

D R A F T

Guidelines for B.A.T Stores : July 1989

General

1. B.A.T Stores' primary responsibility is to manage and develop the Group's retail activities in the UK.
2. The central objective should be the continued development of Argos to achieve sustained rapid rates of growth, long term, in both sales and profits.
3. Subject to the performance and development of Argos not being endangered, consideration should also be given to extending the Group's retailing activities by launching or acquiring businesses or concepts offering prospects for sustained, profitable growth in either the UK or Continental Europe. Where suitable prospects are identified, appropriate proposals for investment should be prepared.

Financial Guidelines

4. Returns : Argos should aim to achieve a minimum 30% return on average net trading assets on an historic cost basis of accounting (equivalent to a 15% return on a CCA basis).
5. Dividends: The minimum dividends expected from Argos are:-

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
£m	32	39	49	60	72	86

6. Debt/Equity : Argos should seek to maximise its year-end cash deposits with BATIF. Peak borrowings during the year should not exceed 50% of equity.

Specific Priorities

7. The first priority should be to continue to improve the positioning and competitiveness of Argos to enable the Company to achieve a rapid and sustained expansion in sales turnover and profits, through store-for-store growth, further geographic expansion in the UK and accelerated development of the Superstores and Best Sellers showrooms.
8. Plans should also be formulated for a rapid introduction of the new-style conventional showrooms, subject to the concept achieving satisfactory levels of performance.
9. Argos should continue to seek improvements in the performance and profitability of Superstores and Best Sellers outlets. In addition, the viability of out-of-town locations for Superstores in smaller catchment areas should be monitored with a view to maximising opportunities for expansion.
10. Plans should also be developed for accelerating the expansion of Argos through a more active participation in the property market, including the possible acquisition of properties by takeover. In particular, the attractiveness and feasibility of acquiring either of the two retail businesses previously identified should be reviewed with the CPC.

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11. Argos should complete its review of opportunities to improve productivity and seek to implement improvements in the areas of distribution, MIS, Head Office costs, stock control and the possible use of incentive schemes. Efforts to effect improvements in the use of systems and information technology should be continued, aimed at both securing improvements in performance and at establishing positions of competitive advantage.
12. A high priority should be given to ensuring that sufficient senior management capacity will be available both to manage the proposed expansion of the existing business and to identify, evaluate and develop new business opportunities. In particular, the planned recruitment of two Deputy Managing Directors for Argos should be completed before proceeding to the testing of pilot stores for the GALA project; an independent management team should be established for the Premier Incentives initiative; and a B.A.T Stores "holding" structure should be implemented over time to develop the Group's UK retailing interests.
13. Argos should continue to develop plans, to be agreed with the CPC, for testing the attractiveness and viability of the furniture/furnishings retail concept (GALA), with a view to launching two pilot stores in late 1990.
14. With regard to Premier Incentives, the plans for the expansion of Argos Achievement Awards should be implemented and specific proposals developed for the introduction of the Premier Points concept.
15. The feasibility of establishing a second, free-standing jewellery brand should be critically reviewed and discussed with the CPC.
16. The potential impact of the European Single Market on Argos' business should also be reviewed, taking into account both investment in the UK by overseas retailers and also opportunities for investment by B.A.T Stores, particularly through a geographic expansion of the Argos concept.

GJB/DJA
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