction of the euro

The Group successfully implemented the required changes to systems and processes in those countries that adopted the euro in January 2002.

Treasury policy

Management

Treasury operations are managed within policies and procedures approved by the Board. Group Treasury reports regularly to the Group Executive Committee and is subject to periodic independent internal and external reviews. The major financial risks to which the Group is exposed relate to movements in exchange and interest rates. Where appropriate, cost effective and practicable the Group uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted.

Exchange rate risk

The Group is exposed to exchange rate risk on overseas earnings as well as fluctuations in translated values of foreign currency assets and liabilities. The Group's policy is to match, in whole or in part, where cost effective, currency earnings with related currency costs and currency assets with currency liabilities.

Interest rate risk

The principal interest rate risks of the Group arise in respect of sterling cash and investments and euro borrowings. Potential exposure to interest rate movements is mitigated by the Group's policy to match the profile of interest payments with that of its interest receipts and to use interest rate hedging instruments to reduce exposure to fluctuations in interest rates.

Bank facilities and cash management

It is Group policy to maintain committed bank and other facilities sufficient to meet anticipated financial requirements.

Uncommitted facilities are maintained and used, if available, on advantageous terms. Committed facilities of £585 million include a £324 million syndicated bank facility maturing in 2002 to 2004, a €260 million bond exchangeable into Wanadoo shares maturing in July 2004 and a £100 million Sterling Eurobond maturing in February 2004. At 27 April 2002, total undrawn committed facilities available amounted to £140.0 million (£238.8 million). A further £200 million of bank facilities were agreed shortly after the year end.

The Group remains comfortably within all financial covenants which mainly relate to interest cover, fixed charge cover and net gearing. Dixons Group plc has a credit rating of A3.

Group treasury policy on investment restricts counterparties to those with a minimum Moody's long-term credit rating of A3 and short-term credit rating of P1. Investments mainly consist of bank deposits and floating rate notes. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments.

Going concern

After making due enquiry, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Jeremy Darroch
Group Finance Director