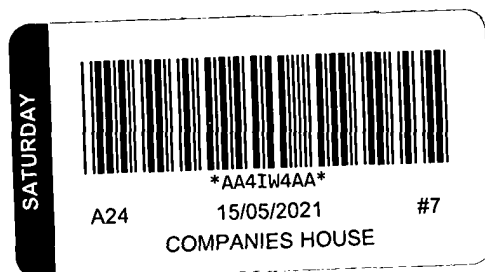


Registered Number 01081551

**Argos Limited**  
**Annual Report and Financial Statements**

**For the 52 weeks ended**  
**7 March 2020**



**Argos Limited**  
**Annual Report and Financial Statements**  
**For the 52 weeks ended 7 March 2020**

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# Argos Limited

## Strategic report for the 52 weeks ended 7 March 2020

### Principal activities

Argos Limited (the "Company") is a retailer of general merchandise products for the home, which are set out in its twice-yearly catalogue or its website [www.argos.co.uk](http://www.argos.co.uk). Customers can purchase products through its network of stores, online and over the phone, with the option of picking them up from a store or having them delivered to their home.

### Review of the business and future developments

The Company sells general merchandise and products for the home and is recognised for choice, value and convenience. The Company is a multi-channel retailer in that it offers its customers a number of convenient ways in which they can purchase their products. The Company is taking advantage of developments in technology that have brought about a fundamental and permanent shift in the way its customers shop. The successful internet and mobile channels help make the Company a market leader in multi-channel retailing. This is supported with a national network of 1163 stores and collection points which provide the Company with local pick-up points, giving it both digital leadership and local presence. This provides a continued competitive advantage over the pure-play internet competitors. The results and dividends are discussed on page 7.

The Company has generated sales of £4.2bn in the year. Net space increased sales by 0.1% with the store estate decreasing due to the closure of Argos standalone stores and collection points offset by the opening of concessions in Sainsbury stores. Like-for-like sales decreased by 0.2%, principally due to toys and gaming. At the year-end, the Company had net assets of £500.9m (2019: £527.3m).

### Section 172 Statement

All directors are collectively responsible for the success of the Company and take their duties and responsibilities, including those set out in Section 172(1) of the Companies Act 2006, seriously. When making decisions, the board of directors seek to take the course of action that it considers best leads to the success of the Company over the long term, and this includes considering the Company's stakeholders.

During the year ended 7 March 2020, the Directors continued to focus on engagement with the Company's stakeholders. These interactions informed the decisions that the Directors made during the year. More information on how the Board and Directors engaged with stakeholders can be found on pages 14 to 17 of J Sainsbury plc 2020 Annual Report (the Group Annual Report). The Group Annual Report can be found on our website [www.about.sainsburys.co.uk/ar2020](http://www.about.sainsburys.co.uk/ar2020).

### Wates Corporate Governance Principles [Directors report]

The Company is a wholly owned subsidiary of J Sainsbury plc and our governance and business decisions are integrated with J Sainsbury plc and its subsidiaries (the 'Group'). For the year ended 7 March 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (Principles) with the exception of Principle 2 and an explanation is provided below.

J Sainsbury plc complied in full with the Principles and Provisions of the UK Corporate Governance Code 2018.

Set out below is how we have applied the Principles over the past year.

### Principle 1 – Purpose and leadership

The Company has adopted the Group's purpose 'Live Well for Less' and the Group's values which have been embedded through the business. Details of the strategic priorities and the Group's progress against them can be found on pages 20 to 27 of the Group Annual Report. Feedback from stakeholders was taken into account when determining the Group's strategic priorities, details of which can be found on pages 14 to 17 of the Group Annual Report.

## **Argos Limited**

### **Strategic report for the 52 weeks ended 7 March 2020 (continued)**

#### **Principle 2 – Board composition**

There have been a number of Board changes at the Company during the year. Details of the changes can be found on page 7. None of Directors were appointed as Chair of the Company during the year as the responsibilities of the Board correspond to that of their job scope in the Group, detailed in Principle 3. This will be reviewed during the next financial year.

During the year, the Sainsbury's Argos Management Board managed the business of the Company. Following John Rogers's departure from the business in October 2019 and the launch of the Customer and Trading Forum, which oversees the development and delivery of commercial and customer strategic priorities, the day-to-day management and governance of the Argos business was further integrated within the Group governance structure.

The Board currently consists of Mark Given and Mike Luck who are also members of the Group Operating Board.

The Group Operating Board concentrates on the day-to-day management of the Group, including the business of the Company, and the execution of strategy set out by the Board of J Sainsbury plc. It also oversees the business of the Company, providing constructive challenge and robust governance.

The Company's Board size, structure and succession planning is constantly reviewed to ensure it aligns with Group's needs and the needs of our stakeholders.

#### **Diversity and inclusion**

Our aspiration is to be the most inclusive retailer, and the Board is highly supportive of the initiatives in place to promote diversity and inclusion throughout the business. Clear leadership of our inclusion agenda has been established and senior management in the Group have been set annual objectives to drive progress through the business. The Group Diversity and Inclusion Steering Group is chaired by the Group HR Director, and has five inclusion streams:

- Gender Balance
- Ethnicity, Religion and Belief
- Lesbian, Gay, Bisexual and Transgender
- Age, Carers and Disability
- Wellbeing

Diversity is continually considered along with the balance of skillsets amongst our Directors.

Across the Group, female representation is 54.6% and at senior levels it has increased to 35%. The Group's aspirational target is for 40% female and 10% BAME in senior management roles and above by 2021. For more information, see our Gender Pay Report on our website <https://www.about.sainsburys.co.uk/making-a-difference/gender-pay-gap>.

#### **Principle 3 – Director Responsibilities**

The current Directors of the Company are Mark Given and Mike Luck and their responsibilities are detailed in their biographies on our website <https://about.sainsburys.co.uk/about-us/our-management#operating-board>. On joining the Board, the Directors had an induction programme.

To support its work the Board relies upon certain Group Committees, each of which has approved Terms of Reference setting out its areas of responsibility. The Committees include the Group Operating Board, Customer and Trading Forum, Investment Board, Group Data Governance Committee, Group Safety Committee, Group Diversity and Steering Group, Group Operational Resilience Committee and the Net Zero Steering Group. For more information about these Group Committees, see page 55 of the Group Annual Report.

#### **Principle 4 – Opportunity and Risk**

Details of the Group's business model can be found on pages 10 and 11 of the Group Annual Report. The risk management process is embedded through the Group and is supported by the bottom-up risk process within divisions and governance forums. For more information on the Group's Principal Risks and Uncertainties, see pages 36 to 45 in the Group Annual Report.

The internal controls framework encompasses controls relating to financial reporting, operations, compliance, and risk management. More information can be found on page 71 in the Group Annual Report.

**Argos Limited**  
**Strategic report for the 52 weeks ended 7 March 2020 (continued)**

**Principle 5 – Remuneration**

The Company's objective is to have a fair, equitable and competitive total reward package that supports our vision of being the most trusted retailer where people love to work and shop, encourages colleagues to perform in ways that deliver great service for customers, drives profitable sales and provides opportunities for colleagues to share in the business's success.

The Group Operating Board determines the pay and benefits for colleagues across the Group and the J Sainsbury plc Remuneration Committee is responsible for:

- Determining and agreeing with the J Sainsbury plc Board the Remuneration Policy for the Chairman and Executive Directors of J Sainsbury plc and Group Operating Board
- Setting individual remuneration arrangements for the Chairman and Executive Directors of J Sainsbury plc and Group Operating Board
- Reviewing and noting the pay and benefits applying to colleagues across the business and taking these into account when determining executive pay
- *Considering the achievement of the performance conditions under annual and long-term incentive arrangements.*

More information on the work of the Remunerations Committee during the year, see pages 72 to 89 of the Group Annual Report.

**Argos Limited**  
**Strategic report for the 52 weeks ended 7 March 2020 (continued)**

**Principle 6 - Stakeholders**

The Group's purpose, vision, values and goals underpins everything we do as a business and helps us strengthen relationships with our key stakeholders. It is the day-to-day responsibility of individual Directors to engage with stakeholders relevant to their roles in the Group. The disclosure below provides further detail on how the Company has engaged with stakeholders.

Who are our stakeholders?	How do we engage with them?
<b>The Group</b>	<ul style="list-style-type: none"> <li>- Through certain Group Committees detailed above</li> <li>- Feedback from the Directors that are also members of the Group Operating Board</li> </ul>
<p><b>Customers</b></p> <p>Our customer shop with us in stores, online and on our mobile app.</p>	<p>We engage with our customers through:</p> <ul style="list-style-type: none"> <li>— Customer feedback programme (CSAT) – real-time feedback on a range of service measures</li> <li>— Social media listening</li> <li>— Market research – qualitative customer focus groups, accompanied shopping trips, quantitative surveys</li> <li>— Nectar data which helps us understand how customers are shopping</li> <li>— Brand tracking which assesses the performance of our different brands</li> </ul>
<p><b>Colleagues</b></p> <p>Our colleagues include everyone who is employed by the Company.</p>	<p>Our colleague engagement activities include the following:</p> <ul style="list-style-type: none"> <li>— Great Place to Work National Group made up of colleagues across the business elected by their peers to represent their views at meetings.</li> <li>— Our annual colleague engagement survey 'We're Listening' invites every colleague in the Group to give honest confidential feedback on what it is like to work for the business</li> </ul>
<p><b>Suppliers</b></p> <p>We have Goods For Resale (GFR) suppliers that supply products for general merchandise and clothing and Goods Not For Resale (GNFR) suppliers supporting all divisions' activities including Logistics, Marketing, Technology and Retail.</p> <p>Our suppliers range from large multi-national companies to small independently-run businesses.</p>	<p>Our suppliers have access to our online supplier portals where we share news about the organisation and develop new ways of working with them which ensures a consistent forum for tendering communication.</p> <p>The Group engage with our suppliers to prevent modern slavery and human trafficking in our business operations and supply chain and report this through our Modern Slavery Statement.</p>
<p><b>Communities</b></p> <p>Generating positive impact in the communities we serve and source worldwide.</p>	<p>The Directors hear feedback from our community through:</p> <ul style="list-style-type: none"> <li>— Colleague feedback through our Great Place to Work Group</li> <li>— Our customer feedback programme and customer surveys which provides valuable information on our customers and local communities.</li> </ul>

For further information on stakeholder engagement which applies throughout Group, see pages 14 to 17 of the Group Annual Report.

# Argos Limited

## Strategic report for the 52 weeks ended 7 March 2020 (continued)

### Principal risks and uncertainties

The principal risks and uncertainties of the J Sainsbury Group ("Group"), which includes the Company, are discussed on page 36 to 45 of the Group's 2020 annual report, which does not form part of this report. The Company is a significant part of the retail segment of the Group, so most of the risks detailed in that report are relevant to the Company, and are managed by the Directors on a basis consistent with, and as part of, the Group's structured risk management process.

The Group operates a centralised treasury function which is responsible for managing the market risk (foreign exchange and interest rate risk), credit risk and liquidity risks associated with the Group's activities. These activities include those of the Company. The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties.

The Group's treasury function seeks to reduce exposures to foreign exchange, interest rate and other financial risks, and to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Policies and procedures are subject to review and approval by the Group's Board of Directors as well as subject to internal audit review.

#### *Impact of COVID-19*

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

The conditions that existed at the balance sheet date were that a disease, present in a number of countries globally, was in existence. It had stabilised in China, however had caused a level of uncertainty in the market. The UK response to the outbreak was still minor and day-to-day life in the UK where the Company operates was unchanged. Despite the lockdown in China, a UK lockdown and subsequent economic impact was not readily apparent at this stage. As a result, none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements.

The subsequent rise in infections in the UK, significant market movements and global lockdowns occurred after the year-end date, but do not provide additional information about conditions that existed at the balance sheet date. In particular, it was on 11 March 2020 that the World Health Organisation declared the virus a pandemic, and from 16 March 2020 that the UK Government announced major government-backed loans. It is also this date that day-to-day life in the UK began to be impacted through announced social distancing measures, with additional, stay at home measures being enforced even later. The scale of these Government interventions and impact on daily life in the UK were not apparent at the balance sheet and therefore represent non-adjusting events to the Company. Given the significance of these events, additional disclosures are included in note 26 of the financial statements.

#### *Market risk - foreign exchange risk*

The Company is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Company uses forward contracts, transacted with external banks. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts. The key objective of the foreign exchange transaction exposure management is to minimise potential volatility in profits which could arise as a result of exchange rate fluctuations whilst maintaining an appropriate relative position versus the retail peers.

#### *Market risk - interest rate and credit risk*

The Company's cash and borrowing requirements are managed centrally by the Group treasury function in order to manage the net interest income/expense for the Group as a whole. As a result, the Group's interest rate risk arises from the variance in market rate when deposits are made. The principal objective of the Group's interest rate risk management is to manage the trade-off between obtaining the most beneficial effective rates of interest whilst minimising the impact of interest rate volatility on profits before tax.

The Company monitors its group receivable balances on an ongoing basis with any provision for impairments made as required.

The Company's treasury transactions are managed centrally by the Group treasury function. The Group's exposure to credit risk with regard to treasury transactions is managed by dealing only with major banks and financial institutions. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis. Foreign exchange counterparty limits are set for each organisation on a scale based on credit rating and maturity period.

Further details of the Group cash management policy are set out in note 31 on page 173 of the Group annual report.

#### *Liquidity risk*

The Company's liquidity risk is managed centrally by the Group treasury function.

The Group maintains a contingent committed revolving credit facility of £1,450 million. The £1,450 million facility is split into two facilities, a £300 million Facility (A) maturing in April 2025 and a £1,150 million Facility (B) has a final maturity of October 2024. As at 7 March 2020, £nil had been drawn (2019: £35m).

In July 2019, the Group entered into a new £250m Bilateral Loan Facility due July 2024 to part finance the £450m convertible bond that matured in November 2019. The bank loan is held at a floating rate of interest. The Bilateral Loan Facility was fully drawn at 7 March 2020.

**Argos Limited**  
**Strategic report for the 52 weeks ended 7 March 2020 (continued)**

**Key performance indicators (KPIs)**

The Directors of J Sainsbury plc manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, are discussed on pages 28 to 29 of the Group's Annual Report, which does not form part of this report.

By the order of the Board

*Michael Luck*

Michael Luck (May 14, 2021 08:53 GMT+1)

M Luck  
Director  
14 May 2021

## **Argos Limited**

### **Directors' report for the 52 weeks ended 7 March 2020**

The Directors present their report and the financial statements of the Company for the 52 weeks ended 7 March 2020 ("the year") (Prior year: 52 weeks ended 9 March 2019).

#### **Registered number**

The registered number of the Company is 01081551.

#### **Results and dividends**

The loss for the year was £157.2m (2019: loss of £57.2m). Exceptional costs totalling £89.1m (2019: £53.6m) were incurred during the 52 weeks ended 7 March 2020. These were in respect of further costs associated with the integration of the Company into the J Sainsbury group following acquisition, and the closure of Argos stores. In addition, the Company had a net impairment charge of £10.3m (2019: £17.3m) against amounts owed by group undertakings. There is no cash impact because of this impairment.

The Directors do not recommend the payment of a final dividend (2019: £nil). The future developments and principal risks and uncertainties are discussed within the Strategic report on page 1.

#### **Going Concern**

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further information is included within note 2 of the financial statements.

#### **Directors**

The Directors that held office during the year and up to the date of approval of the financial statements were as follows:

P Mills-Hicks (appointed 31 October 2019, resigned 31 January 2021)  
M Given (appointed 29 May 2020)  
M Luck (appointed 16 December 2020)  
S J Roberts (appointed 31 October 2019, resigned 29 May 2020)  
J P Wass (appointed 6 December 2019, resigned 8 October 2020, appointed 31 January 2021)  
C L Catlin (appointed 15 February 2019, resigned 6 December 2019)  
P Dunne (appointed 15 February 2019, resigned 31 October 2019)  
J T Rogers (resigned 31 October 2019)  
J R Brown (appointed 31 October 2019, resigned 29 May 2020)

There were no other appointments or resignations in the year.

#### **Secretary**

Sainsbury's Corporate Secretary Limited (appointed 7 May 2021)  
J Foo (appointed 14 June 2019, resigned 7 May 2021)  
T Fallowfield (resigned 14 June 2019)

#### **Directors' indemnities**

The Directors are indemnified to the extent permitted by the Articles of Association of the Company in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The ultimate parent company purchased and maintained Directors' and Officers' liability insurance throughout 2019/20, which was renewed for 2020/21. The insurance covers all Directors and Officers of companies in the Group. Neither the indemnities nor insurance provide cover in the event that the Director or Officer is proved to have acted fraudulently.

#### **Land and Buildings**

*In the opinion of the Directors, the market value of the Company's properties is not significantly different from the amount stated in note 11 to the financial statements.*

#### **Political Donations**

The Company has made no political donations and incurred no items of political expenditure during the year (2019: £nil).

## **Argos Limited**

### **Directors' report for the 52 weeks ended 7 March 2020 (continued)**

#### **Employees**

The Company values the different perspectives, experiences and abilities of all our colleagues. We ensure that those living with a disability or long-term health condition are fully and fairly considered for employment with the Company through well-developed policies for the equal treatment of all. We have a workplace adjustments process in place for our colleagues who find themselves with a disability or long-term health condition; workplace adjustments can be made at any point during a colleague's employment with us. We are committed to providing equal opportunities for all colleagues and applicants through training, development and promotion. Further information can be found on page 26 of the Annual Report and Financial Statements 2020 of J Sainsbury plc ("Group Annual Report"), which does not form part of this report, for further information on our diversity strategy.

#### **Ethical policies**

The Company takes bribery extremely seriously and is committed to ensuring compliance with laws and regulations. Colleagues are expected to abide by a set of clearly communicated formal policies, such as the Ethical Conduct Policy. Training in support of these policies is provided to colleagues especially in the commercial divisions, firstly during their induction into the Company and thereafter through annual refreshers.

#### **Corporate responsibility and Sustainability**

The Company's parent has developed a wide variety of projects and policies to meet the needs of stakeholders under the heading 'Corporate Responsibility and Sustainability'. Further details can be found page 64 of the Group Annual Report, which does not form part of this report.

#### **Financial risk management**

This is discussed in the Strategic Report on page 5.

#### **Post-balance sheet events**

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements.

As a part of Group Strategy to bring Argos and Habitat brands together Argos Limited purchased Habitat Limited trade, assets and liabilities on the 5th of February 2021. As a result of Habitat Limited re-capitalisation prior to the sale Habitat Limited repaid the outstanding loan balance with Argos Limited. Habitat's brand is well known and loved by the customers and by bringing the brands together the company can offer home and furniture products to a wider range of customers at more affordable prices both instore and online.

Further information is provided in note 2 and note 26.

#### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic report and Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Argos Limited**  
**Directors' report for the 52 weeks ended 7 March 2020 (continued)**

**Directors' indemnities**

The Directors are indemnified to the extent permitted by the Articles of Association of the Company in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The ultimate parent company purchased and maintained Directors' and Officers' liability insurance throughout 2019/20, which was renewed for 2020/21. The insurance covers all Directors and Officers of companies in the Group. Neither the indemnities nor insurance provide cover in the event that the Director or Officer is proved to have acted fraudulently.

**Disclosure of information to auditors**

Each person who is a Director at the date of approval of this report confirms that:

- a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

**Independent Auditors**

Ernst & Young LLP, have indicated their willingness to continue in office.

By order of the Board

*Michael Luck*

Michael Luck (May 14, 2021 08:53 GMT+1)

M Luck  
Director  
14 May 2021

## **Independent auditors' report to the members of Argos Limited**

We have audited the financial statements of Argos Limited for the 52-week period ended 7 March 2020 which comprise the Profit and Loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 7 March 2020 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter**

We draw attention to Notes 2 and 26 of the financial statements, which describes the economic disruption the company is facing as a result of COVID-19 which is impacting consumer demand. Our opinion is not modified in respect of this matter.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

## Independent auditors' report to the members of Argos Limited (continued)

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Ben Marles** (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date: 14 MAY 2021

**Argos Limited**  
**Profit and loss account**  
**For the 52 weeks ended 7 March 2020**

	Notes	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
Revenue		4,201,625	4,240,797
Cost of sales		(3,237,848)	(3,231,581)
<b>Gross profit</b>		<b>963,777</b>	<b>1,009,216</b>
Net operating expenses – before exceptional items	4	(986,783)	(1,021,805)
<b>Operating (loss)/profit before exceptional items</b>		<b>(23,006)</b>	<b>(12,589)</b>
Net operating expenses – exceptional items	6	(89,133)	(53,637)
<b>Operating loss</b>		<b>(112,139)</b>	<b>(66,226)</b>
- Interest receivable and similar income		12,248	38,541
- Interest payable and similar charges		(41,845)	(30,183)
Net interest (payable)/receivable and similar income/(charges)	7	(29,597)	8,358
<b>Loss on ordinary activities before taxation</b>		<b>(141,736)</b>	<b>(57,868)</b>
Tax on loss on ordinary activities	8	(15,502)	693
<b>Loss for the financial year</b>		<b>(157,238)</b>	<b>(57,175)</b>

**Statement of comprehensive income**  
**For the 52 weeks ended 7 March 2020**


	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
Loss for the financial year	(157,238)	(57,175)
<b>Other comprehensive income/(expense)</b>		
<b>Items that may be reclassified to profit or loss:</b>		
Net change in fair value of cash flow hedges:		
- Foreign currency forward exchange contracts	8,089	40,450
Net change in fair value of cash flow hedges transferred to inventory:		
- Foreign currency forward exchange contracts	-	(27,650)
Tax credit/(charge) in respect of items that will be or have been reclassified	1,112	(2,176)
	<b>9,201</b>	<b>10,624</b>
<b>Items that will not be reclassified to profit or loss:</b>		
Remeasurement of the net defined benefit liability	165,028	1,000
Tax (charge) in respect of items not reclassified	(29,803)	(1,453)
	<b>135,225</b>	<b>(453)</b>
<b>Total other comprehensive income for the year, net of tax</b>	<b>144,426</b>	<b>10,171</b>
<b>Total comprehensive (expense) for the year attributable to owners of the Company</b>	<b>(12,812)</b>	<b>(47,004)</b>

**Argos Limited**  
**Balance sheet**  
**As at 7 March 2020**

Registered Number 01081551

	Notes	2020 £'000	2019 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	9	9,508	9,508
Other Intangible assets	10	146,891	158,086
Tangible assets	11	220,109	256,122
Right-of-use assets	12	390,598	-
Investments in other companies	13	154,144	154,144
Net retirement benefit surplus	19	222,667	-
<b>Total non-current assets</b>		<b>1,143,917</b>	<b>577,860</b>
<b>Current assets</b>			
Stock	14	709,613	811,660
Trade receivables and other debtors	15	1,369,720	1,381,351
Other financial assets	20	5,827	6,651
Cash at bank and in hand	16	53,611	61,228
<b>Total current assets</b>		<b>2,138,771</b>	<b>2,260,890</b>
<b>Total assets</b>		<b>3,282,688</b>	<b>2,838,750</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Creditors - amounts falling due after more than one year	17	-	(31,421)
Provisions for liabilities	18	(44,357)	(22,082)
Lease Liabilities	12	(367,747)	-
Pension liabilities	19	-	(125,341)
<b>Total non-current liabilities</b>		<b>(412,104)</b>	<b>(178,844)</b>
<b>Current liabilities</b>			
Creditors - amounts falling due within one year	17	(2,224,917)	(2,090,004)
Provisions for liabilities	18	(41,867)	(38,321)
Lease liabilities	12	(84,542)	-
Other financial liabilities	20	(18,360)	(4,281)
<b>Total current liabilities</b>		<b>(2,369,686)</b>	<b>(2,132,606)</b>
<b>Total liabilities</b>		<b>(2,781,790)</b>	<b>(2,311,450)</b>
<b>Net assets</b>		<b>500,898</b>	<b>527,300</b>
<b>Equity</b>			
Called up share capital	22	624,560	624,560
Share premium account		51,733	51,733
Retained Earnings		(168,047)	(148,955)
Hedging reserve		(7,348)	(38)
<b>Total equity</b>		<b>500,898</b>	<b>527,300</b>

The financial statements on pages 12 to 46 were approved by the Board of Directors and were signed on their behalf by:

  
 J Wass  
 Jonathan Wass (May 14, 2021 09:35 GMT+1)  
 Director  
 14 May 2021

**Argos Limited**  
**Statement of changes in equity**  
**For the 52 weeks ended 7 March 2020**

	Attributable to owners of the Company				
	Called up share capital	Share premium account	Profit and loss account	Hedging reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 9 March 2019	624,560	51,733	(148,955)	(38)	527,300
Loss for the financial year	-	-	(157,238)	-	(157,238)
Other comprehensive income/(expense)	-	-	135,225	9,201	144,426
Tax credit related to share-based compensation	-	-	2	-	2
Cash flow hedges gains and losses transferred to inventory	-	-	-	(16,511)	(16,511)
Movement in share-based compensation reserve	-	-	2,919	-	2,919
<b>Total comprehensive (expense)</b>	<b>-</b>	<b>-</b>	<b>(19,092)</b>	<b>(7,310)</b>	<b>(26,402)</b>
<b>Balance at 7 March 2020</b>	<b>624,560</b>	<b>51,733</b>	<b>(168,047)</b>	<b>(7,348)</b>	<b>500,898</b>

	Attributable to owners of the Company				
	Called up share capital	Share premium account	Profit and loss account	Hedging reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 10 March 2018	624,560	51,733	(94,576)	(10,662)	571,055
Loss for the financial year	-	-	(57,175)	-	(57,175)
Other comprehensive income/(expense)	-	-	(453)	10,624	10,171
Tax credit related to share-based compensation	-	-	60	-	60
Movement in share-based compensation reserve	-	-	3,189	-	3,189
<b>Total comprehensive (expense)/income</b>	<b>-</b>	<b>-</b>	<b>(54,379)</b>	<b>10,624</b>	<b>(43,755)</b>
<b>Balance at 9 March 2019</b>	<b>624,560</b>	<b>51,733</b>	<b>(148,955)</b>	<b>(38)</b>	<b>527,300</b>

# Argos Limited

## Notes to the financial statements

### For the 52 weeks ended 7 March 2020

#### 1. GENERAL INFORMATION

Argos Limited (the Company) is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The Company's registered address is Avebury, 489-499 Avebury Boulevard, Milton Keynes MK9 2NW, and is part of the J Sainsbury plc Group ("Group").

The financial year represents the 52 weeks to 7 March 2020 (prior financial year 52 weeks to 9 March 2019).

#### 2. BASIS OF PREPARATION

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historic cost convention modified for the revaluation of certain financial instruments, share-based payments and post-employment benefits. The principal accounting policies applied in the preparation of these financial statements are set out in note 3. Unless otherwise stated, these policies have been consistently applied to all the periods presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 27 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has adopted the intermediate parent exemption under section 400 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements as the ultimate parent company prepares publicly available consolidated financial statements in accordance with IFRS.

The key disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- Statement of cash flows;
- IFRS 2 Share-based payments; IFRS 7 Financial Instrument disclosures; IAS 1 – Information on management of capital; IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective; IAS 24 disclosure of key management personnel compensation and for related party transactions entered into between two or more members of a group; the requirement to present roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16), intangible assets (IAS 38).

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting policies of the Company are described in further detail below.

#### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The parent company, J Sainsbury plc, has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due. Therefore the going concern assessment of the Company is linked to Group going concern and viability assessment which is included within the Group annual report on page 46. In making the assessment, scenarios in relation to the Group's principal risks were considered by overlaying them into the Group's corporate plan and assessing the impact on cash flows, net debt and funding headroom.

COVID-19 continues to be an area of uncertainty, developing rapidly in 2020 with significant impacts on customer behaviour. In particular, the Group is exposed to a number of areas as follows:

- Sales impact from the closure of certain stores
- Changing customer behaviours during lockdown
- Operational cost increases, such as increased labour and other in-store costs,
- Supply chain disruptions

The review concluded that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2023.

It is therefore concluded that the Company continue to adopt the going concern basis of accounting in preparing the financial statements.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020**

**2. BASIS OF PREPARATION (continued)**

**Changes in accounting standards**

The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 10 March 2019 and concluded that, with the exception of IFRS 16 'Leases', they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long term interests in associates and joint ventures
- Annual Improvements Cycle 2015-2017 (issued in December 2017)

Further information on the impact of IFRS 16 is included below.

**Standards and revisions effective for future periods:**

The following standards and revisions will be effective for future periods:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 'Business Combinations' on the definition of a Business
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of material
- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Presentation and IFRS 7 'Financial Instruments: Disclosures' on interest rate benchmark reform
- IFRS 17 'Insurance Contracts'

The impact of these new standards has been detailed within the Annual Report and Financial Statements 2020 of J Sainsbury plc.

**Presentation changes**

In accordance with IAS 1 'Presentation of Financial Statements', within the statement of comprehensive income the Company presents separately items that will not be subsequently reclassified to the income statement and items that may be subsequently reclassified to the income statement, which includes the fair value movements on effective cash flow hedges. In accordance with IFRS 9 'Financial Instruments', cash flow hedge gains and losses in relation to inventory purchases are recognised as part of the cost of inventory, and therefore the carrying value of inventory is adjusted for the accumulated gains or losses recognised directly in other comprehensive income (a basis adjustment), and then recognised in the income statement when the inventory is sold.

**IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Lease, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 10 March 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020**

**2. BASIS OF PREPARATION (continued)**

The effect of adoption IFRS 16 as at 10 March 2019 (increase/decrease) is, as follows:

	£'000
<b>Assets</b>	
Right-of-use assets	507,105
Property, plant and equipment	(18,120)
Prepayments	<u>(5,755)</u>
<b>Total assets</b>	<u>483,230</u>
<b>Liabilities</b>	
Lease liabilities	(100,378)
Accruals and deferred income	11,226
Finance Lease liabilities	<u>3,429</u>
<b>Current liabilities</b>	<u>(85,723)</u>
Lease liabilities	(438,549)
Finance Lease liabilities	14,984
Accruals and deferred income	17,544
Provisions	<u>8,514</u>
<b>Non-Current liabilities</b>	<u>(397,507)</u>
<b>Total liabilities</b>	<u>(483,230)</u>
<b>Net Assets</b>	<u>-</u>
<b>Equity</b>	
Retained earnings	<u>-</u>
<b>Total Equity</b>	<u>-</u>

**Reconciliation from previously reported operating lease commitments:**

	£'000
Operating lease commitment as previously reported gross	(524,200)
Effect of discount	145,297
Finance Leases not included in operating lease commitment	(18,413)
Effect of extension/break period	<u>(141,611)</u>
Net impact of IFRS 16 on lease liability	<u><u>(538,927)</u></u>

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020**

**2. BASIS OF PREPARATION (continued)**

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

*Leases previously accounted for as finance leases.*

The Group did not change the initial carrying assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 10 March 2019.

*Leases previously accounted for as operating leases.*

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases of low-value assets.

**Critical accounting estimates and assumptions**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. The resulting accounting estimates, which are based on management's best judgement at the date of the financial statements, will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods where appropriate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Pensions and post-employment benefits*

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the defined benefit obligations and net pension costs include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions may impact the amounts disclosed in the Company's balance sheet and profit and loss account.

The expected return on plan assets is calculated by reference to the plan investments at the year-end and is a weighted average of the expected returns on each main asset type (based on market yields available on these asset types at the year-end).

The Company determines the appropriate discount rate at the end of each year. This is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Company considers the market yields of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity consistent with the estimated average term of the related pension liability.

During the year the Group refined its method of extrapolation for long duration liabilities used for determining the discount rate. The corporate bond dataset used remains unchanged. The Company believes this refinement better reflects expected yields as it is based on existing data rather than theoretical extrapolation.

The discount rate used following this refinement is 1.6%. The resulting actuarial loss is included within the £165 million of remeasurement gains as disclosed in note 19.

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 19. The carrying value of the retirement benefit obligations will be impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate. Sensitivities to movements in the discount rate are included in note 19.

*Impairment of Goodwill*

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is recognised as an asset on the Company's balance sheet in the year in which it arises, and is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**2. BASIS OF PREPARATION (continued)**

*Impairment of assets*

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment (PPE), right-of-use assets, and finite-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised immediately in the income statement.

Where there has been a change in the estimates used to determine the recoverable amount and an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. An impairment loss reversal is recognised immediately in the income statement.

**Critical accounting estimates and assumptions**

A previously recognised impairment loss is reversed if there has been a significant change in the underlying assumptions used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years.

*Stock provisions*

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Net realisable value takes into account slow moving, obsolete and defective inventory. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

*Provisions*

Provisions have been estimated for property (including onerous leases), insurance, restructuring and other liabilities. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular store, including expected costs or income associated with store closures and the incidence of insurance claims against the Company. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Provisions for onerous contracts are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Company's best estimate of the likely committed outflow, net of anticipated future benefits.

The insurance provision relates to the Company's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

Other provisions includes provisions for warranties.

Details of provisions are set out in note 18.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**Judgements**

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

*Lease term*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option under some of its leases to either lease the assets for additional terms, or terminate the lease early (a break option). The Company applies judgement in evaluating whether it is reasonably certain to exercise these options. That is, it considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. The judgement currently applied is that the Company assumes contractual terms unless it is reasonably certain that an extension or break option will be applied.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the options to renew (e.g. a change in business strategy). Any reassessment of the lease term will be reflected in a recalculation of the lease liability and respective right-of-use asset.

**3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

**Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services to external customers, net of value added tax, rebates, discounts and expected returns. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods to be delivered is recognised when the customer receives delivery of the goods. The Company operates a variety of sales promotion schemes that give rise to goods being sold at a discount to the standard retail price. Commissions receivable on the sale of services for which the Company acts as agents are included within revenue. All revenue arises in the United Kingdom.

**Commercial income**

Commercial income is that income which relates to product costs and is recognised within cost of sales and income related to activities where the costs are recognised within net operating expenses. Commercial income is recognised based on the expected entitlement that has been earned up to the balance sheet date. The Company only recognises commercial income where there is documented evidence of an agreement with a supplier. The types of commercial income recognised by the Company are:

<b>Type of commercial income</b>	<b>Description</b>	<b>Accounting policy</b>
Marketing and advertising income	Examples include contributions to the cost of the catalogue, funding for other advertising and short-term product promotions.	Income which is directly linked to the cost of producing the catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Company which is the point at which the catalogue costs are recognised.  Other marketing and advertising income is recognised once agreed with a supplier and over the period as set out in the specific supplier agreement.
Volume-based rebates	Income earned by achieving specific volume targets agreed with the supplier for specific products.	Income is recognised through the year based on forecasts for expected sales or purchase volumes, informed by current performance, trends, and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms. The majority of these arrangements run for 1 calendar year.

Commercial income related to inventory held on the balance sheet is deferred within stock as a cost price reduction. Commercial income earned but not collected at the balance sheet date is recognised within trade and other debtors. There are no significant amounts of collected and deferred commercial income within trade and other creditors at the 7 March 2020 balance sheet date.

Supplier arrangement amounts recognised in the profit and loss account for the above categories in the financial year were as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Fixed Amounts (within cost of sales)	<b>180</b>	180
Supplier rebates (within cost of sales)	<b>38</b>	43
Marketing and advertising income (within operating expenses)	<b>48</b>	54
<b>Total supplier arrangements</b>	<b>266</b>	<b>277</b>

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

**Commercial income (continued)**

Of the above amounts, the following was outstanding and held on the balance sheet date at the year-end: £37m (2019: £26m).

There are certain other types of funding which is collected from suppliers, for example discounts received on settlement of creditor balances and cost recoveries from suppliers for product quality issues which have been excluded from commercial income disclosure principally because they are not judgemental.

**Foreign currencies**

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the profit and loss account with the exception of differences on transactions that are subject to effective cash flow hedges. Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the profit and loss account as appropriate.

**Goodwill**

Goodwill is the excess of the fair value of the consideration payable for an acquisition of a business over the fair value of the identifiable net assets acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Goodwill is stated at cost less any provision for impairment. Goodwill is not amortised and is tested at least annually for impairment. An impairment charge is recognised where the carrying value of goodwill exceeds its recoverable amount, being the higher of its fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Company.

**Other intangible assets**

Certain costs incurred in the developmental phase of an internal project are capitalised as intangible assets provided that a number of criteria are satisfied. These include the technical feasibility of completing the asset so that it is available for use or sale, the availability of adequate resources to complete the development and how the asset will generate probable future economic benefit.

The cost of other intangible assets with finite useful economic lives is amortised over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If impaired, they are written down to the higher of fair value less costs to sell and value-in-use.

**Brands**

Acquired brands have a finite useful life and are initially recognised at their fair value at the date of acquisition and subsequently held at cost less accumulated amortisation. Amortisation is calculated to spread the cost of the brands over their estimated useful lives of 10 years on a straight-line basis. This amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed.

**Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are held at cost and are amortised on a straight-line basis over three to five years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised on a straight-line basis over three to ten years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

**Tangible assets**

Tangible assets are held at cost being the purchase price and other costs directly attributable to bringing the asset into use less accumulated depreciation and any impairment in value. An impairment charge is recognised where the carrying value of the asset exceeds its recoverable amount, being the higher of the asset's fair value less costs to sell and its value-in-use. Value-in-use calculations are performed using cash flow projections discounted at a rate taking account of the specific risks inherent within the Company's business.

Depreciation is charged on a straight-line basis as follows:

- Freehold properties are depreciated over 50 years;
- Leasehold premises are depreciated over the period of the lease;
- Plant and equipment are depreciated over 2 - 10 years according to the estimated life of the asset;
- Land is not depreciated; and
- Assets under the course of construction are not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

**Investments**

Investments are included in the balance sheet at cost. Where appropriate, a provision is made for any impairment in their value.

**Right-of-use assets**

Right-of use-assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial costs incurred, and lease payments made at or before the commencement date less any incentives received.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**Lease liabilities**

Lease liabilities are recognised at the commencement date of the lease and are measured at the present to be made over the lease term, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (a break clause), if it is reasonably certain not to be exercised.

The lease payments include fixed payments, including in-substance fixed payments, less any lease incentives receivable. Agreements which contain both lease and non-lease components are reviewed, and non-lease components such as cleaning and maintenance services are excluded from the lease payments used to measure the lease liabilities.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**Short-term leases and leases of low-value assets**

The Company applies short-term lease recognition exemption to those leases that have a term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases, that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low value assets are expensed to the income statement, as well as costs relating to variable lease payments, dependent on performance of usage and 'out of contract' payments.

**Debtors**

Trade debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of debtors. The amount of the provision is recognised in the balance sheet, with the cost of unrecoverable trade debtors recognised in the profit and loss account immediately.

**Stock**

Stock is stated at the lower of cost and net realisable value. The cost basis in use within the Company are general retail goods valued on a standard cost or weighted average basis which approximates to actual cost. Commercial income received in respect of specific stock is treated as a reduction in the cost of this stock. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost includes all direct expenditure and other appropriate costs incurred in bringing stock to their present location and condition. The costs also include the transfer from equity of any gains or losses on qualifying cash flow hedges relating to their purchase.

**Cash at bank and in hand**

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

**Creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year. They are recognised initially at fair value and subsequently remeasured at amortised cost.

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**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

**Current tax**

Current tax is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

**Deferred taxation**

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that temporary differences can be utilised either through future profits generated by the Company or through being made available via group relief.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Provisions**

Provisions are recognised when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Provisions are made for property provisions, including onerous lease contracts for stores that have closed or where a decision to close has been announced, and for those stores where the projected future trading income is insufficient to cover the lower of exit cost or value-in-use. Provisions for other costs and income on store closures are recognised where such an outflow or inflow is likely.

Provisions are also made for the estimated cost of insurance claims incurred by the Company but not settled at the balance sheet date, restructuring costs and other liabilities.

**Pensions and post-employment benefits**

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income.

The Company also contributes to the defined contribution Home Retail Group Personal Pension Plan. The scheme is funded by contributions partly from the employee and partly from the Company at rates determined in accordance with the scheme rules. The cost of these are charged to the profit and loss account during the year in which contributions are payable.

**Catalogue costs**

Costs incurred during the production of the Company's catalogues are deferred on the balance sheet net of any associated advertising revenue and marketing support until the catalogue is made available to the Company, at which point the net deferred cost is charged to the profit and loss account.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

**Financial instruments**

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment and are included in current assets. Loans and receivables comprise trade and other receivables, cash and cash equivalents and current asset investments in the balance sheet.

**Accounting for derivative financial instruments and hedging activities**

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates its derivatives as cash flow hedges.

The Company documents the relationship between hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Movements on the hedging reserve in equity are shown in the Company's statement of comprehensive income.

*Cash flow hedges*

The cash flow hedges are intended to hedge the foreign currency exposures of the future purchases of inventory. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to the ineffective portion would be recognised immediately in the profit and loss account. The hedged cash flow is expected to occur up to 12 months into the future and will be transferred to the profit and loss account via stock carrying value as applicable.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the profit and loss account over the period to maturity.

**Fair value estimation**

The fair value of financial instruments traded in organised active financial markets is based on quoted market prices at the close of business on the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current offer price. The fair value of financial instruments for which there is no quoted market price is determined by a variety of methods incorporating assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade debtors and creditors are assumed to approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

**Share-based payments**

The Company operates a number of equity-settled, share-based compensation plans. The fair value of the shares granted is recognised as an expense after taking into account the best estimate of the number of awards expected to vest. The vesting estimate is revisited at each balance sheet date. Non-market performance conditions are included in the vesting estimate. Expenses are incurred over the vesting period. Fair value is measured at the date of grant using whichever of the Black-Scholes or Monte Carlo models, or closing market price is most appropriate to the award. Market-based performance conditions are included in the fair value measurement on grant date and are not revisited for actual performance.

**Non-GAAP financial information**

*Exceptional items*

Items which are both non-recurring and material in either size or nature are presented as exceptional items within the profit and loss account. The separate reporting of exceptional items helps provide a better indication of underlying performance of the company. Examples of items which may be recorded as exceptional items are impairment charges and restructuring costs.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**4. NET OPERATING EXPENSES**

	52 weeks ended 7 March 2020			52 weeks ended 9 March 2019		
	Before exceptional items	Exceptional items (note 6)	After exceptional items	Before exceptional items	Exceptional items (note 6)	After exceptional items
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Expenses by function</b>						
Selling costs	(740,505)	-	(740,505)	(247,981)	-	(247,981)
Administrative expenses	(246,278)	(89,133)	(335,411)	(773,824)	(53,637)	(827,461)
<b>Net operating expenses</b>	<b>(986,783)</b>	<b>(89,133)</b>	<b>(1,075,916)</b>	<b>(1,021,805)</b>	<b>(53,637)</b>	<b>(1,075,442)</b>

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
<b>Loss before tax is stated after (charging)/crediting:</b>		
Cost of stocks recognised as an expense in cost of sales	(3,074,277)	(3,094,727)
Write down of stocks	(163,571)	(136,854)
Profit/(loss) on sale of tangible assets	8,387	(4,508)
Depreciation of tangible assets (note 11,12)	(146,526)	(53,656)
Amortisation of other intangible assets (note 10)	(49,511)	(59,254)
Impairment of Plant and Equipment (note 11)	(2,082)	-
Impairment of Right Of Use asset (note 12)	(30,530)	-
Exceptional items (note 6)	(89,133)	(53,637)
Auditors' remuneration:		
Company audit	(260)	(341)

£nil of the amortisation of other intangible assets (2019: £2.1m) is included in cost of sales in the profit and loss account.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**5. EMPLOYEE COSTS AND EMPLOYEE NUMBERS**

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 Revised £'000
<b>Employee costs</b>		
Wages and salaries	(354,668)	(388,472)
Social security costs	(22,203)	(27,207)
Other pension costs	(10,418)	(9,216)
Share-based payments	(2,996)	(3,425)
<b>Total</b>	<b>(390,285)</b>	<b>(428,320)</b>

The monthly average number of persons employed by the Company during the year including Directors and those employed on a part-time basis, was made up as follows:

	52 weeks ended 7 March 2020		52 weeks ended 9 March 2019 (revised)	
	Number of employees	Full time equivalent	Number of employees	Full time equivalent
<b>Average number of employees</b>				
Stores	18,123	9,221	21,144	10,392
Administration and other	3,744	3,310	4,299	3,865

In addition to the above, Sainsbury's Supermarkets Limited recharged Argos Limited all the payroll related costs amounting to £33.8m (2019: £12.2m) relating to an average of 1,873 employees (2019:365) who solely work for the Argos business, which has resulted in the revision to the prior year. Argos Limited also employed 224 (2019:265) full-time and 173 (2019: 214) full time equivalent employees, whose related employee costs are borne directly by Argos Business Solutions Limited and Habitat Retail Limited.

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	-	(188)

All of the Directors are also employees of the ultimate parent company, J Sainsbury plc or other Group companies. The Directors' emoluments are borne by Sainsbury's Supermarkets Ltd, a Group company that makes no recharge to the Company. It is not possible to make an accurate apportionment of the Directors' emoluments as they serve as Directors to a number of Group companies. Accordingly, the income statement does not include emoluments in respect of the Directors.

During the year no Directors (2019: one director) exercised share options, and no director (2019: two) received shares or became entitled to receive shares under long-term incentive schemes.

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
<b>Highest paid Director</b>		
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long-term incentive schemes).	-	(188)

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**6. EXCEPTIONAL ITEMS**

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
Reorganisation, restructuring and integration charges following acquisition by J Sainsbury Group	(22,452)	(36,297)
Impairment charges relating to Group Property Strategy Review	(56,372)	-
Charge increasing provision against amounts owed by group undertakings	(10,309)	(17,340)
<b>Total exceptional items</b>	<b>(89,133)</b>	<b>(53,637)</b>

Exceptional charges of £22.5m (2019: £36.3m) have been incurred resulting from the integration with J Sainsbury Group.

Property strategy programme. The Group identified an impairment indicator during the period following an approved programme of store closures during the year, a number of the stores related to Argos Limited. The programme was subsequently revisited during the second half of the year resulting in additional planned closures. An impairment charge of £32.7m has been recognised on property, plant and equipment £2.1m, right-of-use-assets £30.5m. In addition, store closure costs have been recognised in the period of £23.7m.

A charge of £10.3m (2019: charge of £17.3m) in respect of net impairment against amounts owed by group undertakings has been treated as an exceptional item.

**7. NET INTEREST (PAYABLE)/RECEIVABLE AND SIMILAR CHARGES/(INCOME)**

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
<b>Interest receivable and similar income</b>		
Bank loans and other interest	85	11
Dividend from subsidiary	12,163	38,530
<b>Total interest receivable and similar income</b>	<b>12,248</b>	<b>38,541</b>
<b>Interest payable and similar charges</b>		
Interest to group undertakings	(24,994)	(24,468)
IFRS 16 lease interest	(13,523)	-
Bank loans and other interest	(93)	(828)
Discount unwind on provision	(17)	(557)
Interest expense on post-employment benefit liabilities	(3,130)	(3,961)
Financing fair value remeasurements - net exchange losses	(88)	(369)
<b>Total interest payable and similar charges</b>	<b>(41,845)</b>	<b>(30,183)</b>
<b>Net interest (payable)/receivable and similar (charges)/income</b>	<b>(29,597)</b>	<b>8,358</b>

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**8. TAX ON LOSS ON ORDINARY ACTIVITIES**

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
<b>Analysis of (charge)/credit in the year</b>		
<b>Current tax:</b>		
UK corporation tax	-	(1,102)
Adjustments in respect of prior years	(114)	438
<b>Total current tax charge</b>	<b>(114)</b>	<b>(664)</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(17,048)	(8,833)
Adjustments in respect of prior years	(880)	9,372
Revaluation of deferred tax balances	2,540	-
Rate change impact	-	818
<b>Total deferred tax (charge)/credit (note 21)</b>	<b>(15,388)</b>	<b>1,357</b>
<b>Total tax (charge)/credit in profit and loss account</b>	<b>(15,502)</b>	<b>693</b>

**Factors affecting the tax charge**

The effective tax rate for the year of 10.9% tax credit (2019: 1.2% tax credit), is lower (2019: lower) than the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%). The differences are explained on the following page.

Income tax credited or (charged) to equity and/or other comprehensive income during the year is as follows:

	Share-based payments £'000	Retirement benefit obligations £'000	Fair-value movements £'000	Total £'000
<b>52 weeks ended 7 March 2020</b>				
Current tax recognised in equity or other comprehensive income	-	-	-	-
Deferred tax recognised in equity or other comprehensive income	2	(31,355)	1,243	(30,110)
Revaluation of deferred tax balances	-	1,552	(131)	1,421
<b>Income tax credited/(charge)</b>	<b>2</b>	<b>(29,803)</b>	<b>1,112</b>	<b>(28,689)</b>
<b>52 weeks ended 9 March 2019</b>				
Current tax recognised in equity or other comprehensive income	110	-	-	110
Deferred tax recognised in equity or other comprehensive income	(56)	(190)	(2,432)	(2,678)
Revaluation of deferred tax balances	6	(1,264)	256	(1,002)
<b>Income tax credited/(charged)</b>	<b>60</b>	<b>(1,454)</b>	<b>(2,176)</b>	<b>(3,570)</b>

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)**

	52 weeks ended 7 March 2020 £'000	52 weeks ended 9 March 2019 £'000
<b>Loss before tax</b>	<b>(141,736)</b>	<b>(57,868)</b>
Loss before tax multiplied by the standard rate of corporation tax in the UK	26,930	10,995
<b>Effects of:</b>		
Expenses not deductible for taxation purposes	(2,308)	3,875
Transfer pricing adjustments	(5,182)	(4,947)
Adjustments in respect of prior years	(994)	9,810
Non-taxable income	2,311	-
Rate change impact	2,539	818
Other	1,280	(989)
Intercompany balance reversal	-	(3,295)
Group relief surrendered for nil consideration	(40,078)	(15,574)
<b>Total tax (charge)/ credit in profit and loss account</b>	<b>(15,502)</b>	<b>693</b>

**Factors affecting the tax charge**

The main rate of UK corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. A further reduction in the corporation tax rate to 17 per cent, effective from 1 April 2020, was substantively enacted in a prior period, so its effect is reflected in these financial statements. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse. A change to the corporation tax rate, so that it remains at 19 per cent rather than reducing to 17 per cent from 1 April 2020, was announced in the 2020 Budget. However, this rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

The effect of a two per cent increase in the corporation tax rate on the deferred tax balances at the balance sheet date would increase the deferred tax liability by £0.4 million, which is primarily recognised in the income statement.

It was further announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25 per cent from 1 April 2023. This change has not yet been substantively enacted.

As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19 per cent/25 per cent rate. Considering known items that will unwind at 19 per cent, the impact of the post balance sheet date change in tax rate is expected to increase the deferred tax liability by approximately £6 million. The charge will be split between income statement and other comprehensive income.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**9. GOODWILL**

	Goodwill £'000
<b>Cost</b>	
At 7 March 2020 and 9 March 2019	38,498
<b>Impairment</b>	
At 7 March 2020 and 9 March 2019	(28,990)
<b>Net Book Value 7 March 2020</b>	<b>9,508</b>
Net Book Value 9 March 2019	9,508

The goodwill balance above relates to the Company's acquisition of the Index business and a number of its stores. The goodwill represents the excess of the fair value of the consideration paid to acquire new businesses over the fair value of the separately identifiable and separable net assets at the date of the acquisition. The CGU is deemed to be the chain of stores acquired.

The value of goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU with the carrying value of its goodwill. The calculation of the Retail CGUs value in use is calculated on the cash flows expected to be generated by the stores using the latest budget data. This was then discounted at a pre-tax rate of nine per cent over the lease length of the stores. The discount rate is based on the Company's pre-tax weighted average cost of capital.

Based on the operating performance of the CGU, an impairment of £nil was identified in the current financial year (2019: £nil). None of the Index stores acquired are included in those stores identified as part of the Group property strategy review which resulted in the £28.9m impairment.

**10. OTHER INTANGIBLE ASSETS**

	Computer software £'000	Brands £'000	Total £'000
<b>Cost</b>			
Balance at 9 March 2019	572,406	22,500	594,906
Additions	40,697	-	40,697
Disposals	(235,002)	-	(235,002)
Reclassification	3,024	-	3,024
<b>At 7 March 2020</b>	<b>381,125</b>	<b>22,500</b>	<b>403,625</b>
<b>Accumulated amortisation</b>			
Balance at 9 March 2019	(414,320)	(22,500)	(436,820)
Charge for the year	(49,511)	-	(49,511)
Disposals	235,002	-	235,002
Reclassification	(5,405)	-	(5,405)
<b>At 7 March 2020</b>	<b>(234,234)</b>	<b>(22,500)</b>	<b>(256,734)</b>
<b>Net book value at 7 March 2020</b>	<b>146,891</b>	<b>-</b>	<b>146,891</b>
Net book value at 9 March 2019	158,086	-	158,086
Assets in the course of construction included above at 7 March 2020	5,108	-	5,108

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**11. TANGIBLE ASSETS**

	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
<b>Cost</b>			
Balance at 9 March 2019 disclosed	214,954	726,563	941,517
Impact of IFRS 16	-	(22,754)	(22,754)
Adjusted balance at 9 March 2019	214,954	703,809	918,763
Additions	6,689	32,712	39,401
Reclassifications	6,577	-	6,577
Disposals	(28,770)	(359,746)	(388,516)
<b>At 7 March 2020</b>	<b>199,450</b>	<b>376,775</b>	<b>576,225</b>
<b>Accumulated depreciation</b>			
Balance at 9 March 2019	(148,677)	(536,718)	(685,395)
Impact of IFRS 16	-	4,634	4,634
Adjusted balance at 9 March 2019	(148,677)	(532,084)	(680,761)
Charge for the year	(12,230)	(36,789)	(49,019)
Impairment Charge	(1,440)	(642)	(2,082)
Reclassifications	1492	(1,129)	363
Disposals	26,294	349,089	375,383
<b>At 7 March 2020</b>	<b>(134,561)</b>	<b>(221,555)</b>	<b>(356,116)</b>
<b>Net book value at 7 March 2020</b>	<b>64,889</b>	<b>155,220</b>	<b>220,109</b>
Net book value at 9 March 2019	66,277	189,845	256,122
Assets in the course of construction included above at 7 March 2020	2,599	8,036	10,635

Four of the freehold properties, with a net book value of £27.4 million at 9 March 2019, which were pledged as security to the Home Retail Group section of the J Sainsbury Group Pension Scheme, are no longer secured following the participation of the Company in the Pension Scheme arrangements see note 19.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**12. RIGHT-OF-USE ASSET AND LEASE LIABILITY**

Set out below are the carrying amounts of right-of-use assets recognised and the amounts during the period.

	Land & Buildings £'000	Plant and Equipment £'000	Total £'000
<b>Net book value</b>			
At 10 March 2019 (on transition)	487,686	19,418	507,104
Adjustments to leases	(2,620)	14,151	11,531
Depreciation charge	(93,199)	(4,308)	(97,507)
Impairment charge	(30,530)	-	(30,530)
<b>At 7 March 2020</b>	<b>361,337</b>	<b>29,261</b>	<b>390,598</b>

Refer to Note 6 for details of the impairment charge of £30.5 million recognised on right-of-use-assets.

Subsequent to transition, at the J Sainsbury plc Capital Markets Day in September 2019, the Group announced an intention to rationalise a number of stores and exercise lease breaks which had not been assumed in the transition valuation. Therefore, this change in assumption has been recognised in these accounts as a modification to the lease values in the year to 7 March 2020.

The plant and equipment on transition includes those assets formerly held on finance leases with a net book value of £18.12 million.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<b>2020</b> <b>£'000</b>
At 10 March 2019 (on transition)	(538,926)
Adjustment to leases	(11,551)
Interest expense	(13,523)
Payments	111,711
<b>At 7 March 2020</b>	<b>(452,289)</b>

**Maturity analysis**

	<b>2020</b> <b>£'000</b>
<b>Contractual undiscounted cash flows</b>	
Less than one year	(91,845)
One to five years	(242,397)
More than five years	(214,022)
<b>Total undiscounted lease liability</b>	<b>(548,264)</b>
<b>Lease liabilities included in the statement of financial position</b>	<b>(452,289)</b>
Current	(84,542)
Non-current	(367,747)

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**12. RIGHT-OF-USE ASSET AND LEASE LIABILITY (continued)**

The following are the amounts recognised in the profit or loss:

	£'000
Depreciation of right-of-use assets	(93,199)
Impairment of right of use assets	(30,530)
Interest on lease liabilities	(14,322)
Expenses relating to short term leases	(4,970)
<b>Total amount recognised in profit or loss</b>	<b>(143,021)</b>

**13. INVESTMENTS IN OTHER COMPANIES**

	Subsidiaries
	£'000
<b>Cost</b>	
At 7 March 2020 and 9 March 2019	178,963
<b>Impairment</b>	
At 7 March 2020 and 9 March 2019	(24,819)
<b>Net book value at 7 March 2020 and 9 March 2019</b>	<b>154,144</b>

The investments in other companies above are stated at cost and include the following trading companies:

Company Name	Principal activity	Class of nominal shares held	Proportion of nominal shares held
Home Retail Group Holdings (Overseas) Limited	Holding company	Ordinary	100%
Argos Distributors (Ireland) Limited	General merchandise retailing	Ordinary	100%
Argos Business Solutions Limited	Financial Services	Ordinary	100%
Argos SURBS Investment Limited	Investment Company	Ordinary	100%

The Directors believe that the book value of investments is supported by their underlying net assets.

A full list of the Company's subsidiaries is detailed in note 27.

**14. INVENTORY**

	2020	2019
	£'000	£'000
Finished goods	709,613	811,660

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 7 March 2020 was £3,290,010m (2019: £3,267,936m).

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**15. TRADE RECEIVABLES AND OTHER DEBTORS**

	2020	2019
	£'000	£'000
<b>Amounts falling due after more than one year:</b>		
Deferred tax	16,383	41,019
	<b>16,383</b>	<b>41,019</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	29,981	24,352
Less provision for impairment of debtors	(1,740)	(4,489)
	<b>28,241</b>	<b>19,863</b>
Amounts owed by group undertakings	1,245,818	1,265,817
Other debtors	22,964	9,257
Prepayments and accrued income	56,314	45,395
	<b>1,353,337</b>	<b>1,340,332</b>
<b>Total</b>	<b>1,369,720</b>	<b>1,381,351</b>

The non-trading balances owed by group undertakings are unsecured, repayable on demand and bear no interest.

Further details of the deferred tax asset can be found in note 21.

**16. CASH AT BANK AND IN HAND**

	2020	2019
	£'000	£'000
<b>Cash at bank and in hand</b>	<b>53,611</b>	<b>61,228</b>

**17. CREDITORS**

	Amounts falling due within one year 2020 £'000	Amounts falling due after more than one year 2020 £'000	Amounts falling due within one year 2019 £'000	Amounts falling due after more than one year 2019 £'000
Trade creditors	(470,838)	-	(508,689)	-
Amounts owed to group undertakings	(1,336,429)	-	(1,144,386)	-
Social security costs and other taxes	(50,599)	-	(49,560)	-
Accruals and deferred income	(153,115)	-	(178,142)	(16,437)
Bank overdrafts	(90,963)	-	(123,251)	-
Corporation tax creditor	(2,135)	-	(2,664)	-
Finance lease creditor	-	-	(3,429)	(14,984)
Other creditors	(120,838)	-	(79,883)	-
<b>Total</b>	<b>(2,224,917)</b>	<b>-</b>	<b>(2,090,004)</b>	<b>(31,421)</b>

Trade and other creditors are non-interest bearing and the fair values are not considered to differ materially from the recognised book values. Long-term creditors have been discounted where the time value of money is material. Other amounts owed to group undertakings at the year-end are unsecured, repayable on demand and non-interest bearing.

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**18. PROVISIONS FOR LIABILITIES**

	Property £'000	Insurance provisions £'000	Restructuring provisions £'000	Deferred tax £'000	Other £'000	Total £'000
At 9 March 2019	(27,551)	(11,646)	(14,275)	-	(6,931)	(60,403)
Impact of IFRS16	8,514	-	-	-	-	8,514
Revised balance 9 March 2019	(19,037)	(11,646)	(14,275)	-	(6,931)	(51,889)
Charged to the profit and loss account	(20,546)	(3,358)	(18,442)	(15,352)	(8,742)	(66,440)
Utilised during the year	8,788	3,606	16,309	-	7,597	36,300
Charged to the SOCI or SOCIE	-	-	-	(29,803)	-	(29,803)
Transferred from assets	-	-	-	25,714	-	25,714
Discount unwind	(106)	-	-	-	-	(106)
<b>Balance at 7 March 2020</b>	<b>(30,901)</b>	<b>(11,398)</b>	<b>(16,408)</b>	<b>(19,441)</b>	<b>(8,076)</b>	<b>(86,224)</b>

	2020 £'000	2019 £'000
<b>Analysed as</b>		
Amounts falling due within one year	(41,867)	(38,321)
Amounts falling due after more than one year	(44,357)	(22,082)
	<b>(86,224)</b>	<b>(60,403)</b>

Property provisions principally comprise obligations on onerous leases together with other costs or income associated with store closures. In respect of onerous leases, provision is made for onerous lease contracts on stores that have either closed, or where projected future trading income is insufficient to cover the lower of exit cost or value-in-use. Where the value-in-use calculation is lower, the provision is based on the present value of expected future cash flows relating to rates and other property costs to the end of the lease terms net of expected trading or sublet income (in the prior year pre IFRS16, provision was made for rent). This provision is expected to be utilised over the leases.

Provision is made for the estimated costs of insurance claims incurred by the Company but not settled at the balance sheet date, including the costs of claims that have arisen but have not yet been reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The majority of this provision is expected to be utilised over the period to 2021.

The restructuring provision relates to a number of actions undertaken by the Company during the current and prior years. Actions currently being undertaken by the Company include the integration costs being incurred following the acquisition of the Company by the J Sainsbury Group, and the costs being incurred to restructure following the sale of the Homebase business from the former Home Retail group. The majority of this provision is expected to be utilised within one year.

Further details of the deferred tax provision can be found in note 21.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**19. POST-EMPLOYMENT BENEFITS**

During the year, the Company operated both defined benefit and defined contribution schemes. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution scheme is a pension scheme under which both the Company and employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in the profit and loss statement, comprises the amount of contributions payable to the schemes in respect of the year.

Pension arrangements for the employees were provided principally through a defined benefit scheme (the Home Retail Group Pension Scheme), until it was closed to future accrual in FY13 and was merged into the J Sainsbury's scheme as a separate segregated section, and a defined contribution scheme (the Home Retail Group Personal Pension Plan), which continues to be operated.

The investment strategy of the Argos section is being developed following the merger with the Sainsbury's Pension Scheme. A date by which a low risk funding level is to be achieved by reference to a forward-looking asset return assumption will be agreed with the Trustee board. The assets and liabilities of the HRG Scheme form a separate section in the Sainsbury's Pension Scheme.

**Defined benefit scheme**

*The Home Retail Group Pension Scheme*

The scheme has rules which specify the benefits to be paid and is financed accordingly with assets being held in independently administered funds. A full actuarial valuation of the scheme is carried out every three years with interim reviews in the intervening years.

**Triennial valuation**

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 30 September 2018 on the projected unit basis and a recovery plan was agreed. On the basis of the assumptions agreed, the actuarial deficit at 30 September 2018 of the Argos section of the scheme was £229 million. The deficit recovery plan agreed with the Trustee in July 2019 provides for payments of £30m by 30 June 2019, £20m by 31 March 2020, £10m in September 2020 and £10m in March 2021.

The remainder of the deficit will be repaid by the property partnership arrangement below.

Under the revised deficit funding plan, Sainsbury's established a new property partnership - Sainsbury's Thistle Scottish Limited Partnership ("The Partnership") with the Scheme on 17 July 2019. This replaces the existing property partnership (Sainsbury's Property Scottish Partnership).

In respect of the establishment of the Partnership, Argos Ltd made contributions totalling £168 million to the merged pension scheme. Properties were transferred into a newly formed property holding company (Sainsbury's Pension Property Holdings Ltd) from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. These will be leased by the Sainsburys Supermarkets Ltd under a 40-year arrangement. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years. The distributions will be made through three payment streams:

- 1) Payments to the Sainsbury's section (approximately £15 million per year)
- 2) Payments to the Argos section (approximately £20 million per year)
- 3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038)

In addition to the above, further cash contributions of £40 million (of which Argos will pay £20m) have been agreed in FY2021 and £10 million in FY2022. No additional cash contributions have been agreed for subsequent years.

The payments to the Sainsbury's and Argos sections (streams 1 and 2) stop in 2030, or when the relevant section reaches its funding target, if earlier. The level of property in the Propco reduces as the Scheme reaches the funding targets.

**IFRIC 14**

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. Furthermore, if the company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised. A surplus may be recognised either because of an unconditional right to a refund to the company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

In the prior year balance sheet, a liability in respect of a 'minimum funding requirement' of £134 million was recognised. As part of the 2018 triennial valuation agreement, the Argos section rules were amended. As a result of the amendments, management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such, no adjustment has been made for potential additional liabilities. The resulting movement of £138m (including interest cost in FY20 to the date of the change in rules) in the liability is included within remeasurement gains in other comprehensive income.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**19. POST-EMPLOYMENT BENEFITS (continued)**

*Unfunded defined benefit scheme*

The Company has in place arrangements which secure unfunded pension benefit arrangements for certain Directors and senior managers by granting charges to an independent trustee over an independently managed portfolio of marketable securities owned by the Company. The value of assets charged in this way is adjusted annually to keep the ratio of assets charged to the discounted value of the accrued benefits secured in this way as close as possible to the corresponding ratio in the Home Retail Group Pension Scheme. The total value of the assets charged in this way at 7 March 2020 was £13.0m (2019: £13.0m).

The Company's unfunded defined benefit arrangement closed to future accrual with effect from 30 April 2013. The unfunded pension liabilities are unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

*IAS 19 valuations*

The valuations used for IAS 19 have been based on the most recent actuarial funding valuations and have been updated by OSIO to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at the year-end. As required by IAS19, the value of the defined benefit obligations at the year-end has been measured using the projected unit method.

**Income Statements**

	<b>52 weeks ended 7 March 2020</b>	<b>52 weeks ended 9 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Administrative expenses	<b>(2,502)</b>	<b>(1,426)</b>
Finance expense (note 7)	<b>(3,130)</b>	<b>(3,961)</b>
<b>Total net charge to the profit and loss account</b>	<b>(5,632)</b>	<b>(5,387)</b>

Comprises the following:

	<b>52 weeks ended 7 March 2020</b>	<b>52 weeks ended 9 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Post-employment benefit administration costs	<b>(2,502)</b>	<b>(1,501)</b>
Settlement credit	<b>-</b>	<b>75</b>
Net interest expense on post-employment benefit obligations	<b>(3,130)</b>	<b>(3,961)</b>
<b>Total charge to the profit and loss account</b>	<b>(5,632)</b>	<b>(5,387)</b>

Contributions to the Company's defined contribution pension arrangements are in addition to those set out in this note and are charged directly to the profit and loss account.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**19. POST-EMPLOYMENT BENEFITS (continued)**

**Other comprehensive income**

Remeasurements of the retirement benefit obligations have been recognised as follows:

	2020	2019
	£'000	£'000
Return on plan assets, excluding amounts included in interest	255,628	(3,870)
Actuarial (losses)/gains arising from changes in:		
Finance assumptions <sup>1</sup>	(225,100)	(12,600)
Demographic assumptions <sup>2</sup>	(3,400)	41,300
Experience <sup>3</sup>	-	29,670
<b>Total actuarial (losses)/gains</b>	<b>(228,500)</b>	<b>58,370</b>
Impact of minimum funding IFRIC14	137,900	(53,500)
<b>Total remeasurements</b>	<b>165,028</b>	<b>1,000</b>

1 Includes £2,000,000 loss for the unfunded pension scheme (2019: £nil).

2 Includes £nil gain for the unfunded pension scheme (2019: £700,000 gain).

3 Includes £400,000 loss for the unfunded pension scheme (2019: £400,000 gain).

**Balance Sheets**

The movements during the year in the net deficit recognised in the balance sheet were as follows:

	2020	2019
	£'000	£'000
At 9 March 2019	(125,341)	(161,151)
Total charge recognised in the profit and loss account	(5,632)	(5,387)
Remeasurement of the net defined benefit liability	165,028	1,000
Contributions paid	188,612	40,197
<b>At 7 March 2020</b>	<b>222,667</b>	<b>(125,341)</b>

The Home Retail Group Pension Scheme closed to future accrual with effect from 31 January 2013. Because of the closure, all previously active members of the scheme are now treated as deferred members. The effect of the closure is that these members are no longer entitled to pension benefits linked to future salary increases.

During the year, the Company has paid contributions totalling £188.6m (2019: £40.2m) to the Home Retail Group Pension Scheme including £20.0m (2019: £40.0m) as part of the deficit recovery plans agreed with the scheme trustees, and £168.3m as part of the establishment of the property LP.

The estimated amount of contributions expected to be paid by the Company during the next financial year is £20m, all of which relates to the 2018 Valuation deficit recovery plan.

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**19. POST-EMPLOYMENT BENEFITS (continued)**

The amounts recognised in the balance sheet are determined as follows:

	2020	2019
	£'000	£'000
Fair value of scheme assets	1,660,026	1,224,000
Present value of insured funded obligations	-	(306,300)
Present value of non-insured funded scheme liabilities	(1,421,098)	(1,029,391)
Deficit in funded scheme	238,928	(111,691)
Present value of unfunded pension arrangements	(16,261)	(13,650)
<b>Post-employment benefit obligation recognised in the balance sheet</b>	<b>222,667</b>	<b>(125,341)</b>

The weighted average duration to payment of the schemes' expected non-insured cash flows is 22 years (2019: 21 years)

The principal actuarial assumptions used to calculate the present value of the defined benefit obligations were as follows:

	2020	2019
	%	%
Inflation rate-RPI	2.7	3.2
Inflation rate-CPI	1.7	2.2
Future pension increases	1.65-2.70	2.00-3.05
Discount rate	1.6	2.8
Life expectancy:		
at age 65 for a male currently aged 65	21.6 years	21.5 years
at age 65 for a female currently aged 65	24.0 years	23.9 years
at age 65 for a male currently aged 45	23.0 years	22.9 years
at age 65 for a female currently aged 45	25.5 years	25.4 years

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements are CMI 2018 projections with a long-term rate of improvement of 1.25 per cent per annum.

**Sensitivities**

The following sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

Sensitivity analysis	£m
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	143
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	166
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	148
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	140
An increase of one year to the life expectancy would increase the present value of funded obligations by	49

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**19. POST-EMPLOYMENT BENEFITS (continued)**

The movements in the retirement benefit liabilities (including unfunded) are as follows:

	2020	2019
	£'000	£'000
Opening defined benefit liabilities	(1,349,341)	(1,375,818)
Interest cost	(37,330)	(37,665)
Remeasurements due to:		
Changes in financial assumptions	(225,100)	(12,600)
Changes in demographic assumptions	(3,400)	41,300
Impact of minimum funding	137,900	(53,500)
Experience on benefit liabilities	-	29,670
Benefits paid	39,912	51,797
Liabilities extinguished on settlement	-	7,475
<b>Closing defined benefit liabilities</b>	<b>(1,437,359)</b>	<b>(1,349,341)</b>

The movements in the fair value of the plan assets are as follows:

	2020	2019
	£'000	£'000
Opening market value of scheme assets	1,224,000	1,214,667
Interest income	34,200	33,704
Return on plan assets, in excess of interest income	255,628	(3,870)
Post-employment benefit scheme administration costs	(2,502)	(1,501)
Contributions paid by the Company	188,612	40,197
Benefits paid	(39,912)	(51,797)
Assets distributed on settlement	-	(7,400)
<b>Closing market value of scheme assets</b>	<b>1,660,026</b>	<b>1,224,000</b>

**Argos Limited**  
**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**19. POST-EMPLOYMENT BENEFITS (continued)**

**Risks associated with the Group's defined benefit pension scheme**

The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. Based on this responsibility and its obligation to manage the investments its investment objectives are as follows:

In respect of the Argos Section:

1. Target a 50% or better chance of being fully funded on a gilts + 0.5% funding level basis by September 2022; and
2. To limit the downside risk associated with the investment policy, wherever possible.

The risks associated with achieving the above strategy are as follows:

<b>Risk</b>	<b>Description</b>	<b>Mitigation</b>
<b>Asset volatility</b>	Returns on assets that vary from the discount rate create funding level volatility. Both Sections of the Scheme hold growth assets such as equities and real estate. Whilst growth assets are expected to outperform corporate bond yields over the long term this might not always occur in the short term.	<p>Diversification of non-matching assets (equities, real estate and emerging market debt) reduces volatility and is expected to outperform the discount rate in the long term.</p> <p>The equity portfolios are invested passively and diversified between UK and overseas markets, including both emerging markets and smaller companies in order to track global economic growth by replicating global equity capitalisation. Asset volatility is therefore mitigated by investing in as many companies as possible. The Scheme has for some time been reducing equity.</p> <p>All other assets are invested actively and are widely diversified to reduce returns risk and enhance returns.</p>
<b>Currency</b>	The Scheme's liabilities are sterling based whereas the majority of investments are denominated in foreign currencies.	Currency risk is hedged by investing in currency hedging programmes which hold currency derivatives to help dampen returns volatility caused by the fluctuation of sterling against other leading currencies.
<b>Changes in bond yields</b>	A decrease in bond yields, which in turn drive the discount rate, will increase the present value of the Scheme's liabilities for accounting purposes.	A significant proportion of assets are held in corporate bonds that provide a hedge against falling bond yields. Furthermore, significant levels of interest rate hedging within the Scheme's liability hedging portfolios through interest rate derivatives serve to protect against falling bond yields. Over the last twelve months, the Scheme has increased the interest rate and inflation hedging to 90% of liabilities and will extend the interest rate hedge to cover the front twenty-five years of all cashflows in the target hedge.
<b>Longevity</b>	Beneficiaries living longer than expected could increase the Scheme's liabilities.	The Trustee and the Company have agreed a joint review of the Scheme's longevity risk.
<b>Operational</b>	Poor administration of benefits may result in an increased defined benefit obligation in future years.	The Scheme's benefits administrators have agreed service level agreements and controls are carefully monitored.

**Defined contribution schemes**

The pension cost represents contributions payable by the Company to the defined contribution schemes and amounted to £10.8m (2019: £9.7m). Contributions totalling £0.9m (2019: £0.9m) were payable to the schemes at 7 March 2020 and are included within trade and other payables.

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**Notes to the financial statements**  
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**20. OTHER FINANCIAL ASSETS AND LIABILITIES**

	2020	2019
	£'000	£'000
<b>Other financial assets</b>		
Forward foreign exchange contracts - cash flow hedges	5,827	6,651
<b>Total other financial assets</b>	<b>5,827</b>	<b>6,651</b>
<b>Other financial liabilities</b>		
Forward foreign exchange contracts - cash flow hedges	(18,360)	(4,281)
<b>Total other financial liabilities</b>	<b>(18,360)</b>	<b>(4,281)</b>

**Forward foreign exchange contracts**

The forward foreign exchange contracts are intended to hedge the foreign currency exposures of future purchases of inventory. The hedged cash flows are expected to occur up to one year into the future.

Gains and losses recognised in the hedging reserve in shareholders' equity on forward foreign exchange contracts as at the year-end will be released within one year from the balance sheet date. The notional principal amounts of the outstanding forward foreign exchange contracts at 7 March 2020 were £844,188,000 (2019: £585,867,000). The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

**21. DEFERRED TAX**

The movements on the net deferred tax account are as follows:

	2020	2019
	£'000	£'000
Opening net deferred tax asset	41,019	43,342
Profit and loss account (charge)/credit	(17,929)	539
Rate change impact credited to profit and loss account	2,541	818
Rate change impact credited/(charged) to statement of total comprehensive income and statement of changes in equity	1,421	(1,002)
Deferred tax (charged) to statement of total comprehensive income and statement of changes in equity	(30,110)	(2,678)
<b>Closing net deferred tax (liability)/ asset</b>	<b>(3,058)</b>	<b>41,019</b>

The deferred tax amounts recognised are as follows:

	2020	2019
	£'000	£'000
<b>Deferred tax assets:</b>		
- Deferred tax asset to be recovered after more than one year	16,383	41,019
<b>Deferred tax liabilities:</b>		
- Deferred tax liability to be recovered after more than one year	(19,441)	-
<b>Net deferred tax (liability)/ asset</b>	<b>(3,058)</b>	<b>41,019</b>

Closing deferred tax has been calculated at the enacted rate of 17.0% (2019: 17.0%), which differs from the UK corporation tax rate applied to the current year adjusted profits at 19.0% (2019: 19.0%).

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**Notes to the financial statements**  
**For the 52 weeks ended 7 March 2020 (continued)**

**21. DEFERRED TAX (continued)**

	Accelerated tax depreciation £'000	Fair Value Gains £'000	Other £'000	Share options £'000	Post-employment benefit obligations £'000	Total £'000
<b>Deferred tax assets:</b>						
At 10 March 2018	2,134	2,184	2,194	232	36,598	43,342
(Charge)/credit to income statement	1,551	-	(427)	457	(10,414)	(8,833)
Prior year adjustment to income statement	4,942	-	4,249	181	-	9,372
Deferred tax charged to statement of comprehensive income	-	(2,432)	-	(56)	(190)	(2,678)
Rate change impact to equity or other comprehensive income	-	256	-	6	(1,264)	(1,002)
Rate Change impact	(163)	-	45	(48)	984	818
At 9 March 2019	8,464	8	6,061	772	25,714	41,019
Credit/(charge) to income statement	1,323	-	(313)	(68)	-	942
Prior year adjustment to income statement	(1,433)	-	1,028	(475)	-	(880)
Deferred tax credited to statement of comprehensive income	-	1,243	-	2	-	1,245
Transferred to liability	-	-	-	-	(25,714)	(25,714)
Rate change impact to equity or other comprehensive income	-	(131)	-	-	-	(131)
Rate change impact	(139)	-	33	8	-	(98)
<b>Balance at 7 March 2020</b>	<b>8,215</b>	<b>1,120</b>	<b>6,809</b>	<b>239</b>	<b>-</b>	<b>16,383</b>

	Post-employment benefit obligations £'000	Total £'000
<b>Deferred tax liabilities:</b>		
At 9 March 2019	-	-
Transferred from assets	25,714	25,714
(Charge) to income statement	(17,991)	(17,991)
Deferred tax charged to statement of comprehensive income	(31,355)	(31,355)
Rate change impact to income statement	2,639	2,639
Rate change impact to equity or other comprehensive income	1,552	1,552
<b>At 7 March 2020</b>	<b>(19,441)</b>	<b>(19,441)</b>

Deferred tax assets are recognised for tax loss carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

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**22 CALLED UP SHARE CAPITAL**

	2020 £'000	2019 £'000
<b>Allotted, called-up and fully paid:</b>		
2,498,239,323 (2019: 2,498,239,323) ordinary shares at 25p each	624,560	624,560

**23. SHARE-BASED PAYMENT ARRANGEMENTS**

**Summary of share option and share award arrangements**

During the year ended 7 March 2020, J Sainsbury Group plc had a number of share option and share award arrangements for its employees, all of which are equity-settled. Employees of this Company participated in these schemes and the Company was recharged the fair value of the schemes. Details of these arrangements are as follows:

*Share options*

The J Sainsbury and Home Retail Group plc save-as-you-earn (SAYE) plan permits the grant to employees of options over the Company's shares linked to a building society save-as-you-earn contract for a term of three or five years with contributions from employees of between £5 and £250 per month. Options are normally capable of being exercised at the end of the three or five-year period at an exercise price calculated at a 10% or 20% discount (dependent upon the date of grant) to market price over the three dealing days preceding invitation to participants. Options must be exercised within six months of the end of the three or five-year SAYE contract. Employees who were members of the Home Retail group scheme had the choice on acquisition of rolling over their options into J Sainsbury shares or vesting their pro-rated entitlement.

The weighted average share price for share options exercised during the year was £2.26 (2019: £3.16).

*Share options outstanding at the end of the year*

Share options at the end of the year had the following exercise prices and remaining contractual lives:

Range of exercise prices £	As at 7 March 2020			
	Number of options	Weighted average exercise price £	Weighted average remaining lives	
			Expected years	Contractual years
1.00 – 1.99	5,789,576	1.72	2.1	2.6
2.00 – 2.99	1,608,971	2.58	2.2	2.7

Range of exercise prices £	As at 9 March 2019			
	Number of options	Weighted average exercise price £	Weighted average remaining lives	
			Expected years	Contractual years
1.00 – 1.99	4,999,794	1.85	1.8	2.3
2.00 – 2.99	3,104,636	2.59	3.2	3.7

**Argos Limited**  
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**24. CAPITAL COMMITMENTS**

Capital expenditure for which contracts have been placed:

	2020	2019
	£'000	£'000
Tangible assets	(8,073)	(2,057)
Intangible assets	(2,858)	(229)
	<b>(10,931)</b>	<b>(2,286)</b>

**25. ULTIMATE PARENT UNDERTAKINGS**

The Company's immediate parent undertaking is Argos Holdings Limited, a company registered in England and Wales, by its 100% shareholding in the Company.

The Company's ultimate parent and controlling party is J Sainsbury plc, a company registered in England and Wales. The largest and smallest group of undertakings for which group financial statements have been prepared was that of J Sainsbury plc. Copies of these financial statements are available from its registered office at 33 Holborn, London, EC1N 2HT.

**26. POST BALANCE SHEET EVENTS**

**COVID-19**

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements. However, given the significance of these events, further disclosure is provided below indicating where there may be material changes in the Company's judgements and estimates impacting the balance sheet as at 7 March 2020.

**Restructuring programmes**

Subsequent to the Company's year-end, it was agreed to accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business model. As a result, around 420 Argos stores will be closed by March 2024, leaving the total number of UK standalone stores at around 100. To support this, a total of 32 Local Fulfilment Centres will be built across the UK that will operate the Group's fast track delivery operations, delivering to customers' homes and to Argos stores and collection points across the country. The Group is creating a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos. As a result of this, a number of existing depots are closing. Further, the Company reviewed its Store Support Centre ways of working and as a result is reducing its office space.

In addition to the above, subsequent to the Company's year-end a review of the economic performance of the Company's assets was performed as a result of store rationalisation, changes in channel mix, and changes in customer shopping habits. In line with IAS 36 'Impairment of non-financial assets', this was deemed an indicator of impairment and a full impairment review was therefore performed.

As a result of the restructuring programmes and impairment review noted above, an impairment charge of circa. £85 million, closure provisions of circa. £145 million and redundancy provisions of circa. £15 million have been recognised by the Company subsequent to the balance sheet date. The impairments have been recognised across property, plant and equipment, intangible assets and right of use assets.

As a part of Group Strategy to bring Argos and Habitat brands together Argos Limited purchased Habitat Limited trade, assets and liabilities on the 5 February 2021. As a result of Habitat Limited re-capitalisation prior to the sale Habitat Limited repaid the outstanding loan balance with Argos Limited. Habitat's brand is well known and loved by the customers and by bringing the brands together the company can offer home and furniture products to a wider range of customers at more affordable prices both instore and online.

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**27. SUBSIDIARIES AND RELATED UNDERTAKINGS**

Undertaking	Address of the undertaking	Direct/ indirect holding	Interest
Chad Valley Limited	B	Direct	100
First Stop Stores Limited	B	Direct	100
Argos SURBS Investment Limited	A	Direct	100
Home Retail Group Holdings (Overseas) Limited	B	Direct	100
Brand Leaders Limited	B	Direct	100
Home Retail Group Pension Scheme Nominees Limited	A	Direct	100
Home Store & More Limited	B	Direct	100
Argos Card Transactions Limited	B	Direct	100
Premier Incentives Limited	B	Direct	100
Argos Best Sellers Limited	B	Direct	100
Argos Business Solutions Limited	A	Direct	100
Argos Distributors (Ireland) Limited	Unit 7, Ashbourne Retail Park, Ballybin Road, Ashbourne, Republic of Ireland	Direct	100
Home Retail Group (Finance) LLP	A	Indirect	100
Argos Superstores Limited	B	Indirect	100
ARG Services Limited	B	Indirect	100
Jungle.com Holdings Limited	B	Indirect	100
Sainsbury's Argos Asia Technical Limited	C	Indirect	37.5
Sainsbury's Argos Asia Commercial Limited	C	Indirect	37.5
Sainsbury's Argos Asia Sourcing Limited	C	Indirect	37.5
Sainsbury's Argos Asia Limited	C	Indirect	37.5
Sainsbury's Argos Commercial Consultancy (Shanghai) Limited	D	Indirect	37.5
Jungle.com Limited	B	Indirect	100
Argos Direct Limited	B	Indirect	100
Software Warehouse Holdings Limited	B	Indirect	100
Argos Retail Group Limited	B	Indirect	100
Jungle Online	B	Indirect	100
Bed Store & More Limited	B	Indirect	100
Clearance Bargains Limited	B	Indirect	100

**Addresses:**

**A:** Avebury, 489-499 Avebury Boulevard, Milton Keynes, United Kingdom, MK9 2NW

**B:** 33 Holborn, London, United Kingdom, EC1N 2HT

**C:** 7/F 348 Kwun Tong Road, Kowloon, Hong Kong

**D:** 26/F., Tower 1, Kerry Everybright City Phase III – Enterprise Centre, No 128 West Tian Mu Road, Ahzbei, Shanghai, 200070, Shanghai, People's Republic of China