

Argos Retail Group had another successful year as the UK's leading general merchandise retailer.

Argos Retail Group

Over the last three years, Argos Retail Group (ARG) has invested significantly in building the UK's leading general merchandise retailing group. ARG's proposition of choice, value and convenience is supported by a greatly strengthened product supply chain and multiple shopping channels – stores, catalogues, telephone and Internet. Together these provide ARG's retail brands with a powerful platform for growth.

The Argos retail chain has been transformed since its acquisition in 1998, outperforming its market for the third successive year. The acquisition of Homebase in December 2002 means that ARG now has the second largest brand in the do-it-yourself market and a strong base from which to increase its position in the growing homewares and furnishings market.

In May 2003, ARG announced the disposal of its home shopping businesses in the UK, Ireland and Sweden, together with its logistics and customer care business, Reality. As a result, ARG in the UK and Ireland is now focused on general merchandise through its Argos and Homebase businesses.

In the year under review, ARG increased sales by 11% and profits by 12%.

Argos

Argos has continued to go from strength to strength, achieving sales of over £3bn for the first time. Sales were up 12% and profit up 17%.

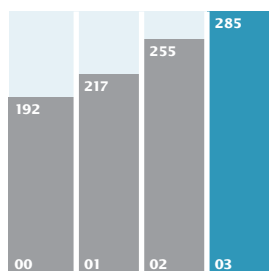
Thirty-three new Argos stores were opened during the year, bringing the total to 523, with plans to open a similar number this year. The store refurbishment programme also continued apace, including initiatives to improve customer service. Over 500 quick-pay kiosks were installed to enable customers to order and pay for goods without going to the till. Argos also became the first High Street retailer to take advantage of the growth in mobile phone text messaging with a 'Text & Take Home' service.



Argos advertising: The launch of the new Argos advertising campaign, starring Julia Sawalha and Richard E Grant, resulted in faster pick-up of the new Argos catalogue, increased purchase frequency and improved perceptions of the Argos brand. It also won the Marketing Campaign of the Year at the Retail Week Awards 2003.

The Argos product range was significantly expanded, with about 25% more products in the latest Spring/Summer catalogue compared to the previous edition. These were largely in the areas of bedding, furniture and textiles, where sales are set to increase as customer awareness grows. Delivery of products to home via Argos Direct increased by 33% and now accounts for 18% of all Argos sales.

Argos' achievements during the year were recognised by its peers at the Retail Week Awards, the UK retail industry awards. Argos won no less than four awards: Retail Technology, Multi-channel Retailing, Marketing and, most importantly, Retailer of the Year.



ARG operating profit
£ million

Argos continued

Homebase

Homebase, the do-it-yourself and home furnishings retailer, was acquired in December 2002. This business operates in fast growing markets, with excellent organic growth prospects. There are also significant operational benefits to be gained from combining Homebase's supply chain and infrastructure with those of ARG.

The priority since acquisition was to prepare for peak trading in April and May. In addition, the management team was strengthened by appointments from within ARG and a number of early gains were identified, particularly within the supply chain.

The focus during the current year is to create a successful platform for growth in 2004 and beyond, while delivering on profit expectations. Key initiatives will include improving the in-store experience and increasing the sales of high value items such as furniture, bathrooms and kitchens. Further stores are also planned, together with the continued roll out of mezzanine floors, which offer an attractive return on investment.

Home Shopping UK & Ireland

The market for agency home shopping remained difficult during the year. As a result, sales in ARG's UK & Ireland home shopping businesses were 8% below the level of last year.

The rundown or sale of peripheral businesses accounted for 3% of this decline. Sales from continuing direct catalogues, principally Marshall Ward and Abound, remained strong.

Reality

Reality continued to support ARG's multi-channel operations with home delivery and customer care services. Sales to external customers were level with the previous year. The core logistics business grew sales by 7%, but this was offset by the withdrawal from and sale of peripheral activities, including packaging and fleet management.

Following the disposal of Reality in May 2003, ARG has entered into commercial agreements with it for the continuing provision of home delivery and other services.

Financial Services

Demand for the Argos store card continued to grow, with 630,000 active accounts, up from 460,000 a year ago. Outstanding balances increased from £50m to £155m, with over 7% of sales at Argos now made using the store card.

Argos personal loans, which were introduced with the Autumn/Winter catalogue, also made good progress.

Home Shopping Continental Europe

Sales in Continental Europe increased by 10% and profit by 5% at constant exchange rates. Wehkamp, which is the leading home shopping brand in Holland, accounted for 80% of these sales and benefited from improved promotional activity and strong growth in branded clothing and electronic goods.

Store openings: Homebase had 273 stores at the year-end and a further nine are planned during the current financial year.

Argos growth: Argos has continued to go from strength to strength, outperforming its market for the third successive year.

Homebase: The new mezzanine floors are enabling Homebase to showcase kitchens, bathrooms and home furnishings, while providing an attractive return on investment.

Argos store card: Over 7% of Argos sales were made using the Argos store card. There were about 630,000 active card holders by the year-end.

