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Argos is the **UK's leading general merchandise retailer** overall and is number one for housewares, furniture, jewellery, toys, sports and leisure equipment and small domestic appliances.  
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# Leading the way


Argos is one of the UK's best known retail brands. By offering customers a unique combination of choice, value and convenience, Argos is the UK's number one general merchandise retailer.


Argos offers 18,900 lines in the latest catalogue and there is even more choice available online. Its scale, supply chain and operating model efficiencies continue to deliver outstanding value for customers. And the integration of stores with website and telephone ordering, as well as the largest home delivery operation, make the Argos shopping experience a household favourite for convenience.

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Video games are among the 3,000 internet-only lines added to argos.co.uk



Around 250 Argos Value lines are now available, reinforcing Argos' value credentials.

## Argos business review

As the UK's leading general merchandise retailer, Argos provides a highly successful and unique offer of choice, value and convenience.

### Operational review

#### Further strengthening the customer proposition

The current catalogue has been expanded by 400 lines to reach 18,900. Further improvements to stockroom systems and operations have enabled the core stocked-in range to expand by 700 lines to 11,100, while the 'Extra' lines stocked in at larger stores and the home delivery only lines have each reduced slightly to 3,500 and 4,300 respectively.

To grow product choice beyond the main catalogue, in the last year around 3,000 'internet-only' lines have been added to argos.co.uk. The initial ranges extend choice in areas such as white goods, video games, office supplies, beds, sports equipment, audio accessories, nursery ranges and watches, and are typically delivered by the Argos Direct service. Some smaller items are posted to customers free of charge.

Home delivery improvements being implemented include extending the use of two-hour time slot notification for 'two man' home deliveries, while the number of lines on shorter lead times (three to five days) are also increasing. Customer take-up of packaging removal on delivery and the taking away of old appliances continues to grow in popularity.

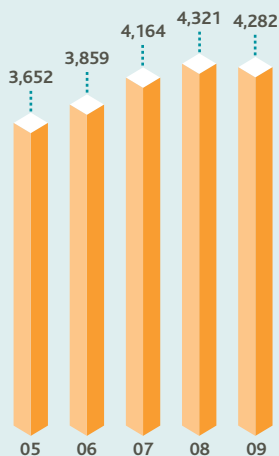
Argos' value credentials are being reinforced with a near four-fold increase in the number of 'Argos Value' lines to around 250. Displays of Argos Value ranges and other low cost lines have been installed in most stores, helping to generate impulse sales and further communicate great prices. The increased strength of the 300 'WOW' value lines are seeing sales of these products grow strongly. There is also a move to new promotional messages, aided by improved systems and processes allowing more 'bundled' and 'linked' deals.

As well as strengthening entry price points, ongoing range development has also provided clearer step-up lines and new brands. The acquisitions of the Alba, Bush and Chad Valley brands will also support this strategy going forward.

Around 25% of the store portfolio has seen a trial implemented to gather real-time feedback on customer service. Answers to a series of questions are gathered on electronic keypads, allowing store managers invaluable insight into operational performance. A new 'Tell Argos' website is also collecting customer feedback on what we need to do to continue improving in-store operations; since launch in December 2008, this has already generated 30,000 responses, which can be analysed based upon the specific store transaction details supplied in each response. Other customer-focused initiatives include testing new, clearer order progress screens at the collection points, and changes to simplify the collection process. »

 Around 3,000 'internet-only' lines have been added to argos.co.uk, extending choice in areas such as white goods, video games, office supplies, beds, sports equipment, audio accessories, nursery ranges and watches. 

# Argos key performance indicators



## SALES (£M)

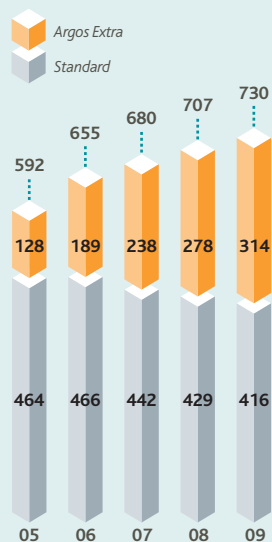
Sales in the 52 weeks to 28 February 2009 declined by 0.9% in total; the contribution to sales from net new space was 3.9%, while like-for-like sales declined by 4.8%. There was further strong sales growth and market share gains in consumer electronics categories such as video gaming, flat panel TV and the new PC ranges, though the rate of growth eased in the year. The weakest areas through the year were the furniture and homewares categories, given particularly challenging market conditions. In the early months of the year seasonal areas were difficult, while the final months of the year saw a return of good growth in the more traditional toy areas.

### Definitions:

Income received from goods and services.

### Source:

Audited financial statements.



## NUMBER OF STORES

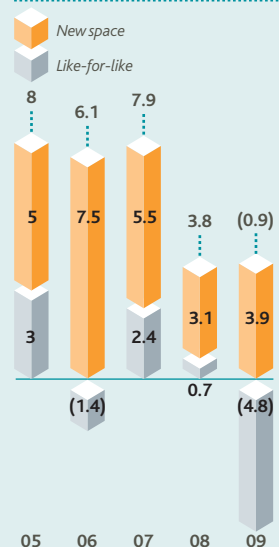
Argos has opened a net 138 stores over the past four years with an increased proportion opened as Argos Extra fully stocked-in stores. A net 23 stores were opened during the year, comprising 31 openings, eight closures and six relocations.

### Definitions:

Total number of stores at year-end. Argos Extra fully-stocked-in stores are those that carry the full range of Argos Extra product lines.

### Source:

Measured internally.



## SALESTRENDS (% CHANGE)

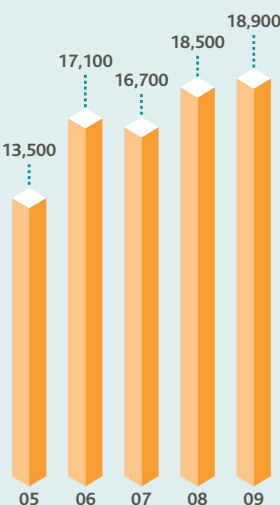
Like-for-like sales decline of 4.8% was as a result of a challenging trading environment. The net 23 new stores added 3.9% space growth. Whilst like-for-like sales are impacted by difficult economic conditions, our store opening programme will continue to contribute positive net new space growth in the next financial year.

### Definition:

Annual percentage change in sales. Like-for-like sales are calculated on stores that have been open for more than a year; net new space contribution to sales change is calculated on stores that have opened and closed during the year.

### Source:

Audited financial statements/measured internally.



## NUMBER OF LINES IN THE MAIN CATALOGUE (SPRING/SUMMER)

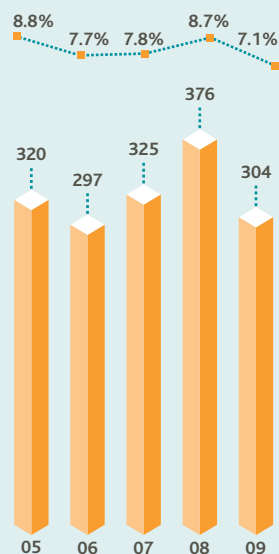
The current Spring/Summer catalogue has been expanded to a record 18,900 lines. This is around 400 more lines than last year. The catalogue, now in its 71st edition, remains central to the Argos proposition.

### Definition:

Total number of lines in the main Spring/Summer Argos catalogue.

### Source:

Measured internally.



## BENCHMARK OPERATING PROFIT (£M) AND MARGIN (%)

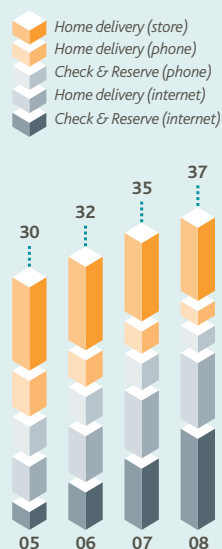
Benchmark operating profit for the 52 weeks to 28 February 2009 was £303.6m, a 19% decline on last year's record profits of £376.2m. This was the result of the weak sales environment and gross margin pressure, partially offset by further strong cost productivity.

### Definition:

Operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items and costs related to demerger incentive schemes.

### Source:

Audited financial statements.



## SALES ACROSS MORE THAN ONE CHANNEL (%)

Multi-channel sales increased to represent 40% of total Argos sales. Within this, Check & Reserve remains the fastest growing channel, and now accounts for 19.2% of sales. Check & Reserve offers customers the ability to reserve products for immediate collection in-store at no additional cost. In the last four years, total Argos multi-channel sales have grown from 30% to 40%, offering customers the flexibility to seamlessly mix and match channels to suit their needs.

### Definition:

Percentage of sales across more than one channel. There are three ordering channels: the internet, phone or store and two fulfilment channels, store or home delivery.



### Source:

Measured internally.

### Multi-channel leadership

Multi-channel sales totalled £1.7bn or 40% of all of Argos' sales. The internet now accounts for 26% of Argos' sales; of this, £700m or around 17% of Argos sales are from customers using the online Check & Reserve service, with this channel growing by one-third year-on-year. Improvements to this service made in the year have included showing the real-time stock availability of any product in the two nearest stores and the ability to check a further eight alternative nearby stores, and a free text message of the reservation number when an online reservation is made with a reminder text sent at midday on the day the reservation expires.

Argos received the '2009 Online Retailer of the Year' award at the recent Retail Week Awards. One of many developments over the year saw the argos.co.uk website add online customer ratings and product reviews. The development of a customised system to do this has allowed reviews to be placed on all products. Since launch in October 2008, most products now carry reviews or a rating, with a total of over 300,000 reviews submitted in the first six months. »

 The internet now accounts for 26% of Argos sales; of this, £700m or around 17% of Argos sales are from customers using the online Check & Reserve service. 

### Argos case study: Delivering more multi- channel innovation

**Argos has always provided its customers with great choice, value and convenience. This year has seen continued improvements with even more products in a wider number of categories displayed in the catalogue or in our extended internet ranges, and a commitment to great value prices amongst the best available to shoppers.**

In terms of convenience, Argos has always been ahead in the 'multi-channel' race. We know customers often find that more ways to shop can mean more convenience – in particular the chance to do the hard work of choosing in the comfort of their own home or workplace with a catalogue or the internet, and then completing their shopping in store or having it delivered direct to them. It's been many years since Argos started to offer home delivery across all its products, and it's also been over 10 years since we put all products on the internet. In every year since, we've relentlessly improved our multi-channel offer and the convenience it provides to customers.

Check & Reserve actually began a number of years ago. However, it is only more recently that the popularity of online reservations for store collections has outstripped internet orders for home delivery. This financial year saw total Argos internet orders reach £1.1bn, with £700m of this collected in store and £400m being delivered to home.

In the last year we've added a number of new functions. For example, from the online product selection page, customers are shown the real-time stock availability of the two nearest stores, with the choice of eight nearby alternative stores to check. Also launched in recent months, when you reserve online you can provide your mobile phone number in order to receive a handy text message of your reservation number as well as a reminder text on the day your reservation runs out.

Check & Reserve remains unique to Argos in that it covers every store and every product we stock in a store (that's up to 15,000 products per store) and in the fact that your chosen items are immediately available for you from the second you hit reserve. This, the recent functions added and those we have still to come, will keep Argos ahead in the multi-channel race.



The latest great prices are available at [argos.co.uk](http://argos.co.uk). Reserving online is quick and easy, at home or elsewhere.



You can pop into your chosen Argos store, knowing your products are reserved for you.



Even paying is quick and easy, using the Quick Pay kiosk.



Products are available for collection within minutes.



Argos Check & Reserve makes shopping even more convenient, meaning more quality time for you.

### Gross margin management

Progress continues on driving sourcing and supply chain benefits, and the recent brand acquisitions will add further direct sourcing scale. The product mix is likely to continue to impact the gross margin rate. In addition, product cost pressures, particularly as a result of sterling weakness, are likely to result in further gross margin rate decline. A level of customer price inflation to help offset the inflationary product cost pressures is expected, with Argos targeting delivery of absolute cash gross margin as opposed to a gross margin rate objective.

Margin management will still however be driven by Argos' commitment to remaining highly price competitive. Underpinning the strong value credentials with customers, Argos continues to constantly monitor and adjust prices over the life of the catalogue, with around 6,000 products being checked against its major competitors on a weekly basis. In the three months since the publication of the January 2009 catalogue, around 5,000 items have had their price either permanently or promotionally reduced.

### Driving further cost efficiencies and cash generation

Argos has a strong track record of positive cost productivity, the measure whereby total operating cost growth is less than the combined change in total sales and underlying cost inflation. Recent organisational changes being undertaken to further improve operational efficiency include the number of Argos head office roles reducing by approximately 10%, and a restructuring of certain levels of store management resulting in a reduction in store-based full time equivalent roles.

Argos also continues to achieve efficiency improvements in its distribution network. During the last year, one of the six regional distribution centres had its operations reallocated to the remaining five sites. During the new financial year, this freehold facility will be able to take on the operations of the two existing 'one man' home delivery warehouses. The distribution network has also reached 90% of its waste being recycled, while other efficiencies have included further progress in multi-deck trailer usage, improved scheduling and extended backhaul operations.

Argos will maintain its focus on cash. Capital expenditure in the year just ended was reduced, and is expected to be lower in the new financial year. Argos will also continue to tightly manage its working capital.

### Store portfolio expansion and development

A net 23 stores were opened during the year, taking the portfolio to 730 stores. Extent of chain analysis supports further years of growth, and the returns on investment of new Argos stores continue to be attractive. However, given the challenging environment, the new store opening rate is likely to ease to around 20 stores in the new financial year. As a result, the net contribution to sales is expected to be around 3%. New stores will still predominantly be in out-of-town retail parks, although there will also be some new locations in smaller towns as well as further sites sought for the smaller store format within larger cities.

## Argos financial review

Sales in the 52 weeks to 28 February 2009 declined by 0.9% in total; the contribution to sales from net new space was 3.9%, while like-for-like sales declined by 4.8%. There was further strong sales growth and market share gains in consumer electronics categories such as video gaming, flat panel TV and the new PC ranges, though the rate of growth eased in the year. The weakest areas through the year were the furniture and homewares categories, given particularly challenging market conditions. In the early months of the year seasonal areas were difficult, while the final months of the year saw a return of good growth in the more traditional toy areas.

Gross margins were down by approximately 100 basis points, driven by a continuing product mix shift towards lower margin consumer electronics categories and away from higher margin furniture and homewares areas. There were continued supply chain gains as well as some foreign exchange benefits in the first half, however these were used to support lower prices for customers. In the peak trading period there was some additional gross margin impact from increased promotional activity and clearance of seasonal stocks. The launch of the 2009 Spring/Summer catalogue in the final part of the financial year saw the first stages of a margin rate impact from increased product cost pressures as a result of sterling weakness.

Total operating and distribution costs grew by approximately 1% or £15m. Underlying cost inflation was approximately 4% or £50m, an acceleration on the 3% level experienced last year, principally as a result of higher fuel and utility costs. The cost base excluding the impact of inflation was therefore reduced by about 3% or £35m. Given the total sales decline in the year was 1%, there was around 2% or £25m of cost productivity as a result of the cost containment initiatives delivered during the year and cost leverage from new store openings.

Benchmark operating profit for the 52 weeks to 28 February 2009 was £303.6m, a 19% decline on last year's record profits of £376.2m. This was the result of the weak sales environment and gross margin pressure, partially offset by further strong cost productivity.

52 WEEKS TO	28 FEBRUARY 2009	1 MARCH 2008
<b>Sales (£m)</b>	<b>4,281.9</b>	<b>4,320.9</b>
<b>Benchmark operating profit (£m)</b>	<b>303.6</b>	<b>376.2</b>
<b>Benchmark operating margin</b>	<b>7.1%</b>	<b>8.7%</b>
Like-for-like change in sales	(4.8%)	0.7%
New space contribution to sales change	3.9%	3.1%
Total sales change	(0.9%)	3.8%
Gross margin movement	Down c.100bps	Up c.50bps
Benchmark operating profit change	(19%)	16%
Number of stores at year-end	730	707
Of which Argos Extra fully stocked-in	314	278