



GUS has focused on three inter-related activities: information services, third party services and multi-channel retailing. This strategy will enable us to make better use of our core assets.

John Peace
Group Chief Executive

In January this year, we announced that GUS intends to focus on three key inter-related activities and to undertake a strategic review of all our other businesses. The three key activities are:

- Global information services through Experian
- Third party services through Reality
- Multi-channel retailing through Argos, Kays, GUS and other brands

At the heart of GUS are skills in database management, catalogue retailing and customer service. Our strategy will enable us to leverage these skills and assets across the Group, create long-term profitable growth and deliver increased shareholder value.

As part of our strategic review, we have decided to dispose of the larger part of our Finance Division, General Guarantee Finance and Highway Vehicle Management. In addition, BL Universal is continuing with its property disposal programme, but funds realised are now being used to repay debt and return cash to its two shareholders, rather than being reinvested.

Information Services

Experian is an established leader in the global market for information services, characterised both by strong underlying growth and by high barriers to entry. It benefits from years of data accumulation, investment in technology and the trust of its customers. Experian's leading position in this market offers tremendous opportunity for developing the business profitably, not only in traditional markets but, increasingly, through new opportunities in enabling e-business. The launch of our e-series products helps clients in many ways, including reducing fraud over the internet, a growing problem for e-commerce players. The internet also gives us the opportunity to service new markets and develop new products.

Our strategy of providing total solutions to our clients has been particularly successful in the UK, enabling them to leverage the benefits of integrated systems and common platforms to drive their businesses forward. This strategy is now being emulated in the US and throughout Europe.

While Experian North America was affected by a combination of internal and external factors last year, the business is considerably strengthened now that the Metromail integration is complete.



Third Party Services

In May 2000, we announced the formation of a new business, branded Reality, to provide end-to-end outsourcing services for both on-line and off-line companies. These services include the provision of web design, customer management and call centre facilities, warehousing and delivery services. By bringing together Group assets, we have created a powerful outsourcing operation in these fields. The acquisition of Reality Group, a leading e-commerce consultancy business, completes the offer.

Clients of Reality already include e-tailers and retailers operating in the growing remote shopping market. This business is led by a dedicated management team, which combines internal appointments with expertise brought in from outside the Group. Sales in the new division amounted to around £380m in 2000, of which some £65m was generated by over 50 external clients.

The market for remote shopping is developing rapidly, both among new dot.com companies and, perhaps more importantly, among traditional, strongly branded retailers and manufacturers, who see the internet as an important new distribution channel. For these businesses, speed and accuracy of fulfilment and delivery will be critical for the retention of their customers.

Multi Channel Retailing

We have now combined our Argos and Home Shopping operations into one business, the Argos Retail Group, under the leadership of Terry Duddy. This new business establishes a major multi-channel retailing organisation in the UK, with total sales of over £4bn and profits of over £180m.

The Argos Retail Group has four operating divisions:

- Argos
- Home Shopping UK and Ireland
- Home Shopping Continental Europe
- Financial Services

This new business creates a growth platform for initiatives in direct catalogues, in new channels such as the internet and interactive TV and in consumer financial services. It will build on our large customer base and trusted brands.

Argos is the largest UK high street catalogue retailer, with over £2bn of sales. Like-for-like percentage growth has been in double figures since its relaunch last autumn. The business shows potential for substantial future growth in many channels, underpinned by relationships with around 16m customers and a reputation as a trusted value retailer. The turnover of the UK Home Shopping business amounted to £1.7bn last year, but profits have been under pressure.



Sir Victor Blank, Chairman designate
and John Peace

We intend to cut costs by at least £80m over the next three years in this division. Overheads will be cut, the cost of acquiring new customers will be reduced, buying terms improved and the services of Reality used for warehousing, distribution and call centres. Further economies will be achieved by combining the back office functions of Argos and Home Shopping, including IT, finance and human resources.

While stabilising the profitability of the traditional Home Shopping business, we intend to invest in the growth areas of direct home shopping and financial services, in particular through:

- The Argos Additions catalogue, which offers competitively priced fashion clothing and household products selected from the range offered to our Home Shopping customers. Additions will be available in over 200 Argos stores from August 2000. Customers can pick up the catalogue in-store, ensuring that the cost of recruiting customers is modest.
- Development of further direct home shopping catalogue propositions and trials of new ones.
- Further development of financial services. We already successfully offer a range of products from warranties to personal loans to our customers. We now plan to test a Visa credit card to customers of our home shopping business and an Argos store card.

gusco.com

In May we announced the launch of gusco.com to fund and oversee the development of GUS' e-commerce investments. Managed as a separate unit and with dedicated teams, gusco.com works in close collaboration with each of our other businesses. It also provides the Group with greater access to new technologies, customers and related markets.

MyPoints Europe, a web-based loyalty scheme being launched this summer, is among the first of these ventures.

gusco.com has also recently signed a letter of intent with uBid.com, a leading business-to-consumer on-line auction site for surplus and end-of-season merchandise in the US. GUS will take a minority stake in uBid Europe and participate in the roll-out of the European offer.

Other businesses

We remain committed to the maximisation of value for shareholders over time from our other businesses.

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Burberry

Burberry is a world class luxury brand, which is on a strong recovery path, as its doubling of profits in the last year indicates. It has excellent growth prospects, building on the platform we have already established through an infusion of design expertise, new focus on merchandising and marketing, and tighter control over distribution channels.

The successful renegotiation of the Japanese licensee agreement is expected to add approximately £10m to trading profits in 2001, with further growth of £5m annually for each of the following five years, assuming current exchange rates. Hence, the profit contribution in 2006 from Japanese licensing is expected to be at least £35m above that achieved in 2000. Burberry's annual sales at retail value in Japan, its largest market, amount to approximately £800m, exceeding those of any other non-Japanese clothing brand. At retail value, total sales worldwide of the Burberry brand exceed £1.6bn.

The solid results delivered by Burberry in the past year, and the growing strength of the business, validate the brand re-positioning initiatives set out over the past two years and indicate significant potential.

Employees

This has been a year of transition for GUS as we refocused the Group to take advantage of the opportunities that lie ahead. I would like to thank everyone throughout the Group for their contribution. Achievement of our vision for the future of GUS will not be possible without the commitment, enterprise and dedication of all our people.

I would also like to thank David Wolfson for the vision and guidance he has provided during his four years as Chairman. He was instrumental in the creation of the global Experian information services business and the acquisition of Argos, and thus laid the foundations on which the strategy for the Group's future is based. On behalf of the Board, shareholders and staff of GUS, I thank him warmly for his contribution.

John Peace
Group Chief Executive