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Argos has one of the largest
product ranges of any home and general
merchandise retailer in the UK
and Ireland.


A brand icon.


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


Argos offers customers a catalogue of over 18,000 product lines that are available across all order and delivery channels. By reinvesting buying and supply chain efficiencies in lower catalogue prices, Argos continues to deliver outstanding value for customers. The integration of over 700 stores with our website and telephone channels means that the Argos shopping experience has never been more convenient.




Where can I find more information?

 [Pg 24. Operational review.](#)
Reincluded lines are 4% cheaper on average in the Spring/Summer 2008 catalogue.

 [Pg 25. Performance.](#)
Sales made across more than one channel grew to 37%.

 [Pg 24. Operational review.](#)
Over 14,000 products can be reserved from home for immediate store collection.

 [Pg 29. Financial review.](#)
Benchmark operating profit increased by 16% to a record £376m.

Argos business review

As the UK's leading general merchandise retailer, Argos provides a unique offer of choice, value and convenience that continues to grow in popularity with consumers.

Argos operational review

The UK's leading general merchandise retailer

Argos has further strengthened its position of market leadership with sales growth of nearly 4% to £4.3bn in the year. Sales benefited in particular from an excellent performance in one of the market's fastest growing product categories, video games systems, and Argos extended market share in other fast-growing technology areas of LCD TVs and 'satnav'. Share was also gained in other more subdued or declining markets, notably pre-pay mobile phones, digital cameras, white goods and toys. Markets were difficult in older technology areas such as audio and VCR/DVD, while the jewellery market also remained difficult for Argos albeit on an improving trend to recent years.

Choice further expanded

The current Spring/Summer catalogue has been expanded to a record 18,500 lines. This is around 1,800 more lines than the equivalent edition last year, following a similar 1,500 line step-change in the preceding Autumn/Winter 2007 catalogue. Today's customer offer includes 10,400 catalogue lines available for immediate collection in virtually all 707 stores, an additional 3,700 lines available in the Argos Extra stores and 4,400 lines of large products that are for home delivery only.

Growth in customer choice has been driven by range extensions in over 50 categories and around 20 new product areas. Significant areas of range expansion include children's bedroom furniture, eco-friendly products, fitness and outdoor pursuits clothing and accessories, and many areas of technology. The latest catalogue has also seen further expansion of the Argos Quick Guide pages, particularly within technology and furniture. Choice from leading premium third-party brands is further supported by 'brand shops' within the catalogue for manufacturers including Apple, Dyson and Sony.

Value further extended

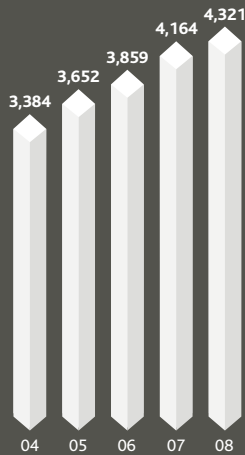
Argos has continued to demonstrate its ability to lower prices for its customers. In the Autumn/Winter catalogue, prices on reincluded lines were down by approximately 5%, one of the highest ever levels of reduction and partly driven by the favourable dollar exchange rate environment. In the current catalogue, the average price reduction across some 8,000 reincluded lines is approximately 4%. The ongoing move to more direct buying of overseas product has been a key driver of lower prices; around 32% of sales are on this basis, of which more than half is now directly sourced from the manufacturer.

As the market leader in many categories and often with as wide a choice as a specialist, Argos presents ranges that offer entry price point products through to premium products and brands. To strengthen further its position in markets such as small domestic appliances, consumer electronics and housewares, Argos has introduced its own Argos Value Range of products, with prices starting as low as £2.

Argos performance

ARGOS SALES (£M) – CONTINUING OPERATIONS

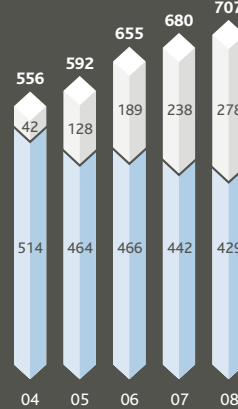
Argos' sales grew 3.8% to £4.3bn in the year. Sales benefited in particular from an excellent performance in one of the market's fastest growing product categories, video games systems, and it extended market share in other fast-growing technology areas of LCD TVs and 'satnav'.



Definition: Income received for goods and services.

Source: Audited financial statements.

Argos Extra fully stocked-in Standard



ARGOS STORES

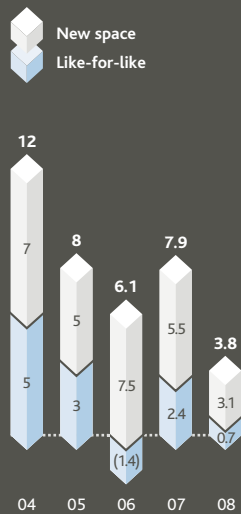
Argos has opened a net 151 stores over the past four years with an increasing proportion opened as Argos Extra fully stocked-in stores. A net 27 stores were opened during the year, comprising 31 gross openings, four closures and three relocations.

Definition: 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.

ARGOS SALES TRENDS (% CHANGE)

Like-for-like sales growth of 0.7% was a successful result in a toughening UK consumer environment. The net 27 new stores added an additional 3.1% to sales, resulting in total growth of 3.8% for the year. Whilst like-for-like sales are impacted by factors external to the Group, our store opening programme will continue to contribute to a positive net new space growth in the current year.

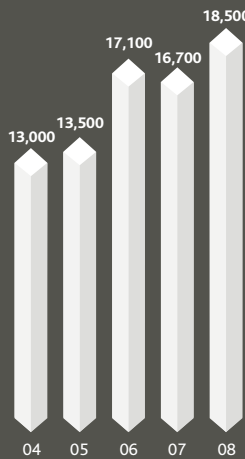


Definition: Annual percentage change in sales. Like-for-like sales are calculated on stores that have been open for more than a year; net new space contribution to sales change is calculated on stores that have opened and closed during the year.

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 18,500 lines. This is around 1,800 more lines than the equivalent catalogue last year. The catalogue, now in its 69th edition, remains central to the Argos proposition.

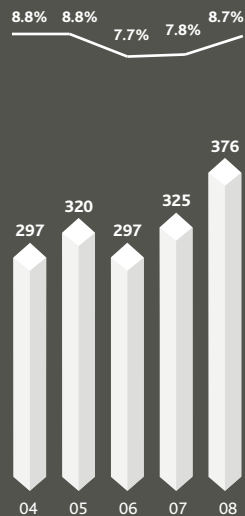


Definition: Total number of lines in the main Spring/Summer Argos catalogue.

Source: Measured internally.

BENCHMARK OPERATING PROFIT (£M) AND MARGIN (%) – CONTINUING OPERATIONS

Benchmark operating profit for the 52 weeks to 1 March 2008 grew 16% to a record level of £376.2m as a combined result of sales growth, gross margin expansion and exceptional cost management.



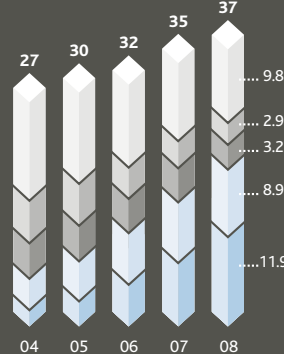
Definition: Operating profit and margin before amortisation of acquisition intangibles, store impairment charges, exceptional items and costs related to demerger incentive schemes.

Source: Audited financial statements.

% SALES ACROSS MORE THAN ONE CHANNEL

% SALES ACROSS MORE THAN ONE CHANNEL

Multi-channel sales increased to represent 37% of total Argos sales. Within this Check & Reserve remains the fastest growing channel, and now accounts for 15% 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 27% to 37%, 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.

■ 06 and 07 are on a 52-week pro forma basis
■ 05 onwards IFRS

Convenience further enhanced

Superior customer convenience continues to be driven by Argos' fully-integrated multi-channel leadership position. A combined 37% of all Argos' sales are now ordered or fulfilled across more than one channel. Within this, total internet orders grew nearly one-third to around £900m and now represent 21% of all sales. Sales of over £500m were from internet orders for pick-up in-store, an increase of 50% in the year. The popularity of this market-leading Check & Reserve service – either online, by phone or by text – is such that, on average, over 40,000 reservations are collected daily. Check & Reserve accounted for 15% of Argos' sales overall, and reached as high as 25% during the Christmas weeks.

Argos also continues to enhance its website functionality. As part of a three-year e-commerce programme to consolidate on its market-leading position, www.argos.co.uk was relaunched in September 2007 with a complete upgrade to both design and operation. The major changes included greatly enhanced site navigation, search functionality and better product and service information. The upgrade also saw increased transaction security and the implementation of promotional voucher capability ahead of Christmas.

The success of Argos' multi-channel model has also led to developments in the marketing mix. Email campaigns have become more sophisticated, and now include customer segmentation, dynamic product content to further meet specific customer needs, as well as special offers targeting active but low frequency customers. Argos has built an email database of over five million customers, one of the largest in the UK.

Kiosk technology brings together store format and multi-channel developments. Over the year, the number of stores with kiosks doubled; there are now 1,800 in place across all UK stores. The physical positioning of kiosks, in-store staff on-hand at peak times to assist customer awareness, together with the growth in Check & Reserve, have led kiosk participation of in-store sales to rise from an average of 12% to 17%.

Store portfolio expansion and development

The total number of stores increased by a net 27 to reach 707 at the end of the year. Of the 31 gross openings, 13 were stores in new catchments while 18 were openings in an existing catchment. Four stores closed in the year; in each case these were Call & Collect stores where there are now stocked-in stores open in the catchment; only six Call & Collect stores remain. Three store relocations were also completed in the year.

The proportion of Argos Extra stores also continues to increase. There are now 278 fully stocked-in Extra stores representing 39% of the portfolio; virtually all new stores were opened as Extras and an additional 10 conversions were completed in the year. There are also a further 71 stores that now carry an edited selection of the Argos Extra range; these 'partial extra' stores provide customers with a choice of even more products to take home immediately and generate sales from better-utilised space. The sales penetration of Extra ranges is low single-digit in ordered-in stores, while fully stocked-in stores achieve a low double-digit level on average, demonstrating the benefit of Argos immediate fulfilment model.



Tina England, *Help Desk Team,*
Magna Park distribution centre

Tina's dedication to getting things done earned her two 'Simply Thank You' awards during the year.



Joe Horvath and James Palliser,
Argos Home Delivery Crew,
Marsh Leys distribution centre

James and Joe are brilliant at getting customer deliveries right first time.



Alice Boaten,
Store Manager, Argos Balham
Since arriving at Balham, Alice has driven performance in a number of areas and improved colleague engagement.

“The convenience of our unique Check & Reserve system has proved popular with a large number of our customers.”

Sara Weller, *Managing Director, Argos*



“Argos currently sees the opportunity to continue opening around 30 stores a year.”

Sara Weller, *Managing Director*, Argos

There are additional store format trials in place. In densely urbanised areas, the lack of suitable locations for standard-sized Argos stores has led to under-representation in these areas. Over the last year, Argos has trialled a smaller format store and is now refining the model to reduce the customer area further and edit the stocked-in range while still meeting customer requirements for wide choice and immediate fulfilment. Other format trials include displaying furniture room sets in some larger stores in order to drive the quality perception and an improved awareness of the breadth of the furniture offer, and a series of store presentation and service trials to test opportunities to increase the jewellery and watch participation in relevant store locations by achieving a customer re-appraisal of the overall offer.

Analysis of the 'extent of chain' supports multiple years of new store growth. Argos has opened nearly 250 stores, or an average of approximately 30 stores a year, since 2000. In assessing future potential, analysis takes into account the substantially expanded range, the fact that Argos trades successfully from both traditional high street and out-of-town retail park formats and the potential opportunities in specific areas such as London and the Republic of Ireland. Taking all this into account, Argos currently sees an extent of chain that supports continuing to open around 30 stores a year.

Cost efficiency

A key feature of the successful profit outcome for the year has been exceptional cost management throughout the business. Initiatives have included carrying increased numbers of product lines in-store for immediate collection, booking delivery slots at the point of order, new processes for handling deliveries of multiple products, achieving production efficiencies in flyer publications and improving the transport methods for deliveries to stores. Each of these contributed towards cost productivity, while dealing effectively with the late Christmas sales pattern also provided an additional productivity benefit.

There have also been distribution network efficiency improvements. The opening of the new purpose-built direct importing facility at Kettering allowed the Argos Direct imported lines previously managed at the Corby facility to be transferred for greater scale benefit. In turn, this facilitated further consolidation of product ranges into Corby, allowing a rented facility at Wolverhampton to be closed.

In the new financial year, continued optimisation will see the least efficient regional distribution centre (RDC) at Castleford relocate the majority of its operations to the five remaining RDCs. The centralised jewellery warehousing operation that also runs from Castleford will be transferred to a new, smaller, dedicated facility.



We print around 40 million **Argos catalogues** each year, reaching 70% of all UK households.

Argos financial review

Sales in the 52 weeks to 1 March 2008 increased by 3.8% in total; like-for-like sales grew by 0.7%. There was exceptional growth in video games systems throughout the year, while further strong growth in flat panel TV sales had moderated by the end of the year. Good growth was achieved in 'satnav', mobile phones, digital cameras and accessories. Older technology areas of audio, VCR/DVD and landline phones were weaker. Furniture and homewares categories showed signs of more difficult market conditions towards the end of the year.

The contribution to sales from net new space was 3.1%. Next year's store opening programme is expected to produce a contribution of between 3% and 4%.

Gross margin was ahead by approximately 50 basis points for the year. In the first half some foreign exchange benefits were retained within the business; in the second half these benefits, together with ongoing supply chain gains, were fully passed on to customers with a greater level of investment in lower prices over the peak trading period.

Operating costs grew in total by approximately 2%, of which underlying inflation was approximately 3%. Non-inflationary costs therefore declined by approximately 1%, representing an exceptional five percentage points of productivity when compared to the level of total sales growth. This was achieved by continued cost control programmes and leverage from the ongoing new space programme. While further cost control and efficiency measures are planned, a significantly lower level of productivity gains is anticipated in the new financial year.

Benchmark operating profit for the 52 weeks to 1 March 2008 grew 16% to a record £376.2m as a combined result of sales growth, gross margin expansion led by short-term external factors, and exceptional cost management.

+16%

Growth in Argos benchmark
operating profit (2008:
£376m – 2007: £325m).

52 weeks to	1 March 2008	3 March 2007
Sales (£m)	4,320.9	4,164.0
Benchmark operating profit (£m)	376.2	325.0
Benchmark operating margin	8.7%	7.8%
Like-for-like change in sales	0.7%	2.4%
Net new space contribution to sales change	3.1%	5.5%
Total sales change	3.8%	7.9%
Gross margin movement	Up c.50bps	c.0bps
Benchmark operating profit change	16%	9%
Number of stores at year-end	707	680
Of which Argos Extra stocked-in	278	238