

COMPANY NUMBER: 03855289

Annual Report and Accounts 2005

Woolworths Group plc



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Group at a Glance

Retail

Woolworths
www.woolworths.co.uk

The Mainchain stores comprise traditional Woolworths outlets located in small towns and city suburbs, targeted at meeting basic everyday shopping requirements, as well as larger stores located on prime shopping streets in major regional shopping centres. The product offer covers Toys, Children's Clothing, Events, Confectionery, Home and Entertainment; larger stores include a more comprehensive range of Home and Children's Clothing.

Overview
Number of stores: 802
Average size sq ft: 8,480

Woolworth out-of-town stores offer a wider selection of toys, a babyshop, kids' bedroom ranges and entertainment products, all from a superstore format designed to meet demand for out-of-town shopping.

Overview
Number of stores: 21
Average size sq ft: 71,400

MVC
www.mvc.co.uk

MVC is a specialist retailer of Home Entertainment products (DVDs, CDs, videos and games software). The MVC 'More' membership card has in excess of 1.5 million cardholders. MVC targets the frequent high-spending buyer of Entertainment products and aims to distinguish itself from other specialist high street Entertainment retailers by offering a comprehensive product range including an extensive back catalogue at competitive prices.

Overview
Number of stores: 82
Average size sq ft: 3,700

Entertainment Wholesale & Publishing

2 | Entertain
www.2entertain.co.uk

The Group holds a 40 per cent share in this joint venture, combining the former VCI audio and video business with BBC Worldwide's video publishing arm. Recent video titles include 'Little Britain' and 'Jeremy Clarkson: Hot Metal' and on audio, 'Daniel O'Donnell: The Jukebox Years'.

Entertainment UK Limited
www.entuk.co.uk

EUK is the country's largest wholesale distributor of Home Entertainment products, (DVDs, CDs, videos, books and games software), supplying Britain's retailers with their entertainment ranges. EUK offers a value added wholesale service which includes managing retailers' inventory, merchandising, staff training and product labelling. EUK has also established EUK Direct, offering a wholesale distribution service and a 'direct to home' solution for Entertainment retailers on the internet.

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Profit before taxation, exceptional items and amortisation of goodwill increased 4.7 per cent to £73.1 million

Profit before taxation decreased £57.4 million to £9.3 million reflecting the impact of exceptional items

Adjusted* basic earnings per share increased 2.9 per cent to 3.6 pence per share

Basic earnings per share impacted by exceptional items and decreased to 0.1 pence per share

Net funds at the year-end of £108.7 million, up £55.8 million from last year-end

* Throughout this document adjusted basic earnings per share is as calculated in note 10 to the financial statements.

Chairman's Statement

Gerald Corbett Chairman

This report marks a year of further progress for the Woolworths Group, although the performance of our retail businesses was disappointing. Profit before tax, exceptional items and goodwill amortisation, was £73.1 million, up 4.7 per cent on the prior year. Profit before tax decreased £57.4 million to £9.3 million reflecting the impact of the exceptional costs of restructuring Woolworths big W. The adjusted basic earnings per share at 3.6 pence per share was up 2.9 per cent. Basic earnings per share decreased to 0.1 pence per share, again as a result of the big W exceptional. Earnings before interest, tax, depreciation, amortisation and exceptionals were £137.2 million (2004: £138.3 million). It was another year of good cash generation with our financial position further strengthened. Net funds ended the year at £108.7 million, an improvement of £55.8 million on the previous year.

The performance of our retail business was disappointing, with operating profit, (before exceptional items of £60.9 million), decreasing by 11.9 per cent to £40.7 million. A solid performance over the peak trading period in December and January was not enough to offset the difficult trading experienced in October and November and the ongoing cost of the refurbishment programme. However, we were pleased with the progress made in continuing to drive margin and improve the operational efficiency of the business.

The refurbished 10/10 stores continued to perform ahead of the Mainchain in terms of both sales and margin. More importantly, we have learnt a lot during the year about what works best in these stores in terms of space allocation, store layout, point of sale, product mix and location. These refinements will be incorporated into this year's refit programme. We continue to believe that refurbishments will be an important driver of future growth in the Mainchain.

As announced in March last year, our out-of-town format Woolworths big W, has been restructured to create Woolworths out-of-town. We have made good progress on disposing of excess space and the leases on a number of stores have been assigned. The stores we keep will be reduced to a size which we believe will provide the basis for a successful out-of-town proposition.

MVC, our chain of specialist entertainment shops, reduced its losses but overall performance remained disappointing with like-for-like sales falling 4.8 per cent. The Board is of the view that this business does not represent a good use of the Group's capital and management resource in the long term and the decision has therefore been taken to divest the business.

Progress during the year in our Entertainment Wholesale and Publishing division was particularly pleasing. Operating profits increased by 16.8 per cent to £49.3 million before goodwill amortisation for the 2entertain joint venture. With a strengthened management team and following further systems investment, Entertainment UK had another good year. The business has broadened its customer base through new client wins, and expanded its product offering with further advances into book wholesaling and a move into digital technology.

VCI, our entertainment publishing business had a strong year. In the last quarter we combined the business with the video publishing operation of BBC Worldwide to form a joint venture, 2entertain. The new joint venture got off to a flying start with two of its titles being in the DVD top ten over Christmas and this gives us confidence for the future growth prospects of this business.

Following the year-end, we received an approach from Apax Partners, one of Europe's leading private equity firms, which valued the Company at 58.2 pence per share including rights to all future dividends. The Board took the view that the proposal was at an appropriate level to allow Apax to receive further information to confirm their proposal.

Ultimately, Apax chose not to proceed with an offer and on 14 April 2005 your Board announced that it was recommending a final dividend of 1.26 pence per share. The full year dividend is therefore 1.65 pence per share, an increase of 10 per cent on last year. This increase maintains our policy of being in line with sector average cover and reflects our strong cash generative qualities.*

After four very successful years as our Group Finance Director, Christopher Rogers will be joining the Board of Whitbread plc as Group Finance Director. We wish him well and thank him for his outstanding contribution. We have made good progress with our search for his replacement and have seen a number of excellent candidates. The approach from Apax has had a bearing on finalising the appointment but we are confident that we will be in a position to announce a new Finance Director soon.

It remains our view that the actions we have taken to improve our retailing operations and to strengthen our entertainment business have established a sound basis for further progress. The High Street is becoming increasingly competitive and the outlook for consumer spending more uncertain than for some time. However, we have a unique and valuable brand in Woolworths, leading market positions in our core product categories and substantial footfall in our stores each week. The careful management of stock and cost, further operating improvements, and the ongoing investment in our core businesses, including store refurbishments, are the key tenets of our plans for future growth.

On behalf of the Board I would like to thank all our colleagues for their hard work and efforts during the year.



Gerald Corbett
Chairman
22 March 2005



Gerald Corbett
Chairman
19 April 2005

Re-signed on 19 April 2005 to approve text dealing with final dividend.

Operating Review

Trevor Bish-Jones Chief Executive

In the 52 weeks ended 29 January 2005 total Group sales increased by 2.9 per cent to £2.9 billion. Within this, retail sales fell by 2.2 per cent and sales in Entertainment Wholesale and Publishing grew 26.8 per cent.

Profit before taxation, exceptional items and goodwill amortisation increased by 4.7 per cent to £73.1 million (2004: £69.8 million). After charging the exceptional costs associated with the closures and reconfiguration of Woolworths big W, profit before tax was £9.3 million, down from £66.7 million last year.

Retail

Total Group retail like-for-like sales fell by 1.7 per cent with Woolworths Mainchain down by 1.3 per cent, Woolworths big W down 3.5 per cent and MVC decreasing by 4.8 per cent. As a result, operating profit from the Retail operations fell from £46.2 million to £40.7 million.

Woolworths Mainchain

Despite the disappointing second half to the year, much was accomplished in the Mainchain during 2004 to improve the gross margin, strengthen the infrastructure and develop the retail proposition. These initiatives remain fundamental to our strategy and provide a firm foundation on which to build in 2005.

The underperformance of the Mainchain in October and November impacted our overall result for the second half. The market dynamics worked against our decision to move Christmas set up to before the October half-term. Space allocated to Toys and Gifts was increased but delivered sales below that of the displaced ranges, and the material weakness in the Toy market in particular exacerbated the effect. Although performance in December and into early January improved, with positive like-for-like sales of 0.9 per cent for the six weeks to 15 January 2005, this was insufficient to make up for the earlier performance. On a positive note, despite the shortfall against sales targets, we were able to keep stock under control, evidencing that the business is now much better controlled than in prior years.

For the third successive year the underlying gross margin improved, growing by 40 basis points and building on the 90 basis points improvement over the last two years. This was achieved through better sourcing, product development and continuous improvement to the ranges.

We were particularly encouraged by the increased sales in Electrical, Communications and Kids Dress Up which were categories in which we have focused on delivering ranges to support our Kids & Celebrations strategy. Progress was also made in Confectionery, Gifting and Events where we concentrated on differentiating our offer from that of the competition. In Clothing we moved the traded margin forward as we developed sources of supply that allowed us to react in season. The Entertainment market continued to be highly competitive. Shortages of games hardware coupled with a disappointing performance from new DVD releases over the final quarter led to disappointing sales.

We continued to make progress in improving the operational efficiency in the business, with the rollout of the Kingstore till system completed as planned in October 2004, under budget and without

Operating Review continued

disruption. These new tills not only speed up transaction times for our customers but also give our store colleagues better visibility of stock levels in-store. This helped contribute to a further increase in single sku in-store availability which rose 1.4 per cent during the year to 93.3 per cent. Costs, both in-store and at head office have also been controlled tightly with the year-on-year increases running well below the rate of inflation.

10/10

Our 10/10 store refurbishment programme continued, with a total of 48 stores refitted and a further two new stores opened. On average, relative to the Mainchain, refitted stores have delivered 6 per cent sales growth in year one, 2 per cent in year two, coupled with an increase of 20 basis points in the gross margin in the first year.

Although rollout uplifts are below those seen in the earlier refits, a detailed analysis has helped us gain a better understanding of the performance drivers and these findings will be factored into our plans for the year ahead. Most notably, we have found that the size of store and position relative to the local market are important variables in driving the sales line; and the performance of Clothing and Home are important factors in the margin performance.

In the year ahead we plan to be refitting a further 50 stores. The preopening costs associated with the 48 refits in 2004/05 amounted to £3.3 million and are expected to continue at this level in 2005/06.

Woolworths out-of-town

In March 2004, we announced that we would not continue to roll out Woolworths big W. Instead, a site-by-site review of the estate would be undertaken to assess the merits of either an outright disposal or reducing the size of the units to a level that would be sustainable for a Woolworths out-of-town concept. The estate was highly variable in terms of quality, size and retail planning consents.

As at the date of the accounts, five stores, all of which had food planning consent, have been assigned and contracts on two further stores have been exchanged and are awaiting landlord approval.

A further two stores, where there was excess space, have been either sublet or surrendered to the landlord. This leaves 15 stores on which we anticipate making further progress over the coming year. To date, assignment or surrender of leases has generated £35.5 million of cash for the Group of which £9.0 million is recognised within the exceptional item in 2004/05.

Looking forward, after further lease assignments, we anticipate that Woolworths out-of-town will be trading from around 17 sites. In October 2004, stores at Tamworth and Norwich were cut down and refitted to a 40,000 square feet specification. Christmas trading was encouraging. A further two stores at Byker and Bristol are being opened in the first quarter of 2005 and these four stores will then be used to refine the proposition before any further investment is made in our other sites. In the meantime, the remaining stores will be downsized to around 40,000 square feet.

Multichannel retailing

This Christmas, for the first time we offered more than 4,000 additional products through the Woolworths website, including over 2,800 Toys and Gifts, dramatically broadening the pre-existing offer which was largely entertainment based. It is our belief that, in the long term, serving customers through the integration of our online offer with our extensive store network offers good growth opportunity, in particular in our smaller stores where a much broader product offering will help to generate incremental sales. The internet-enabled Kingstore till technology will play a key part in the development of our evolving multichannel strategy.

MVC

The performance of MVC improved during the year. Despite the fall in like-for-like sales of 4.8 per cent, losses narrowed substantially on the back of a better

Operating Review continued

margin and a tight control of costs. The Board however has concluded that the investment required to reposition MVC is substantial and that the preferred option is to divest the business. This will take place over the coming months. In the near term the 14 worst performing stores will be closed leaving a core of 67 stores.

Entertainment Wholesale and Publishing
This has been a year of continued progress for our Entertainment Wholesale and Publishing businesses, comprising Entertainment UK and our new joint venture, 2entertain. Operating profits from this part of the Group rose 16.8 per cent to £49.3 million, before goodwill amortisation for the joint venture (2004: £42.2 million).

Entertainment UK (EUK)
Entertainment UK, our entertainment and books distribution business performed robustly during the year. Overall sales increased by 10 per cent to £1.2 billion and within this sales to third parties increased by 38.4 per cent. This increase was underpinned not only by the continued growth of the DVD market but also by new business wins such as WH Smith's music and non-core video ranges and the addition of book distribution for Tesco.

In addition, in August we announced the renewal of EUK's contract to supply entertainment software to Tesco. Under the terms of this contract both parties are committed to working together to improve supply chain efficiencies. Undertaking any identified improvements is a condition of the contract continuing for an initial three-year term to March 2007.

The entertainment market remains highly competitive, which has resulted in pressure on the gross margin. However, this has been offset by continued warehouse efficiencies where over the last two years, cost-per-pick is down 7 per cent and cost-per-return is down 22 per cent. This has been achieved through investment in forecasting systems and tight control of overheads and as a consequence, despite the gross margin pressure, EUK profits have moved forward.

Looking ahead, many opportunities exist to grow this business, with potential for further supply contracts for other retailers; the Tesco books contract gives EUK a substantial base on which to build its books capability and the business continues to build its competency in digital downloading and online retailing.

2entertain
In September 2004, we completed the formation of a joint venture combining BBC Worldwide's video business with the VCI music and video publishing companies to create 2entertain Limited. Woolworths Group has a 40 per cent interest in the new business. In addition to VCI's existing rights, 2entertain has a first option to acquire product from BBC productions.

The trading performance of the business, first as VCI and then as 2entertain, has been robust. Over the key Christmas trading period, sales were strong with the joint venture having two of the top ten DVD releases with 'Little Britain' and 'That Peter Kay Thing'.

With the integration of the two entities going well, there is significant opportunity for it to benefit from its new found scale and access to overseas markets.

Outlook
The retail trading environment is difficult, impacting both sales and margin. February was affected by the cold weather and the phasing of the entertainment release schedule. March has been relatively stronger but on non-comparative Easter trading. Our Entertainment Wholesale and Publishing businesses are trading in line with our expectations. We will update the market on the trading in the first quarter at the Annual General Meeting, details of which are contained in the notice of meeting accompanying these accounts.



Trevor Bish-Jones
Chief Executive

Christopher Rogers Finance Director

Earnings Per Share and Dividend

Basic earnings per share, impacted by exceptional items, was 0.1 pence per share compared with 3.3 pence per share in 2004. Adjusted earnings per share before exceptional items and the amortisation of acquisition goodwill was 3.6 pence per share compared to 3.5 pence per share in 2004.

In light of the proposal from Apax, the Directors are not recommending a final dividend. In the event that an offer is not forthcoming the Directors then expect to recommend a dividend. Details of the Company's forthcoming Annual General Meeting are contained in the notice of meeting accompanying these accounts.

Exceptional items

In March 2004, the Group announced that Woolworths big W as traded from its existing property portfolio did not represent a secure source of long-term profitability. As a result, a number of stores have been reconfigured or are in the process of being sold. The operating exceptional item of £60.9 million includes the cost of stock write downs, property impairments, redundancy, and consultancy fees partly offset by disposal proceeds. The restructuring of the big W stores will continue throughout the current year and an exceptional credit in the region of £25 million is expected in 2005/06. This will result in the total net exceptional being in the range of £35–40 million.

Cash Flow and Net Funds

At the year-end the Group had net funds of £108.7 million. Cash generation across the Group remained healthy with a cash inflow from operating activities of £162.2 million.

At the balance sheet date the Group had facilities comprising an undrawn, uncanceled £150 million credit facility and, in issue, £100 million of 8.75 per cent Senior Notes due in 2006.

The net interest charge has further decreased this year to £8.8 million from £10.2 million in 2004. Net interest charges were covered 9.3 times before exceptional costs and goodwill amortisation.

Subsequent to the balance sheet date, the Group took advantage of the favourable lending market and refinanced. As a result the Group has added one bank to its existing Club and amended the existing facilities to provide a new committed revolving credit facility of £250 million over a five-year term. Both pricing and other terms reflect the further progress the Group has made since demerger.

Treasury Policy

The Group's Treasury Policy is structured to ensure that adequate financial resources are available for the development and growth of its operations whilst managing its currency, interest rate and counter-party credit risks. The Group Treasury strategy, policy and controls are developed centrally and approved by the Board. The Group does not engage in speculative transactions. Treasury policy was refreshed, re-presented and approved by the Board in November 2004.

The main elements of Treasury activity are outlined below:

Funding

The Treasury function ensures that the Group has sufficient secure financial resources to meet its medium-term business objectives whilst arranging a blend of facility maturities appropriate to its projected needs.

In addition to core financing arrangements, the Treasury function manages trade finance facilities and overdraft facilities associated with its day-to-day banking activities.

Currency

The Group's currency translation exposure is limited to movements in exchange rates to the extent that they affect balances held on its currency bank accounts and certain foreign currency assets and liabilities in the books of its Hong Kong-based product sourcing company, Woolworths Group Asia Limited. Foreign currency bank balances are controlled by the Treasury function and are actively managed to a level that minimises currency translation exposures. The Group's main currency exposure is its transaction exposure through movements in exchange rates on its purchases overseas that are not denominated in Sterling. These are mainly imports from Asia denominated in US dollars and imports from Europe denominated in Euros.

The Treasury Policy sets out a framework through which the Group's forecasted foreign currency transactions, are hedged. A proportion of transactions are hedged up to 12 months forward. The Treasury function arranges monthly currency meetings with the Group's operating subsidiaries where firm and forecast exposures are identified and hedging decisions are made in line with policy.

Interest

The Treasury Policy requires that an interest hedging plan for each year is approved by the Finance Director at the time of the annual budget. The Treasury function is permitted to hedge in accordance with this plan using interest rate products such as swaps, options, forward rate agreements and futures.

The Group continues to take a reasonably cautious approach to hedging its interest expense. The Group has swapped 30 per cent of its interest obligation under the £100 million bond from fixed to floating rate, to hedge its interest expense. The remaining 70 per cent is a straight fixed rate obligation.

To date, interest payable on drawings from the Group's Revolving Credit Facility has been at floating rates driven by market conditions, the relatively short borrowing period that the Group's businesses require each year and the variation in amounts borrowed during this period. Interest receivable on investments has also been at floating rates for short maturities given the seasonality of the Group's cash flows. Overall, interest receivable broadly offsets interest payable on drawings from the Revolving Credit Facility together with interest payable on the floating rate element on the interest swap, providing some certainty of exposure going forward.

Counter-Party Credit Risk

The Group actively manages its relationships with a panel of high-quality financial institutions. Credit risk is controlled by the Treasury function setting counter-party credit limits by reference to published rating agency credit ratings. The Treasury Policy recognises that an exposure to a counter-party arises in relation to both derivatives and financial instruments.

Adoption of New Reporting Standards

The Group has adopted Urgent Issues Task Force, Abstract 38 (UITF 38) 'Accounting for ESOP Trusts'. As a result, shares in the Company held through an employee share scheme which were previously reported as investments are now recorded as a deduction from shareholders' funds. A table showing the impact of this can be found in note 27 to the accounts, 'Capital and reserves'. UITF 17 (Revised) 'Employee Share Schemes' has also been adopted, although no changes are required to the financial statements.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) become mandatory for the consolidated financial statements reported by all EU Listed companies from 2005 onwards. The areas of greatest impact for the Group have been identified and work is underway to ensure the required compliance with IFRS for the 2005/6 financial year. The impact assessment has identified that changes in accounting treatment for property, goodwill, pensions and deferred tax may have greatest impact on the Group.

The impact of IAS 39 'Financial Instruments; Recognition and Measurement' on the Group's Treasury operations is largely restricted to treatment of instruments used to hedge its transacted foreign exchange exposure, its £100 million Bond, and the interest rate swap linked to this debt instrument. Group Treasury anticipates that its foreign exchange hedging will qualify under the new rules for hedge accounting treatment.

Financial Review continued

Taxation

The effective tax rate for the 52 weeks to 29 January 2005 before exceptional items is 30.6 per cent (76.3 per cent including exceptional items). This compares to an effective tax rate of 30.9 per cent for the prior year. Under existing tax legislation, it is anticipated that the effective Group tax rate will continue to move towards the standard corporation tax rate.

Acquisitions and Disposals

The Group purchased the remaining 50 per cent interest in Flogistics Limited (a company which sells and distributes gift vouchers) from Kingfisher for £2 on 26 September 2004. There was no difference between the book value and the fair value of the assets acquired. Accordingly, up to that date, Flogistics has been accounted for as a joint venture and since that date as a subsidiary.

On 27 September 2004, Woolworths Group plc entered into a joint venture with BBC Worldwide Limited to form Zentertain Limited. This transaction has been accounted for in accordance with UITF 31 'Exchange of businesses or other non monetary assets for an interest in a subsidiary, joint venture or associate'. The net effect of this transaction was to dispose of a 60 per cent interest in certain VCI Group trading entities in return for a 40 per cent interest in Zentertain Limited. Goodwill relating to the transaction of £52.1 million is being amortised over 20 years and amortisation of £0.9 million has been charged since completion.

Pensions

Following a detailed review the Group announced in April 2003 that it would retain the Woolworths Group Pension Scheme (WGPS) final salary scheme. Whilst revised terms for the participation of new employees have been introduced, existing members have been asked to increase contributions with effect from April 2004 in order to retain their existing benefits.

Financial Reporting Standard 17 'Retirement Benefits' (FRS 17) was issued in November 2000 to replace Statement of Standard Accounting Practice 24 'Accounting for Pension Costs' (SSAP 24), and was initially supposed to be fully effective for the accounting periods ending on or after 22 June 2003. However, full implementation of FRS 17 has now been deferred, pending the review of International Accounting Standard 19 'Employee Benefits'.

The Group has continued to account for pension costs under SSAP 24 although in accordance with the transitional arrangements for FRS 17, certain additional information is set out below. The Group has continued to contribute to the WGPS at the rate of 13.5 per cent of pensionable pay. Under SSAP 24 the pension cost for the year is £16.0 million (2004: £16.2 million), which is split into a regular cost of £14.8 million (2004: £15.0 million) and a variation of £1.2 million (2004: £1.2 million).

The actuaries have assessed the Minimum Funding Requirement (MFR) level for the Group at the end of the financial year and it remains above 100 per cent.

Impact of Financial Reporting

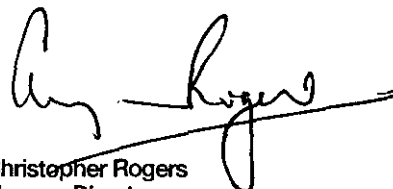
Standard 17 'Retirements Benefits' The valuation of the WGPS as at 29 January 2005, as measured in accordance with FRS 17, was a net pension deficit of £68.2 million (2004: £66.1 million) after the benefit of potential deferred taxation at 30 per cent amounting to £29.3 million (2004: £28.4 million).

The increase in the deficit over the year is primarily attributable to asset returns and membership movements within the scheme.

Had the Group charged pension costs to the profit and loss account on the FRS 17 basis, then the charge for the year would have been £18.4 million (2004: £25.4 million), compared to a SSAP 24 charge of £16.0 million (2004: £16.2 million).

Going Concern

The Directors confirm that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these accounts.



Christopher Rogers
Finance Director

Corporate Social Responsibility

1.

This report marks a year of good progress for our CSR agenda. I am pleased to say that since the Group's creation in 2001, commitment to responsible business practices has remained an integral part of the way we operate.

From product sourcing through to the point of sale and beyond, our quality assurance processes ensure that we incorporate within our 'bottom line' plans a focus on being socially responsible, environmentally friendly and safe. Likewise, we employ health and safety best practice for our colleagues and customers alike and our colleagues are given every encouragement to develop their careers within the Group.

As our business develops, good governance should be at the heart of everything we do. We continue to focus our activities in the four key areas of our Marketplace, our Workplace, our Environment and our Community.

We are particularly proud this year of Playground Partnerships – an exciting new initiative that has been developed to award grants to primary schools to improve their playgrounds and the quality of pupils' playtime. Playground Partnerships encourage primary school children to develop creative proposals explaining why their playgrounds need improving and the changes they would make if they had sufficient funds.

The scheme encourages teamwork within schools to design and develop their play areas. Proposals are independently judged by a panel comprising educationalists, landscape architects and play experts, and grants are awarded to the best entries. Eighty grants totalling £250,000 were awarded in 2004 enabling the proposals to become reality. This initiative has also won significant praise within the retail sector with Woolworths Kids First winning the 2005 Retail Week Corporate Responsibility award for its work in the community.

We value the huge contribution of our employees and are committed to offering the opportunity for them to develop by providing a rewarding graduate training scheme and varied and challenging career opportunities. At a time when some companies are closing down their final salary pension schemes, I am pleased to report that the Woolworths Group pension scheme was updated in April 2004 enabling us to retain this valuable benefit for our employees.

For a full report on the Group's activities in CSR, please refer to the Company's website, www.woolworthsgroupplc.com, and click on 'Corporate Social Responsibility'. Alternatively, for a hard copy of the 2005 CSR report please contact the Company Secretary.

Yours sincerely



Trevor Bish-Jones
Chief Executive
22 March 2005

1. Playground Partnerships £10,000
Award Winners at Briary County
Primary School, Heme Bay.

2. Chillingham Primary School at
new store in Byker.

Board of Directors

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1. Gerald Corbett (53), Chairman
Appointed in March 2001. Gerald led the demerger of Woolworths Group from Kingfisher plc in August 2001. Previously Chief Executive of Railtrack from 1997–2000, he was Finance Director of Grand Metropolitan plc from 1994–1997, and held the same position at Redland plc from 1987–1994. Gerald is Non-Executive Chairman of Health Club Holdings plc, the Holmes Place fitness clubs business. His retail experience includes five years as Group Financial Controller and Corporate Finance Director of Dixons from 1982–1987. He has also been Non-Executive Director of Burmah Castrol plc and MEPC plc.

2. Trevor Bish-Jones (44), Chief Executive
Appointed in March 2002. Trevor held various senior positions at the Dixons Group plc between 1994–2001, latterly as Managing Director of Currys. Prior to Dixons Group plc, Trevor was at Boots PLC for 13 years in a number of senior retail, buying and marketing roles.

3. Christopher Rogers (44)*, Finance Director
Appointed in May 2001. Previously Commercial Director at Comet, a position he held from 1997, having been Finance Director at Comet from 1993. Christopher joined Kingfisher in 1988 as Corporate Finance Manager and was Group Finance Controller from 1991–1993. He qualified as a Chartered Accountant with Price Waterhouse.
* Resigned 24 March 2005

4. Andrew Beeson (60), Non-Executive Director
Appointed in July 2001. He was, until January 2003, Chairman of Evolution Group plc, which merged with Beeson Gregory Group in 2002, the firm he founded in 1989. Prior to that he was a Director of ANZ McCaughan from 1987–1989, and a Director of ANZ Merchant Bank from 1985–1987. Andrew is a non-executive Director of Nelson Bakewell Holdings Limited and Schroders plc.

5. Roger Jones (67), Non-Executive Director
Appointed in July 2001. Previously a Director of Kingfisher plc and Managing Director of Woolworths plc from 1995 until his retirement in 1998. Prior to this he was Managing Director of Superdrug from 1992. Roger has spent the majority of his career at Woolworths having joined F.W.Woolworth in 1958. Currently a member of the Council for Barnados.

6. Prue Leith OBE (64), Non-Executive Director
Appointed in July 2001. She is currently a Non-Executive Director at Whitbread plc (since 1995) and Omega International plc and is Chairman of Ashridge Management College. Prue was previously a Non-Executive Director at Argyll Group plc from 1989–1996, and at Triveni plc from 1999 until January 2003. She started Leith's Good Food, a commercial catering company in 1965, Leith's Restaurant in 1969 and Leith's School of Food and Wine in 1975.

Directors' Report

for the financial year ended 29 January 2005

The Directors are pleased to present their report and the consolidated financial statements of the Company and its subsidiaries for the financial year ended 29 January 2005.

Principal Activities

The Group trades principally as a UK-based General Merchandise retailer and Entertainment wholesaler and publisher.

Review of Activities

A detailed review of the Group's activities and of future plans is contained within the Operating Review on pages 4 to 8.

Results and Dividends

The profit on ordinary activities of the Group before taxation amounted to £9.3 million (2004: £66.7 million) and the profit on ordinary activities after taxation amounted to £2.2 million (2004: £46.1 million).

The interim dividend of 0.39 pence per ordinary share was paid on 8 December 2004, making a total for the year of 0.39 pence per ordinary share. The total dividend payable to shareholders charged to the profit and loss account is £5.4 million. The Directors propose to transfer the loss of £3.4 million to reserves.

The Company provides a Dividend Reinvestment Plan enabling shareholders to apply their cash dividends to purchase additional ordinary shares in the market at competitive dealing rates. Full details can be obtained from the Registrar. If you have previously completed a mandate form to join the Plan, you need take no further action.

Directors

The Directors of the Company are shown on page 14.

The following have been Directors of the Company during the financial year ended 29 January 2005: Andrew Beeson, Trevor Bish-Jones, Gerald Corbett, Roger Jones, Prue Leith OBE and Christopher Rogers.

Directors' Interests

The Directors' interests in shares of the Company are shown within the Remuneration Report on pages 20 to 25. No Director has any other interest in any shares or loan stock of any Group company.

No Director was or is materially interested in any contract other than his/her service contract, subsisting during or existing at the end of the financial year which was significant in relation to the Group's business.

Re-election of Directors

The Articles of Association require one-third of the Directors who are subject to retirement by rotation to retire and submit themselves for re-election each year. The Articles of Association also require any Directors appointed by the Board to retire at the next Annual General Meeting. Any such Director may, if willing to act, be re-elected. In accordance with Article 88 of the Articles of Association, Andrew Beeson, Roger Jones and Prue Leith OBE hold office until the Annual General Meeting and, being eligible, offer themselves for re-election. Trevor Bish-Jones will retire by rotation at the Annual General Meeting in accordance with Article 82 of the Articles of Association and being eligible offers himself for re-election. Details of Directors submitting themselves for re-election are shown on page 14.

Directors' Remuneration

The Remuneration Committee, on behalf of the Board, has adopted a policy that aims to attract and retain the directors needed to run the Group successfully. The Directors' Remuneration Report is shown on pages 20 to 25.

Annual General Meeting

Details of the Company's forthcoming Annual General Meeting are set out in a separate circular that has been sent to all shareholders with the Annual Report and Accounts.

Employee Involvement

The Board seeks to instill high standards of customer care and service in each subsidiary company and the commitment of every employee to this business requirement is considered to be critical. Accordingly, the Corporate Centre has established a communication framework for employees concerning Group-wide business performance, community involvement, company benefits, people and innovation. Each subsidiary company has, in addition, its own communication strategies concerning their brands, company performance and people issues.

Training and links with the educational sector reinforce the Group's commitment to employee involvement and development. The Woolworths Group Leadership Programme (WGLP) is the development framework for managers at all levels of seniority who have the potential to be our future leaders. A brochure describing the programme and a micro site specifically for graduates have been produced.

Employees are represented on the Trustee Board of the Group's pension schemes.

In December 2004, more than 3,000 colleagues in the Group saw their first Woolworths Group ShareSave option mature. This enabled participants to buy shares in the Company at a price of 30.5 pence. More than 700 employees chose to exercise options and keep their shares.

Directors' Report continued

for the financial year ended 29 January 2005

Equal Opportunities

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, HIV status, disability, sexuality, or unrelated criminal convictions and without arbitrary restrictions in respect of age, or is disadvantaged by conditions or requirements which cannot be shown to be justified.

The Group applies employment policies which are fair and equitable and which ensure entry into and progression within the Group. Appointments are determined solely by application of job criteria, personal ability and competency.

The Group gives full and fair consideration to the possibility of employing disabled persons wherever suitable opportunities exist.

Supplier Payment Policy

The Group's policy, in relation to all of its suppliers, is to negotiate its terms of payment when agreeing the terms of the transactions, to ensure that those suppliers are made aware of the terms of payment and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any universal code or standard on payment practice but subsidiary companies are expected to establish payment terms consistent with local procedures, custom and practice.

Woolworths Group plc, the parent Company, has no trade creditors. It is therefore not appropriate to provide creditor day statistics for the Company. However the number of days' purchases outstanding for payment by the Group at the year-end was 41 (2004: 39).

Political Contributions

During the year the Company made no political contributions (2004: £nil).

Charitable Donations

During the year the Group has contributed £156,000 (2004: £204,000) to communities in the UK.

Major Shareholders

As at 22 March 2005, the Company had been notified of the following interests in three per cent or more of the Company's shares.

	Number of ordinary shares	Per cent
Deutsche Bank AG	160,179,466	11.14
Fidelity International Ltd	80,454,577	5.59
Barclays PLC	55,181,094	3.84
HBOS plc	54,778,202	3.81
Legal & General Investment Management Ltd	51,534,518	3.58

Authority to Purchase Own Shares

At the Annual General Meeting of the Company held on 27 May 2004, the Company was given authority to purchase up to £17,660,862.42 nominal value of its ordinary shares in the market. This authority, which has not been used, expires at the conclusion of the Annual General Meeting to be held in 2005 and a resolution will be put to that Meeting to provide a similar authority for a further year.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to accept reappointment as auditors of the Company and a resolution proposing their reappointment is contained in the Notice of Annual General Meeting and will be put to the shareholders at the Annual General Meeting.

By Order of the Board



Jonathan Bloom
Company Secretary
22 March 2005

Corporate Governance

Corporate Governance – Combined Code Statement

The Company recognises the importance of, and is committed to, high standards of Corporate Governance. During the financial year, the Group has complied with the main and supporting principles of the 2003 Financial Reporting Committee (FRC) Combined Code. Compliance with the principles of good governance and the specific provisions of Section 1 of the Combined Code has been effected by the Company in the following way:

The Board of Directors

The Board comprises the Chairman, the Chief Executive, the Finance Director and three Non-Executive Directors, appointed for periods of three years. The Board is satisfied that, having considered the background and current circumstances of each of the Non-Executive Directors, there are no relationships or other matters which could affect their respective judgement in carrying out their duties. Accordingly, the Non-Executive Directors are considered by the Board to be independent of management. Their biographies appear on page 14 and illustrate the Directors' range of backgrounds which provides an experienced and balanced Board to lead and control the Group. Andrew Beeson is the senior independent Non-Executive Director. The Non-Executive Directors have disclosed to the Chairman and the Company Secretary their significant commitments other than their directorship of the Company. Similarly, the Chairman has discussed with the Board the time commitment expected from his various roles outside the Group. For both the Chairman and the Non-Executives, it has been agreed that all are able to meet their respective obligations to the Company, provided that any proposed changes or additional commitments are notified to the Board. All Directors have access to the Company Secretary and may take independent professional advice at the Company's expense. Each Director may also receive appropriate training as necessary and a record of training undertaken is maintained by the Company Secretary.

The Board meets not less than 11 times a year and has adopted a schedule of matters reserved for its decision. The Board receives detailed proposal papers in advance of meetings, together with management presentations to facilitate proper consideration and debate of matters brought before it.

The Board is primarily responsible for the strategic direction of the Group. Major strategic initiatives involving significant cost or perceived risk are only undertaken following their full evaluation by the Board. Matters of an operational nature are delegated to the Group's management. Progress on key initiatives is reported regularly and minuted, together with routine matters such as financial performance and current trading in each of the Group's business divisions.

In accordance with Combined Code principles, the Board undertook a formal and rigorous evaluation of its own performance both as a board and on an individual basis (including the performance of the Chairman), and that of its core standing Committees. The evaluation was performed and administered by an external consultant together with the Company Secretary and consisted of formal interviews and completion of a detailed questionnaire followed by group and individual feedback. In addition, where appropriate, the views of management and the Internal Audit function were also sought.

The focus of the evaluation was to assess the performance of the Directors in leading the Group toward its strategic and financial objectives, the respective skills and competencies of each of the Directors and to formulate areas of potential development to further enhance the Board's ability to both challenge and support the Group. The conclusions of this year's assessment were considered by the Board and a number of recommendations have been put in place at Board and Committee level to ensure continued operational effectiveness.

During the year 11 Board meetings were held. The Directors attended as follows:

Board of Directors	Attendance
Andrew Beeson	10
Trevor Bish-Jones	11
Gerald Corbett	11
Roger Jones	11
Prue Leith OBE	9
Christopher Rogers	10

In addition, three further Board meetings were convened during the year to deal with corporate transactions and the exercise of share options previously sanctioned by the Board.

The Board has established three core standing committees, with defined terms of reference, as follows:

The Audit Committee

Chaired by Roger Jones, the Committee comprises the three independent Non-Executive Directors. This Committee is responsible for providing the Board with independent and objective assurance on the control environment across the Group, for ensuring that the subsidiary companies are subject to an internal audit of the required quality and for making recommendations to the Board on the appointment of auditors and the audit fee. It also reviews the performance of the Group's auditors to ensure an independent, objective, professional and cost-effective relationship is maintained. The Committee's terms of reference are available on the Group's website.

As well as reviewing the Company's published financial results, the Committee reviews the Group's corporate governance processes (including risk analysis), accounting policies and procedures, reporting to the Board on any control issues identified.

Internal audit plans and the relationship between the internal audit function and the external auditors are routinely assessed at Committee meetings. The Audit Committee has also sponsored the development of arrangements throughout the Group to deal, in confidence, with complaints from colleagues about any accounting or financial management impropriety or other questionable business practice or conduct. These arrangements are periodically reviewed.

To ensure the independence of the Group's auditors, the Committee has reviewed the relevant policies and practices of the external auditor. The rotation of key partners at appropriate intervals and monitoring the extent of non-audit work and related fees are established principles which are implemented as necessary and regularly reviewed by the Committee to safeguard the independence and objectivity of the external auditor.

Corporate Governance continued

The Audit Committee continued

Each of the Non-Executive Directors has, through their other business activities, significant experience in financial matters. Andrew Beeson (a non-executive director of Schroders plc and former chairman of Evolution Group plc, a leading Corporate Finance and Stockbroking business) has significant, recent and relevant experience of financial and accounting issues.

The Committee is also responsible for the proper reporting of the financial performance of the Group and for reviewing financial statements before publication.

The meetings of the Audit Committee are also the forum used by the Non-Executive Directors to meet without the Executive Directors present to discuss the performance of the Group, its management and their ongoing stewardship of shareholders' interests. The Non-Executive Directors and the auditors have the opportunity at this time to raise and discuss any issues of concern in this regard.

During the year three Audit Committee meetings were held. The Committee members attended as follows:

Audit Committee	Attendance
Andrew Beeson	2
Roger Jones	3
Prue Leith OBE	2

The Nominations Committee

Comprising the Chairman and the Non-Executive Directors, the Committee is chaired by Gerald Corbett (succeeding Prue Leith OBE), and is responsible for monitoring and reviewing the composition, balance and expertise of the Board and for reviewing and recommending appointments to the Board. Prospective appointments are considered by the Committee which agrees a detailed job description and the capabilities required for the role. The Committee generally engages external consultants to administer the search process, prepare a shortlist of potentially suitable candidates and to advise generally on prospective appointees. Only after a rigorous interview process is any appointment recommended to the Board. The terms of reference of the Committee are available on the Group's website. The meetings of the Nominations Committee are also the forum used by the Chairman to meet with the Non-Executive Directors without the executives present to discuss any concerns about the running of the Company.

During the year five Nominations Committee meetings were held. The Committee members attended as follows:

Nominations Committee	Attendance
Andrew Beeson	3
Gerald Corbett	5
Roger Jones	5
Prue Leith OBE	5

The Remuneration Committee

Comprising the Non-Executive Directors, the Committee is chaired by Andrew Beeson. The Committee's terms of reference are available on the Group's website. The Committee's aim is to ensure that the Executive Directors are rewarded for their contribution to the Group and motivated to enhance the return to shareholders. The Remuneration Committee is responsible, on behalf of the Board, for the Group's policy on the grant of share incentives to Executive Directors and other senior management as well as the specific remuneration and benefits packages for Executive Directors.

During the year three Remuneration Committee meetings were held. The Committee members attended as follows:

Remuneration Committee	Attendance
Andrew Beeson	3
Roger Jones	3
Prue Leith OBE	3

The Corporate Social Responsibility Committee

Further details can be found on page 13 and in the 2005 CSR report available on the Group's website www.woolworthsgroupplc.com.

Accountability and Audit

Going Concern

A statement in accordance with the going concern principle is included in the Financial Review on page 12.

Relations with Shareholders and Bondholders

The Company maintains an active dialogue with its investors through a planned programme of investor relations activities. This is a key component of its corporate communications programme and is headed by the Finance Director. The Chairman and Chief Executive also attend the majority of these shareholder meetings.

The investor relations programme includes formal presentations in the UK and overseas (where appropriate) on full-year and interim results. One-to-one meetings between institutional investors and senior management are also held regularly.

Feedback from these meetings (including the non-attributed views of major institutional shareholders) is reported back to the Board. The Company Secretary is also charged with bringing to the attention of the Board any material matters of concern raised by the Company's stakeholders, including private investors.

Communication with investors also takes place through the Annual and Interim Reports and via the Group website www.woolworthsgroupplc.com. In addition, the Annual General Meeting provides an important opportunity for communication with both institutional and private shareholders.

Corporate Governance continued

Internal Control

The Board of Directors has overall responsibility for the system of internal control and for reviewing its effectiveness throughout the Group. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The effectiveness of the Group's systems of internal control is reviewed by the Audit Committee on behalf of the Board.

The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile, and confirms that there is an ongoing process for identifying and evaluating the significant risks faced by the Group and the effectiveness of related controls. This process is regularly reviewed by the Audit Committee. The key procedures in place to enable this responsibility to be discharged are:

The Board of Directors

- has approved a set of policies, procedures and frameworks that are designed to facilitate the operation of effective internal control and which include the provision of quality internal and external reporting and compliance with applicable laws and regulations. These are periodically reviewed and updated;
- regularly reviews the Group's strategy and the strategies of the subsidiary companies;
- reviews and assesses the Group's key risks at least annually;
- reviews performance through a comprehensive system of reporting, based on an annual budget with monthly business reviews against actual results, analysis of variances, key performance indicators and regular forecasting;
- has well defined policies governing appraisal and approval of capital expenditure and treasury operations;
- seeks assurance that effective control is being maintained through regular reports from the Audit Committee and the Internal and External Audit functions.

Each Operating Company Board

- maintains systems for the continuous identification and evaluation of significant risks resulting from their strategies and their areas of the business;
- self certifies that it is clearly accountable for establishing and monitoring internal controls within its business, that processes are in place to provide reasonable assurance that material business risks are identified and managed appropriately, that internal controls have been effected and that they comply with the Group's policies; and reports on any control weaknesses or breakdown considered as material to the Group;
- reviews and monitors the effectiveness of the system of internal control through reports from the Group Internal and External Audit functions.

The Internal Audit Function

- is responsible for providing the Board with independent and objective assurance on the control environment across the Group and for ensuring that the subsidiary companies are subject to internal audit of the required quality.

These processes and organisational procedures enable the Directors to confirm that they have reviewed the effectiveness of the system of internal control.

Directors' Remuneration Report

for the financial year ended 29 January 2005

The following is a report by the Remuneration Committee which has been approved by the Board for submission to shareholders.

Composition and Terms of Reference

The Remuneration Committee consists of the independent Non-Executive Directors who are Andrew Beeson (Chairman), Prue Leith OBE and Roger Jones. Its composition and terms of reference are in line with the Combined Code. The Company complies with Section B of the Combined Code provisions on Directors' remuneration and in respect of the Remuneration Report content.

The Committee's aim is to ensure that the Executive Directors are rewarded for their contribution to the Group and are motivated to enhance the return to shareholders. The Remuneration Committee is responsible, on behalf of the Board, for setting the remuneration policy for Executive Directors. In addition, they have regard to pay and conditions for other employees in the Group especially the arrangements for Directors of subsidiaries who are not Directors of the Company.

The Committee is advised internally by the Human Resources Director of Woolworths plc and the Head of Group Reward. External advice was provided during the year by Towers Perrin in relation to salary benchmarking and the overall levels of remuneration packages in comparative companies. Towers Perrin was appointed by the Head of Group Reward on behalf of the Remuneration Committee. In addition to data provided by Towers Perrin, the Committee also took into account information from other remuneration surveys.

Remuneration Policy

The Committee continues to maintain a policy consistent with Group Reward Principles applied for all employees throughout the Group and in line with the Company's business objectives which:

- attracts, retains and motivates high calibre Directors;
- is appropriate to the Company, taking into account information from independent sources and from within the retail sector as well as other companies of a comparable size;
- aligns the interests of Directors and shareholders by linking share and cash incentives to performance;
- complies with best practice and comprises a mix of fixed and variable pay with longer-term incentives.

When comparing remuneration packages with those in other companies, particular regard is taken of companies in the FTSE 250 and other retailers.

The reward principles applied throughout the Group provide for basic salaries to be set at the median for a range of comparative companies with reward for performance aimed at delivering an overall package that is competitive. For Executive Directors the variable, performance-related remuneration (the Performance Share Plan and the Annual Incentive Plan), currently represents 40 per cent of the total package for 'on-target' performance.

Components of Remuneration

Basic Salary

Basic salary for each Director is reviewed annually in the context of market conditions affecting executive remuneration, affordability and the level of increases awarded to staff throughout the Group. Basic salary levels are generally set at not more than the median for a range of comparative companies.

Benefits

In addition to salaries and the items described below, the Company provides a range of competitive benefits including pension, a fully-expensed car (or non-pensionable cash allowance) and private medical insurance.

Service Contract

The policy of the Committee is that notice periods should be set at not more than 12 months. No Executive Director has a service contract with a notice period longer than 12 months.

Bonus

For Executive Directors and Directors of subsidiaries, the Woolworths Group Annual Incentive Plan (AIP) applied during the year (see page 21). Gerald Corbett, the Chairman, is not entitled to participate in the AIP. Bonuses are non-pensionable.

Incentives and bonuses

Executive Share Option Schemes

Following the adoption of new incentive plans at the Annual Meeting in 2004, the Company no longer grants share options under the Woolworths Group plc 2002 Executive Share Option Scheme.

Options were granted in March 2004 under the 2002 Executive Scheme. These were half-yearly grants set at 35 per cent of salary for Senior Executives, 42.5 per cent of salary for Directors of subsidiary companies and at 50 per cent of salary for Executive Directors of the Company.

Directors' Remuneration Report continued

for the financial year ended 29 January 2005

Incentives and bonuses continued

Executive Share Option Schemes continued

For the options granted in March 2004, the performance targets declared in the 2003 Directors' Remuneration Report apply. Fully diluted, adjusted Earnings Per Share (EPS) must increase by 6 per cent per annum (commencing with the Company's financial year immediately prior to the date of grant) in addition to the increase in the Retail Prices Index (RPI) over a three-year period in order for the option to be exercised in full. If this is not achieved, growth in EPS of 5 per cent per annum plus RPI over the same period is required in order for up to 50 per cent of the option to be exercised. If either of these targets is not met after the first three-year period there will be a retest one year later over a four-year period, from the same base, and the same proportion of the option will be available for exercise. If neither of the targets has been achieved after four years the option will lapse. The Committee believes that using EPS as the performance measure is consistent with the Company's strategy to grow profits at this stage in its development. EPS is a measure used by the majority of companies of similar size and provides a simple calculation which is clear to all interested parties.

In the event of a change of control of the Company, the performance conditions will not be automatically waived. A minimum target of an increase in EPS of 2 per cent per annum (in addition to the increase in RPI) will normally have to be met. The option will normally be exercisable only in proportion to the number of months that have elapsed from grant to the date of early exercise against a total of 36 months.

A limit of 5 per cent (of the total issued share capital) on the number of new shares that can be issued to satisfy executive options granted under Executive Share Schemes applies over a ten-year period. At the year-end outstanding share options represented 4.9 per cent of the total issued share capital.

Savings-Related Share Options

A savings-related share option scheme (ShareSave) is open to all eligible employees in the UK. The fourth grant of options under ShareSave was made in May 2004 and it is intended that options will be granted annually under this arrangement provided the scheme continues to provide a cost-effective method of enabling employees to share in the success of the Group. The Committee is aware of the changes to the accounting treatment of employee share options and will review the operation of ShareSave during the next year.

Woolworths Group Incentive Plan

The Woolworths Group Incentive Plan (WIP) has been replaced by the Annual Incentive Plan described below. For the year ended 31 January 2004, Executive Directors had an opportunity to defer receipt of their declared bonus for three years, at the completion of which it is matched by 25 per cent in shares which are purchased in the market at the time of the election to defer. The matching share awards made to Executive Directors are shown on page 24.

The Woolworths Group Annual Incentive Plan

This Plan was adopted at the Annual General Meeting in 2004. Executive Directors, Directors of subsidiaries and other senior employees participate in the Plan. It operates on an annual basis and participants do not participate in any other annual bonus schemes.

The Plan provides for two types of Award:

- a Cash Award, which will be paid after the end of the financial year and which, for Executive Directors will be based on the achievement of financial targets and meeting personal objectives. The principal financial target is Group profit and, if the relevant profit target is not met, no award will be made for that portion of the Award. If profits exceed the relevant targets then a greater percentage of bonus will be paid. Penalties apply if stock and cash targets are not met. For Executive Directors the Cash Award for achieving target performance will be 20 per cent of salary rising to a maximum of 40 per cent for exceptional performance;
- a Share Award, which will be made after the end of the financial year and which will be based on the achievement of Group financial targets. For Executive Directors the Share Award for achieving target performance will be 30 per cent of salary rising to a maximum of 60 per cent for exceptional performance. Shares comprised in a Share Award will be held in an employee share trust for a vesting period of three years. At the end of the vesting period a multiplier will be applied if a performance target is met. For on-target performance the multiplier for Executive Directors will be 1.3 rising to a maximum of two for exceptional performance. If a participant leaves the Company during the vesting period no multiplier will apply. On a change of control of the Company the Committee will determine whether the multiplier will apply taking into account the performance from the Award date to the date on which the change of control occurs. The Company does not intend to issue any new shares for this Plan.

The Committee considers it important that Directors and senior employees focus on delivering annual targets set each year. Cash Awards and Share Awards are based on the achievement of these targets. The performance measure for the multiplier is growth in fully diluted adjusted Earnings Per Share (EPS) for the Company.

Awards for the year ended 29 January 2005

Awards are earned for the achievement of profit targets based on budgets and compared with broker estimates. The Group profit was lower than the median of expectations and the Cash Award for Executive Directors is 16 per cent of salary with a supplementary 15 per cent payment to reflect awards made in the entertainment and publishing division following this year's strong performance.

Share Awards at 10 per cent of salary are due to all participants. For Executive Directors this may increase by a multiplier of 1.3 if EPS growth over three years is 6 per cent per annum (in addition to the increase in the Retail Prices Index) rising to a maximum of two if EPS growth over three years is 12 per cent per annum (in addition to the increase in the Retail Prices Index). No extra shares will be awarded if EPS growth over three years is less than 6 per cent per annum and there will be no retesting if this is not achieved. These awards will be made following the announcement of the results for that year.

Directors' Remuneration Report continued

for the financial year ended 29 January 2005

Incentives and bonuses continued

The Woolworths Group Annual Incentive Plan continued

Awards for the year ending 28 January 2006

For the Cash Award the main financial target will again be profits based on budgets and broker estimates. For Executive Directors this will be Group Profit whilst for other participants it will be a mixture of Group and operating company profits. Up to 10 per cent of salary may be awarded for achievement of personal objectives. Penalties will apply if stock and cash targets are not met.

Share Awards, to be made after the end of the financial year, will also be based on the achievement of Group profit targets with additional shares awarded on the basis described above.

In the event of a change of control of the Company, the Committee may consider it appropriate to waive the performance targets for the Chief Executive's Awards so that the Chief Executive receives a cash bonus of up to 100 per cent of salary in lieu of any other Cash or Share Award that may be payable for that year under the Plan.

The Woolworths Group Performance Share Plan

This Plan was also adopted at the Annual General Meeting in 2004. Executive Directors and Directors of subsidiaries participate in this Plan. It provides for participants to receive an Award of Shares every six months, after the announcement of annual and half-yearly results. For Executive Directors the value of the shares comprised in each Award will be equal in value to 20 per cent of basic salary at the date the Award is made. The shares will be held in an employee trust for a vesting period of three years. For exceptional performance the Award may increase to 50 per cent of salary.

The Committee has decided that fully diluted, adjusted Earnings Per Share (EPS) is the most appropriate performance measure. It is a clearly understood, published figure, which strips out the effect of exceptional items. By using a single consistent measure for annual and long-term incentives the participants will be focused on delivering forecast profit targets. The growth in EPS will be calculated in addition to the increase in the Retail Prices Index and no Award will vest unless the growth in EPS is 6 per cent per annum or more. Targets for the Awards to be made to Executive during the 2006 financial year will be as follows:

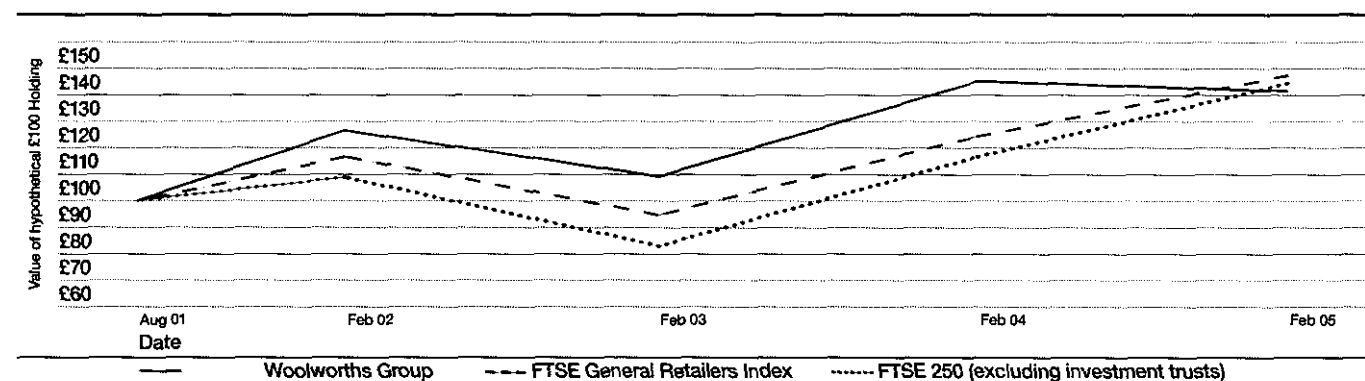
Increase in EPS	Award (as a % of salary)
Less than 6%	nil
6%	10%
8%	20%
10%	30%
12%	40%
15%	50%

There will be no retesting after the three-year performance period. The Company does not intend to issue any new shares for this Plan.

Awards made to Executive Directors during the year to 29 January 2005 are shown on page 25.

Performance Graph

The Committee is required to include a graph showing the Total Shareholder Return (TSR) for the Company against an appropriate index. The Committee has decided that the Index of General Retailers is appropriate and for further comparison, the TSR for companies in the FTSE 250 is also shown.



Average taken over the 30 trading days since flotation on 28 August 2001, other points based on average over the 30 trading days prior to the year-end.

Directors' Remuneration Report continued

for the financial year ended 29 January 2005

Service Contracts

Summary	Effective date of contract	Notice period from Director	Notice period from Company	Provision for compensation on early termination
Director				
Gerald Corbett (Chairman)	01/07/02	6 months	12 months	see below
Trevor Bish-Jones	18/03/02	6 months	12 months	see below
Christopher Rogers	27/07/01	6 months	12 months	see below

Mr Corbett is the Chairman of the Company working on a part-time basis and receives an annual fee of £165,000 plus the use of a company car. The service agreement of Mr Corbett can be terminated by the Company giving 12 months' written notice and by Mr Corbett giving six months' written notice. There are no special terms that apply on early termination.

The service agreement of the Chief Executive, Trevor Bish-Jones, can be terminated by the Company giving 12 months' written notice and by Mr Bish-Jones giving six months' written notice. There are no special terms that apply on early termination.

Christopher Rogers gave notice to resign as a Director with effect from 24 March 2005.

The service agreements of Executive Directors also contain post-termination restrictive covenants and a provision which permits the Company either to require the Director to perform duties outside the Director's normal duties or not to provide the Director with work during the notice period.

Directors' Interests in Shares

The Directors who held office at 29 January 2005 had, at that date, the following interests in the shares of the Company:

	2005 Ordinary shares	2004 Ordinary shares
Andrew Beeson	200,000	100,000
Trevor Bish-Jones	416,666	416,666
Gerald Corbett	500,000	500,000
Roger Jones	139,011	134,530
Prue Leith OBE	15,350	15,350
Christopher Rogers	200,287	200,287

There have been no changes in Directors' interests in shares since the year-end.

Auditable information

The following information has been audited by the Company's auditors, as required by Schedule 7A to the Companies Act 1985.

Non-Executive Directors

Non-Executive Directors' remuneration consists of an annual fee for their services as members of the Board and of selected Committees.

They do not have service contracts but instead have letters of appointment for a three-year period until 31 May 2007. Non-Executive Directors' remuneration is determined by the Board.

Directors' Remuneration

For the year	Salary £'000	Pension supplement £'000	Bonus £'000	Benefits £'000	2005 Total £'000	2004 Total £'000
Executive						
Gerald Corbett (Chairman)	158	32		18	208	199
Trevor Bish-Jones	460		148	23	631	658
Christopher Rogers	308		101	21	430	458
Total	926	32	249	62	1,269	1,315
Non-Executive						
Andrew Beeson	36				36	32
Roger Jones	36				36	32
Prue Leith OBE	36				36	32
Total	108				108	96

Note:

Benefits incorporate taxable benefits relating to the provision of a company car (or cash allowance) and the cost of medical insurance for each Director.

Directors' Remuneration Report continued

for the financial year ended 29 January 2005

Directors' Share Options

Executive Share Option Schemes	Date of grant	At start of year	Number of options				Option exercise price pence	Date from which exercisable	Expiry date
			Granted during year	Exercised during year	Lapsed during year	At end of year			
Trevor Bish-Jones	24/04/02	60,000				60,000	50.0	24/04/05	23/04/12
	24/04/02	2,040,000				2,040,000	50.0	24/04/05	23/04/12
	11/09/02	595,238				595,238	31.5	11/09/05	10/09/12
	27/03/03	655,738				655,738	30.5	27/03/06	26/03/13
	11/09/03	505,747				505,747	43.5	11/09/06	10/09/13
	25/03/04		530,120			530,120	41.5	25/03/07	24/03/14
Total		3,856,723	530,120	-	-	4,386,843			
Christopher Rogers	26/09/01	2,213,114				2,213,114	30.5	26/09/04	25/09/11
	24/04/02	265,000				265,000	50.0	24/04/05	23/04/12
	11/09/02	444,444				444,444	31.5	11/09/05	10/09/12
	27/03/03	98,361				98,361	30.5	27/03/06	26/03/13
	27/03/03	360,655				360,655	30.5	27/03/06	26/03/13
	11/09/03	333,333				333,333	43.5	11/09/06	10/09/13
	25/03/04		349,397			349,397	41.5	25/03/07	24/03/14
Total		3,714,907	349,397	-	-	4,064,304			

Notes:

Mr Bish-Jones received an Inland Revenue Approved Share Option over 60,000 shares at 50 pence per share on 24 April 2002 and Mr Rogers received an Inland Revenue Approved Share Option over 98,361 shares at 30.5 pence per share on 27 March 2003. All other share options are unapproved.

The performance target for the option granted to Christopher Rogers on 26 September 2001 was not met in September 2004. In accordance with the rules of the 2001 Executive Share Option Scheme a retest will be made in March 2005.

The market price of the Company's shares on Friday 28 January 2005 was 40.5 pence and the range of closing prices during the year was 36.75 pence to 46.5 pence.

ShareSave	Date of grant	At start of year	Number of options				Option exercise price pence	Date from which exercisable	Expiry date
			Granted during year	Exercised during year	Lapsed during year	At end of year			
Trevor Bish-Jones	27/05/03	10,956				10,956	34.5	01/08/06	31/01/07
	28/05/04		9,308			9,308	40.5	01/08/07	31/01/08
Total		10,956	9,308	-	-	20,264			
Christopher Rogers	23/10/01	6,229				6,229	30.5	01/12/04	01/06/05
	06/06/02	3,725				3,725	51.0	01/08/05	01/02/06
	27/05/03	10,956				10,956	34.5	01/08/06	31/01/07
	28/05/04		4,654			4,654	40.5	01/08/07	31/01/08
Total		20,910	4,654	-	-	25,564			

Directors' Share Awards

Number of shares						Award price per share pence	Date from which restrictions lift
	Date of awards	At start of year	Awarded in year	Lapsed during year	Balance at year-end		
Woolworths Group Incentive Plan							
Trevor Bish-Jones	31/03/03	77,519			77,519	32.25	31/03/06
	31/03/04		119,563		119,563	40.5	31/03/07
Total		77,519	119,563	-	197,082		
Christopher Rogers	31/03/02	42,033			42,033	45.8	31/03/05
	31/03/03	46,667			46,667	32.25	31/03/06
	31/03/04		41,070		41,070	40.5	31/03/07
Total		88,700	41,070	-	129,770		

Directors' Remuneration Report continued

for the financial year ended 29 January 2005

Woolworths Group Performance Share Plan	Date of award	At start of year	Number of shares			Award price per share pence	Vesting date
			Awarded in year	Lapsed during year	Balance at year-end		
Trevor Bish-Jones	09/09/04	-	218,182	-	218,182	44.0	09/09/07
Total		-	218,182	-	218,182		
Christopher Rogers	09/09/04	-	147,727	-	147,727	44.0	09/09/07
Total		-	147,727	-	147,727		

Note:

The awards shown above assume that the target growth in EPS of 8 per cent per annum for three years will be met. In accordance with the rules of the Plan the number of shares that will vest for Trevor Bish-Jones will range between 109,091 shares for EPS growth at 6 per cent per annum to 545,455 for EPS growth of 15 per cent per annum or more over three years. If EPS growth is less than 6 per cent per annum the awards will not vest. The number of shares that will vest for Christopher Rogers will range between 73,864 shares for EPS growth at 6 per cent per annum to 369,317 for EPS growth of 15 per cent per annum or more over three years.

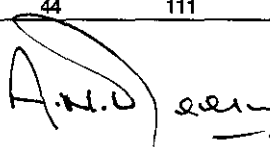
Pensions

Pensions and life assurance benefits are provided under the Woolworths Group Pension Scheme (a defined benefit arrangement). During the year ended 29 January 2005 life assurance in excess of the earnings cap was provided for Trevor Bish-Jones. Contributions at 22 per cent of the difference between his basic annual salary and the earnings cap have been made directly to the Woolworths Group Supplementary Pension Scheme, a funded unapproved defined contribution retirement benefits scheme. A total of £78,870 (2004: £48,547) was paid into this scheme. Christopher Rogers was not subject to the earnings cap. Gerald Corbett is not entitled to participate in the Woolworths Group Pension Scheme but is provided with a supplement of 20 per cent of his basic annual salary.

The table below shows, as at the year-end, the accrued pension should the Director leave employment; the increase in the accrued pension during the year; the increase excluding inflation and member contributions; the transfer value of accrued pension and any increase/(decrease) in this value assessed on the transfer value basis of the Woolworths Group Pension Scheme. This disclosure is in compliance with both the Stock Exchange Listing Rules and the Directors' Remuneration Report Regulations 2002.

	Age	Accrued annual pension at 29 January 2005 £'000	Director's contributions during the year £'000	Increase in accrued pension during the year £'000	Increase in accrued pension (net of inflation) £'000	Transfer value of increase (net of inflation and director's contributions) £'000	Transfer value of accrued pension at 29 January 2005 £'000	Transfer value of accrued pension at 31 January 2004 £'000	Increase in transfer value (net of director's contributions) £'000
Trevor Bish-Jones	44	5	7	2	2	6	37	21	9
Christopher Rogers	44	111	21	12	9	47	867	673	173

On behalf of the Board



Andrew Beeson
Chairman of the Remuneration Committee
22 March 2005

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently, with the exception of the changes arising on the adoption of new accounting standards as explained on page 31 under 'Accounting Policies';
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonable to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Financial information is published on the Company's website. The maintenance and integrity of this website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may occur to the financial statements after they are initially presented on the website.

It should be noted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Woolworths Group plc

We have audited the financial statements which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Statement of Total Recognised Gains and Losses, the Group Cash Flow Statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating Review, the Financial Review, the Corporate Social Responsibility report and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or the Group's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

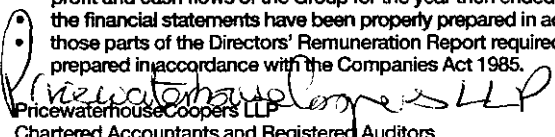
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 29 January 2005 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 March 2005

Group Profit and Loss Account

for the 52 weeks to 29 January 2005

				2005	2004
	Note	Before exceptional items £m	Exceptional items £m	Total £m	Total £m
Turnover – Group and share of joint ventures					
Continuing operations	3	2,897.1	–	2,897.1	2,795.1
Less: share of joint venture's turnover		(41.9)	–	(41.9)	(20.4)
Group turnover		2,855.2	–	2,855.2	2,774.7
Cost of sales		(2,099.2)	(17.3)	(2,116.5)	(1,995.9)
Gross profit		756.0	(17.3)	738.7	778.8
Selling expenses		(568.8)	–	(568.8)	(578.8)
Administrative expenses		(134.1)	(43.6)	(177.7)	(138.4)
Other operating income		15.7	–	15.7	14.1
Group operating profit	4	68.8	(60.9)	7.9	75.7
Share of operating profit in joint ventures after amortisation of goodwill of £0.9 million		10.2	–	10.2	1.2
Total operating profit – Group and share of joint ventures		79.0	(60.9)	18.1	76.9
Net interest payable	5	(8.8)	–	(8.8)	(10.2)
Profit on ordinary activities before taxation	3, 7	70.2	(60.9)	9.3	66.7
Taxation on profit on ordinary activities	8	(21.5)	14.4	(7.1)	(20.6)
Profit on ordinary activities after taxation		48.7	(46.5)	2.2	46.1
Equity minority interest		(0.2)	–	(0.2)	(0.1)
Profit for the financial year		48.5	(46.5)	2.0	46.0
Dividends payable to shareholders	9	(5.4)	–	(5.4)	(21.2)
(Loss)/retained profit for the financial year		43.1	(46.5)	(3.4)	24.8
Earnings per share (pence)					
Basic	10			0.1	3.3
Diluted	10			0.1	3.3
Basic – adjusted*	10			3.6	3.5
Diluted – adjusted*	10			3.6	3.5

* Adjusted earnings per share is calculated before operating exceptional items and amortisation of acquisition goodwill.

There is no material difference between the profit on ordinary activities before taxation and the loss for the financial year and their historical cost equivalents.

All results relate to continuing operations.

Group Statement of Total Recognised Gains and Losses

for the 52 weeks to 29 January 2005

	Note	2005 £m	2004 £m
Profit for the financial year		2.0	46.0
Unrealised gain arising on subsidiary transferred in exchange for share in joint venture	13(b)	4.1	–
Total gains recognised		6.1	46.0

Balance Sheet

at 29 January 2005 and 31 January 2004

			Group Restated		Company Restated
	Note	2005 £m	2004 £m	2005 £m	2004 £m
Fixed assets					
Intangible fixed assets	11	12.0	58.7	-	-
Tangible fixed assets	12	312.1	323.7	-	-
Investments – other investments	13(a)	-	-	200.0	200.0
– associates	13(b)	0.2	0.2	-	-
– joint ventures	13(b)	56.9	-	-	-
comprising – share of gross assets		49.2	12.0	-	-
– share of gross liabilities		(43.5)	(12.0)	-	-
– goodwill		51.2	-	-	-
		381.2	382.6	200.0	200.0
Current assets					
Stocks – finished goods		371.1	363.4	-	-
Debtors	14	148.8	166.3	371.4	367.1
Cash at bank and in hand	15	208.4	155.2	274.0	181.6
		728.3	684.9	645.4	548.7
Creditors due within one year	16	(499.1)	(483.9)	(430.8)	(421.4)
Net current assets		229.2	201.0	214.6	127.3
Total assets less current liabilities		610.4	583.6	414.6	327.3
Creditors due after one year	17	(99.6)	(98.5)	(99.1)	(98.5)
Provisions for liabilities and charges	25	(46.0)	(27.8)	-	(0.1)
Net assets	3	464.8	457.3	315.5	228.7
Capital and reserves					
Called up share capital	26, 27(a)	179.4	176.6	179.4	176.6
Share premium reserve	27(a)	5.2	1.2	5.2	1.2
Demerger reserve	27(a)	24.1	24.1	24.1	24.1
Revaluation reserve	27(a)	3.0	3.1	-	-
Profit and loss account	27(a)	253.1	252.1	106.8	26.8
Equity shareholders' funds	27(b)	464.8	457.1	315.5	228.7
Equity minority interests		-	0.2	-	-
		464.8	457.3	315.5	228.7

The prior year comparative has been restated following the adoption of Urgent Issues Task Force, Abstract 38 (UITF 38) 'Accounting for ESOP Trusts'.

Approved by the Board on 22 March 2005

Christopher Rogers
Finance Director

Gerald Corbett
Chairman

Gerald Corbett

Group Cash Flow Statement

for the 52 weeks to 29 January 2005

		2005		2004
	Note	£m	£m	Restated £m
Cash flows from operating activities				
Net inflow from operating activities	28(a)		162.2	113.0
Dividends received from joint ventures			6.0	1.6
Returns on investments and servicing of finance				
Interest received		3.0		1.8
Debt issue costs		–		(1.0)
Interest paid		(11.4)		(11.6)
Net cash outflow from returns on investments and servicing of financing			(8.4)	(10.8)
Taxation paid			(14.2)	(16.8)
Capital expenditure and financial investment				
Costs associated with the formation of joint venture		(1.7)		–
Purchase of tangible fixed assets		(72.0)		(51.6)
Proceeds from sale of tangible fixed assets		–		0.5
Net cash outflow for capital expenditure and financial investment			(73.7)	(51.1)
Acquisitions and disposals				
Purchase of associate undertaking		–		(0.2)
Cash foregone with sale of subsidiary		(0.4)		–
Cash acquired with subsidiary acquisition		–		0.2
Net cash outflow for acquisitions and disposals			(0.4)	–
Equity dividends paid			(21.5)	(19.2)
Cash inflow before use of liquid resources and financing			50.0	16.7
Management of liquid resources				
Decrease in short-term deposits with banks			0.7	0.7
Financing				
Movement in short-term loan notes		–		(0.2)
Issue of share capital		6.8		1.6
Net movement of own shares held		0.2		(0.1)
Net cash inflow from financing			7.0	1.3
Increase in cash in the period	28(b)		57.7	18.7

The prior year comparative has been restated following the adoption of Urgent Issues Task Force, Abstract 38 (UITF 38) 'Accounting for ESOP Trusts'.

Notes to the Accounts

1. Basis of Preparation and Consolidation

The financial statements of the Company and its subsidiaries are made up to the nearest Saturday to 31 January each year. The financial year for 2005 represents the 52 weeks ended 29 January 2005. The comparative financial year for 2004 was the 52 weeks ended 31 January 2004.

A separate Company Profit and Loss Account dealing with the results of Woolworths Group plc (the Company) has not been presented, as permitted by Section 230 of the Companies Act 1985.

2. Accounting Policies

Accounting Conventions

The financial statements of the Company and its subsidiaries are prepared under the historical cost convention, except for certain land and buildings that are included in the financial statements at valuation, and are prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985. These financial statements reflect the adoption of Urgent Issues Task Force, Abstract 38 (UITF 38) 'Accounting for ESOP Trusts'. UITF 17 (Revised) 'Employee Share Schemes' has also been adopted, although no changes are required to the financial statements.

Basis for Consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiary undertakings, joint ventures and associated undertakings. Goodwill represents the excess of the purchase consideration over the fair value of attributable net assets at the date of acquisition. Joint ventures are accounted for using the gross equity method.

Turnover

Turnover represents the amounts receivable by the Group for goods and services supplied to customers, net of discounts and adjustments for sales or return sales and VAT. Turnover is recognised when the risks and rewards of the underlying products and services have been substantially transferred to the customer.

Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies which are held at the year-end are translated into sterling at year-end exchange rates. Exchange differences on monetary items are taken to the Profit and Loss Account.

Goodwill and Intangible Assets

Intangible assets, which comprise goodwill arising on acquisitions and acquired licences and copyrights, are stated at cost less amortisation. Goodwill is the excess of purchase consideration over the fair value of net assets acquired. Purchased goodwill arising on acquisitions is treated as an asset on the Balance Sheet and is amortised on a straight-line basis over its useful economic life (not exceeding 20 years).

In estimating the useful economic life of goodwill arising, account is taken of the nature of the business acquired, the stability of the industry, the extent of continuing barriers to market entry and expected future impact of competition. With the exception of Streets Online Limited which has been fully provided for, all acquisitions are considered by the Directors to have an estimated useful economic life of 20 years.

Acquired intellectual property rights, licences and copyrights are amortised over the period of the underlying legal agreements, which do not exceed 20 years.

Depreciation

Tangible fixed assets are stated at cost/valuation less accumulated depreciation. Depreciation of tangible fixed assets is provided where it is necessary to reflect a reduction from book value to estimated residual value over the estimated useful life of the asset to the Group.

Depreciation of tangible fixed assets is calculated by the straight-line method and the annual rates applicable to the principal categories are:

Freeholds	- 2 per cent
Long leaseholds	- 5 per cent
Short leaseholds	- over the life of the lease
Tenant's improvements	- shorter of ten years and the remaining life of the store lease
Fixtures and fittings	- between 10 per cent and 15 per cent
Computers and electronic equipment	- between 20 per cent and 50 per cent
Motor cars	- 25 per cent
Commercial vehicles	- 33 1/3 per cent

As permitted by Financial Reporting Standard 15 'Tangible Fixed Assets' the Group has adopted a policy of not revaluing freehold properties and previously revalued freehold properties are included at their valuation less accumulated depreciation.

Impairment of Fixed Assets and Goodwill

For acquired goodwill an impairment review is carried out at the end of the first full year following an acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by comparison of the carrying value of the asset against the higher of net realisable value or value in use. The value in use is determined from estimated discounted future cash flows. Discount rates used are based on the circumstances of the individual businesses.

Notes to the Accounts continued

Disposal of Land and Buildings

Profits and losses on disposal of land and buildings represent the difference between the net proceeds and the net carrying value at the date of sale. Sales are accounted for when there is an unconditional exchange of contracts or where the completion cannot be unreasonably withheld.

Operating Leases

All operating lease payments are charged to the Profit and Loss Account on a straight line basis over the life of the lease.

Finance Leases

Assets funded through finance leases are capitalised as fixed assets and depreciated in accordance with the policy for the class of asset concerned. The resulting lease obligations are included in creditors net of finance charges. Interest costs on finance leases are charged to the profit and loss account.

Stocks

Stocks, which solely comprise finished goods, are stated at the lower of cost and net realisable value. Cost includes appropriate attributable overheads. Provisions are made for obsolescence, mark-down and shrinkage.

Rebates Receivable from Suppliers

Volume related rebates receivable from suppliers are credited to the carrying value of the stock to which they relate. Where a rebate agreement with a supplier covers more than one year the rebates are recognised in the period in which they are earned.

Pensions

Companies within the Group offer either a defined benefit scheme or facilitate a Stakeholder arrangement for employees. The defined benefit scheme is a separate fund and is being held in a separately administered trust to meet the actuarial liabilities. The estimated costs of pensions in respect of the defined benefit scheme are charged to the profit and loss account so that they are spread over the working lives of employees. Variations to pension costs arising at each actuarial valuation date caused by differences between the assumptions used and actual experience are spread over the average future working lifetime of employees. Further details which also include the Group's adoption of the transitional arrangements for Financial Reporting Standard 17 'Retirement Benefits' are provided in note 29.

Deferred Taxation

Provision is made for deferred taxation using the full provision method in accordance with Financial Reporting Standard 19 'Deferred Taxation'. A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing difference can be deducted. Deferred tax is not discounted.

Derivative Financial Instruments

Financial assets are recognised on the Balance Sheet at the lower of cost and net realisable value. Discounts and premia are charged or credited to the Profit and Loss Account over the life of the asset or liability to which they relate.

Derivative financial instruments are accounted for by using hedge accounting to the extent that they are held to hedge a financial asset or liability. Where such instruments do not hedge an underlying asset or liability, they are accounted for using fair value accounting.

When a financial instrument ceases to be a hedge, either as a result of the underlying asset or liability being extinguished, or because a future event is no longer likely to occur, the instrument will thereafter be marked to its fair value in the financial statements.

Income and expenditure arising on financial instruments for hedging purposes is recognised on an accruals basis, and credited or charged to the Profit and Loss Account in the financial period in which it arises.

Gains or losses on financial instruments accounted for on a fair value basis are reflected in the Profit and Loss Account as they arise.

ESOP

The Group's Employee Share Ownership Plan ('ESOP') is a separately administered trust. Liabilities of the ESOP are guaranteed by the Company and the assets of the ESOP mainly comprise shares in the Company. In accordance with Urgent Issues Task Force Abstract 13 'Accounting for ESOP Trusts', the assets, liabilities, income and costs of the ESOP have been included in the accounts of the Company.

Notes to the Accounts continued

3. Segmental Analysis

The Group's business is divided into Retail and Entertainment Wholesale and Publishing segments. Woolworths, MVC, Streets Online and Flogistics are included within the Retail segment with Entertainment UK, VCI and 2entertain making up Entertainment Wholesale and Publishing.

Turnover

Group turnover arises in the UK only and represents retail and wholesale distribution sales and other services. Turnover excludes Value Added Tax.

The analysis of turnover by destination is not materially different to the analysis of turnover by origin.

	2005 £m	2004 Restated £m
(a) Turnover by origin		
Retail		
Group	2,262.3	2,284.9
Joint venture	12.1	20.4
	2,274.4	2,305.3
Entertainment Wholesale and Publishing		
Group	1,216.3	1,165.2
Joint venture	29.8	-
	1,246.1	1,165.2
Intergroup*	(623.4)	(675.4)
Turnover – Group and share of joint ventures	2,897.1	2,795.1

* Intergroup relates to trading between Group segments.

Group share of joint venture turnover has been restated to reflect third party sales only.

On 26 September 2004 the Group acquired the remaining shareholding in Flogistics Limited. As a result Flogistics has been included as a subsidiary from that date.

	Before exceptional items £m	Operating exceptional items £m	2005 Total £m	2004 Total £m
(b) Profit on ordinary activities before taxation				
Retail				
Group	40.7	(60.9)	(20.2)	45.0
Joint venture	-	-	-	1.2
	40.7	(60.9)	(20.2)	46.2
Entertainment Wholesale and Publishing				
Group	38.2	-	38.2	42.2
Joint venture after goodwill amortisation (£0.9 million)	10.2	-	10.2	-
	48.4	-	48.4	42.2
Common costs	(10.1)	-	(10.1)	(11.5)
Total operating profit	79.0	(60.9)	18.1	76.9
Net interest payable	(8.8)	-	(8.8)	(10.2)
Profit on ordinary activities before taxation	70.2	(60.9)	9.3	66.7

Common costs before exceptional items relate to the Group's Corporate Centre, amortisation of acquisition goodwill on subsidiaries of £2.0 million (2004: £3.1 million) and other consolidation adjustments.

	2005 £m	2004 Restated £m
(c) Net assets		
Retail	445.7	447.7
Entertainment Wholesale and Publishing*	196.0	170.2
Woolworths Group	(176.9)	(160.6)
Total Group	464.8	457.3

* The only net assets relating to joint ventures (£56.9 million) are shown within the Entertainment Wholesale and Publishing segment (2004: £nil).

Notes to the Accounts continued

4. Operating Exceptional Items

Operating exceptional costs total £60.9 million (2004: £nil) and are analysed as follows:

	2005 £m	2004 £m
Stock disposals and store clearance	(17.3)	-
Disposal of leases and reconfiguration of the out-of-town estate	(37.6)	-
Other	(6.0)	-
Total operating exceptional items	(60.9)	-

In March 2004, the Group announced that Woolworths big W as traded from its existing portfolio did not represent a secure source of long-term profitability. As a result a number of stores have been disposed of and in others excess space has been vacated, cut down or are in the process of being sold and/or vacated.

Stock disposals and store clearance costs relate to the write-down of stock to net realisable value.

Disposal of leases and reconfiguration of the out-of-town estate includes provision for any void periods, surrender costs, asset impairments (see note 12) and other transaction costs net of proceeds on disposal.

Other includes redundancy and refurbishment costs associated with the out-of-town stores.

The tax effect of these operating exceptional costs in aggregate is a £14.4 million credit (2004: £nil).

The cash effect of the operating exceptional items is a £3.1 million outflow in this period (2004: £nil).

5. Net Interest Payable

	2005 £m	2004 £m
Interest receivable	3.2	1.8
Payable on bank loans, overdrafts and term loans:		
Repayable within five years	(11.3)	(11.3)
Amortisation of bond issue costs	(0.7)	(0.7)
Total net interest payable	(8.8)	(10.2)

The Group's share of interest payable relating to joint ventures included above was £0.2 million (2004: £0.1 million).

6. Employees and Directors

	2005 £m	2004 £m
Wages and salaries	322.2	316.7
Social security costs	17.9	17.3
Other pension costs	16.6	18.0
Total employment costs	356.7	352.0

The average number of employees in the Group was 34,092 (2004: 34,847) analysed as 31,206 (2004: 31,765) store based staff, 1,032 (2004: 998) distribution staff and 1,854 (2004: 2,084) administration staff. The full-time equivalent employees in the Group was 20,233 (2004: 20,757).

Directors' Remuneration

A detailed analysis of Directors' remuneration, including salaries, performance-related bonuses and long-term incentives, is provided in the Directors' Remuneration Report on pages 20 to 25. A summary of the total remuneration of the Directors is comprised as follows:

	2005 £m	2004 £m
Directors' salaries and taxable benefits	1.1	1.1
Bonuses and long-term incentives	0.3	0.3
Total Directors' remuneration	1.4	1.4

Notes to the Accounts continued

7. Profit on Ordinary Activities Before Taxation

	2005 £m	2004 £m
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Operating leases:		
Land and buildings	149.9	147.4
Machinery and equipment	5.5	5.6
Depreciation of tangible fixed assets:		
Owned assets	54.4	56.4
Loss on the disposal of fixed assets	3.3	2.1
Net income from property portfolio transactions	(4.0)	(6.9)
Amortisation of acquisition goodwill – subsidiary	2.0	3.1
Amortisation of acquisition goodwill – joint venture	0.9	–
Amortisation of other intangible assets	0.8	1.9
Auditors' remuneration for audit:		
To PricewaterhouseCoopers LLP (Company £0.1m; 2004: £0.1m)	0.3	0.4
Auditors' remuneration for non-audit services	0.1	0.1

Total fees paid to PricewaterhouseCoopers LLP for non-audit services in the year were £0.4 million (2004: £0.3 million) relating to accounting services and support of which £0.1 million has been charged to the profit and loss account in the year and £0.3 million has been capitalised in respect of costs relating to the formation of joint venture.

These numbers exclude the operating exceptional items which are disclosed in note 4.

8. Taxation on profit on ordinary activities

(a) Analysis of charge in the year

	Note	2005 £m	2004 £m
UK Corporation tax			
Current tax			
UK corporation tax charge on profits for the year		(8.6)	(22.7)
Share of joint venture's tax charge		(3.4)	(0.5)
Adjustments in respect of prior periods		1.8	3.6
		(10.2)	(19.6)
Foreign tax charge on profits/(losses) for the year		(0.6)	(0.5)
Total current tax	8(b)	(10.8)	(20.1)
Current year deferred tax movement	25	3.7	(0.5)
Total taxation		(7.1)	(20.6)

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher (2004: higher) than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	Note	2005 £m	2004 £m
Profit on ordinary activities before tax		9.3	66.7
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent (2004: 30 per cent) to give expected charge		(2.8)	(20.0)
Effects of:			
Expenses not deductible for tax purposes		(6.3)	(3.1)
Capital allowances in excess of depreciation and other timing differences		(3.7)	(1.1)
Utilisation of tax losses		0.2	0.5
Adjustment to tax charge in respect of previous periods		1.8	3.6
Current tax charge for the year	8(a)	(10.8)	(20.1)

(c) Factors that may affect future tax charges

Following the formation of the 2entertain joint venture, the remaining unrecognised deferred tax asset on tax losses arising in earlier years of approximately £2.0 million (2004: £2.2 million) is considered to be no longer available.

Notes to the Accounts continued

9. Dividends

	2005 £m	2004 £m
Interim paid – 0.39 pence per ordinary share (2004: 0.36 pence)	5.4	5.1
Final proposed – Nil pence per ordinary share (2004: 1.14 pence)	–	16.1
Total dividends	5.4	21.2
Received/receivable by ESOP Trust*	–	0.2

* The right to receive dividends on these shares has been waived.

In light of the proposal from Apax the Directors are not recommending a dividend. In the event that an offer is not forthcoming the Directors then expect to recommend a dividend.

10. Earnings per Share

	2005			2004 Restated		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Basic earnings per share						
Earnings attributable to ordinary shareholders	2.0	1,406.1	0.1	46.0	1,396.7	3.3
Effect of dilutive share options		19.3			15.2	
Diluted earnings per share	2.0	1,425.4	0.1	46.0	1,411.9	3.3
Supplementary earnings per share						
Basic earnings per share	2.0	1,406.1	0.1	46.0	1,396.7	3.3
Effect of exceptional items	60.9	–	4.3	–	–	–
Tax impact arising on exceptional items	(14.4)	–	(1.0)	–	–	–
Basic earnings per share before exceptional items	48.5	1,406.1	3.4	46.0	1,396.7	3.3
Amortisation of acquisition goodwill	2.9	–	0.2	3.1	–	0.2
Basic – adjusted earnings per share	51.4	1,406.1	3.6	49.1	1,396.7	3.5
Diluted earnings per share	2.0	1,425.4	0.1	46.0	1,411.9	3.3
Effect of exceptional items	60.9	–	4.3	–	–	–
Tax impact arising on exceptional items	(14.4)	–	(1.0)	–	–	–
Diluted earnings per share before exceptional items	48.5	1,425.4	3.4	46.0	1,411.9	3.3
Amortisation of acquisition goodwill	2.9	–	0.2	3.1	–	0.2
Diluted – adjusted earnings per share	51.4	1,425.4	3.6	49.1	1,411.9	3.5

The calculation for diluted earnings per share uses the weighted average number of ordinary shares in issue adjusted by the effects of all dilutive potential ordinary shares. The dilutive effect is calculated on the full exercise of all share options where the exercise price is higher than the average daily share price over the year. The calculation compares the difference between the exercise price of exercisable share options, weighted for the period over which they were outstanding, with the average daily share price over the period. The prior year numbers have been restated to reflect this calculation.

Notes to the Accounts continued

11. Intangible Fixed Assets

	Goodwill on acquisition of businesses £m	Other intangible assets £m	Group Total £m
Cost			
At 1 February 2004	92.5	17.8	110.3
Additions	-	-	-
Disposals	(61.3)	(2.7)	(64.0)
At 29 January 2005	31.2	15.1	46.3
Amortisation			
At 1 February 2004	(46.6)	(5.0)	(51.6)
Charge for the year	(2.0)	(0.8)	(2.8)
Disposals	17.4	2.7	20.1
At 29 January 2005	(31.2)	(3.1)	(34.3)
Net book amount			
At 29 January 2005	-	12.0	12.0
At 31 January 2004	45.9	12.8	58.7

12. Tangible Fixed Assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Group Total £m	Company Fixtures, fittings and equipment £m
Cost/Revaluation				
At 1 February 2004	11.5	760.7	772.2	0.1
Additions	0.2	71.3	71.5	-
Disposals	(0.5)	(32.5)	(33.0)	-
At 29 January 2005	11.2	799.5	810.7	0.1
Depreciation				
At 1 February 2004	(2.5)	(446.0)	(448.5)	(0.1)
Charge for the year	(0.1)	(54.3)	(54.4)	-
Disposals	0.3	29.4	29.7	-
Impairment	-	(25.4)	(25.4)	-
At 29 January 2005	(2.3)	(496.3)	(498.6)	(0.1)
Net book amount				
At 29 January 2005	8.9	303.2	312.1	-
At 31 January 2004	9.0	314.7	323.7	-

Included within disposals are fixed assets transferred to the joint venture with a cost of £3.0 million and accumulated depreciation of £2.6 million.

During the year the Group revised the useful economic lives of tenants' improvements from the shorter of five years and the remaining life of the store lease to the shorter of ten years and the remaining life of the store lease which is considered more appropriate. The effect of this revision is a decrease in the depreciation charge for the year of £3.1 million.

	Freehold £m	Long leasehold £m	Short leasehold £m	2005 Total £m	2004 Total £m
Land and buildings					
At cost/revaluation	7.9	0.6	2.7	11.2	11.5
Aggregate depreciation	(0.3)	(0.1)	(1.9)	(2.3)	(2.5)
Net book amount	7.6	0.5	0.8	8.9	9.0

If land and buildings had not been revalued, they would have been included at a cost of £7.9 million (2004: £8.2 million) and accumulated depreciation of £2.0 million (2004: £2.2 million).

Notes to the Accounts continued

12. Tangible Fixed Assets continued

Assets held under finance leases (by the Group), capitalised and included within fixtures, fittings and equipment:

	2005 £m	2004 £m
Cost	0.6	-
Aggregate depreciation	-	-
Net book amount	0.6	-

13. Fixed Asset Investments

a) Company – Interests in Group Companies

	Interests in Group companies £m
At 1 February 2004 and 29 January 2005	200.0

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings, joint ventures and associates whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group and have been disclosed in accordance with Section 231(5)(6) of the Companies Act 1985. A full list of investments will be attached to the Annual Return:

Company	Country of incorporation and operation	Per cent owned and voting rights	Description of share classes owned	Main activity
Principal subsidiaries				
Entertainment UK Limited	Great Britain	100	Ordinary	Wholesaling
MVC Entertainment Limited	Great Britain	100	Ordinary	Retailing
Streets Online Limited	Great Britain	100	Ordinary	Retailing
Woolworths Media plc (formerly VCI plc)	Great Britain	100	Ordinary	Publishing/Holding company
Woolworths Group Finance Limited	Great Britain	100	Ordinary	Finance
Woolworths plc	Great Britain	100	Ordinary	Retailing
Flogistics Limited ¹	Great Britain	100	Ordinary	Sale of Gift Vouchers
Woolworths Insurance (Guernsey) Limited	Guernsey	100	Ordinary	Captive insurance
Principal joint ventures and associated undertakings				
Zentertain Limited (see note 13(b))	Great Britain	40	Ordinary	Publishing
DX3 Technologies Limited ²	Great Britain	26.2	Ordinary	Digital downloading services

All of the above companies except for Woolworths Insurance (Guernsey) Limited are registered in England and Wales.

Notes:

- On 26 September 2004 the Group acquired the remaining 50 per cent of the issued share comprising the A ordinary shares of Flogistics Limited for a consideration of £2. The acquisition has been accounted for using acquisition accounting.

There was no difference between the book value and the fair value of the assets acquired.

The net assets acquired were as follows:

	£m
Stock	0.2
Debtors	1.4
Creditors	(1.6)

From the date of acquisition to 29 January 2005, Flogistics contributed £45.4 million to turnover, and £0.5 million to profit after interest. Flogistics contributed £2.2 million to the Group's net operating cash flows, paid £0.3 million in respect of interest, £0.1 million in respect of taxation and utilised £nil million for capital expenditure.

- DX3 Technologies Limited has a year-end of 31 March.

Notes to the Accounts continued

13. Fixed Asset Investments continued

b) Group – Interests in joint ventures and associated undertakings

	Interest in joint venture £m	Interest in associate £m
Cost		
At 1 February 2004	-	0.2
Additions		
– net assets	4.0	-
– goodwill	52.1	-
Share of post-acquisition profits	1.7	-
At 29 January 2005	57.8	0.2
Amortisation		
At 1 February 2004	-	-
Charge for the year	(0.9)	-
At 29 January 2005	(0.9)	-
Net book amount		
Net assets	5.7	0.2
Goodwill	51.2	-
At 29 January 2005	56.9	0.2
At 31 January 2004	-	0.2

On 27 September, Woolworths Group plc entered into a joint venture agreement with BBC Worldwide Ltd to form a new company, 2entertain Limited. This transaction has been accounted for in accordance with UITF 31 'Exchange of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate'. The net effect of this transaction was to dispose of a 60 per cent interest in certain VCI group trading entities in return for a 40 per cent interest in 2entertain Limited. The unrealised gain on disposal of the 60 per cent interest was £4.1 million and in accordance with UITF 31 has been recognised in the Group Statement of Total Recognised Gains and Losses.

The Group entered into a joint venture with BBC Worldwide on 27 September 2004 to form 2entertain Limited. As a result a number of trading subsidiaries were transferred into 2entertain Limited in which the Group holds a 40 per cent share. These businesses reported sales up to 27 September 2004 of £49.1 million and profit before taxation of £9.0 million.

Goodwill relating to the transaction of £52.1 million is being amortised over 20 years and amortisation of £0.9 million has been charged since completion.

Disposal of 60 per cent interest in certain VCI group trading entities	£m
Consideration received: fair value of Group's share of the business acquired	32.4
Less:	
Goodwill disposed	(26.7)
Share of assets disposed of:	
Fixed assets	(0.2)
Stock	(1.1)
Debtors	(13.1)
Creditors	13.0
Cash	(0.2)
Unrealised gain on disposal	4.1
Acquisition of 40 per cent interest in joint venture	
Consideration paid: fair value of business disposed	32.4
Expenses	1.7
Deferred consideration	3.0
	37.1
Less: Goodwill arising on acquisition	(34.9)
Fair value of net assets acquired	2.2
Share of assets acquired:	
Fixed assets and other intangibles	2.2
Stock	2.7
Debtors	0.9
Creditors	(3.6)
Book value and fair value of net assets acquired	2.2
Goodwill arising on acquisition	34.9
Goodwill retained on original business	17.2
Total goodwill	52.1

c) Investment in own shares

The Group and Company's investment in shares held by the ESOP Trust is now disclosed within note 27 in accordance with UITF 38 'Accounting for ESOP Trusts'.

Notes to the Accounts continued

14. Debtors

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	99.5	112.2	-	-
Owed by subsidiary undertakings	-	-	366.6	363.1
Owed by joint ventures	-	1.7	-	-
Corporation tax	-	-	2.8	1.7
Other debtors	13.4	17.3	1.3	1.9
Prepayments and accrued income	35.9	35.0	0.1	0.4
Deferred tax assets	-	-	0.6	-
	148.8	166.2	371.4	367.1
Amounts falling due after more than one year:				
Other debtors	-	0.1	-	-
Total debtors	148.8	166.3	371.4	367.1

15. Cash at Bank and In Hand

Cash at bank and in hand includes cash in transit, cash deposits and bank balances of £312.3 million (2004: £222.5 million), less unpresented cheques of £103.9 million (2004: £67.3 million). Included within the cash balance is £4.7 million held by Woolworths Insurance (Guernsey) Limited (2004: £nil) which is subject to restrictions.

16. Creditors Due Within One Year

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Bank loans and overdrafts	-	(3.8)	-	-
Obligations under finance leases	(0.1)	-	-	-
Trade creditors	(238.5)	(212.7)	-	-
Owed to subsidiary undertakings	-	-	(422.0)	(385.4)
Owed to joint ventures	(3.1)	(22.0)	(0.1)	(6.0)
Corporation tax	(5.0)	(16.0)	-	-
Other taxation and social security	(91.1)	(83.7)	-	-
Other creditors	(78.4)	(55.9)	(8.1)	(12.1)
Accruals	(82.9)	(73.7)	(0.6)	(1.8)
Proposed dividends	-	(16.1)	-	(16.1)
Total creditors due within one year	(499.1)	(483.9)	(430.8)	(421.4)

17. Creditors Due After One Year

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Senior Notes repayable (between one and two years)	(99.1)	(98.5)	(99.1)	(98.5)
Obligations under finance leases	(0.5)	-	-	-
	(99.6)	(98.5)	(99.1)	(98.5)

The liability under the Senior Notes above is stated net of issue costs. The Notes are fully and unconditionally guaranteed on a senior unsecured basis by all of the Company's Material Subsidiaries (the Company's Material Subsidiaries are as defined in the Offering Circular dated 8 November 2001).

Notes to the Accounts continued

18. Interest Rate and Currency Profile of Gross Financial Liabilities

The Group has taken advantage of the exemption in Financial Reporting Standard 13 'Derivatives and Other Financial Instruments' in respect of short-term debtors and creditors and consequently these items (other than finance leases) are not included in the relevant analysis contained within notes 18 and 19. After taking into account the interest rate swap entered into by the Group, the interest rate profile of the Group's financial liabilities is as follows:

Note	Gross liabilities £m	Floating rate liabilities £m	Fixed rate liabilities £m	Weighted average interest rate on fixed liabilities %	Weighted average time for which rate is fixed years	Non-interest bearing liabilities £m	Weighted average time until maturity years
At 29 January 2005							
Sterling	(125.4)	(30.0)	(70.2)	8.73	2	(25.2)	2
Dollar	-	-	-	-	-	-	-
Gross financial liabilities	(125.4)	(30.0)	(70.2)	8.73	2	(25.2)	2
Of which:							
Finance lease obligations	16, 17	(0.6)					
Senior Notes	17	(99.1)					
Onerous property contracts	25	(0.5)					
Insurance	25	(6.7)					
Reorganisation provision	25	(18.5)					
	(125.4)						
At 31 January 2004							
Sterling	(102.3)	(30.4)	(68.5)	8.75	3	(3.4)	3
Dollar	(3.8)	(3.8)					
Gross financial liabilities	(106.1)	(34.2)	(68.5)	8.75	3	(3.4)	3
Of which:							
Bank loans and overdrafts	16	(3.8)					
Senior Notes	17	(98.5)					
Onerous property contracts	25	(0.4)					
Insurance	25	(3.4)					
	(106.1)						

Disclosure of the Group's objectives, policies and strategies in holding financial instruments is set out in the Financial Review on pages 10 to 12.

After taking into account the interest rate swap, the financial liabilities comprise Sterling denominated borrowings that bear interest based on LIBOR plus margin.

19. Interest Rate and Currency Profile of Gross Financial Assets

Note	Gross assets £m	Floating rate assets £m	Fixed rate assets £m	Non-interest bearing assets £m
At 29 January 2005				
Sterling	207.6	207.6	-	-
Dollar	0.8	0.8	-	-
Gross financial assets	208.4	208.4	-	-
Of which:				
Cash at bank and in hand	15	208.4		
	208.4			
At 31 January 2004				
Sterling	150.2	150.1	-	0.1
Dollar	4.6	4.6	-	-
Euro	0.5	0.5	-	-
Gross financial assets	155.3	155.2	-	0.1
Of which:				
Debtors due after more than one year	14	0.1		
Cash at bank and in hand	15	155.2		
	155.3			

Notes to the Accounts continued

20. Currency Risk

The currency risk exposure on foreign currency monetary assets and liabilities (notes 18 and 19) is minimal as explained in the Financial Review.

21. Maturity of Financial Liabilities

The maturity of the Group's gross financial liabilities is as follows:

	2005 £m	2004 £m
Within one year	(6.4)	(3.8)
Between one and two years	(109.1)	-
Between two and five years	(9.7)	(101.9)
Over five years	(0.2)	(0.4)
	(125.4)	(106.1)

22. Borrowing Facilities

At 29 January 2005 the Group had the following undrawn committed floating rate borrowing facilities available:

	2005 £m	2004 £m
Expiring within one year	-	-
Expiring after one year but not more than two years	25.0	-
Expiring after two years but not more than five years	125.0	150.0
	150.0	150.0

23. Fair Values of Financial Assets and Liabilities

Set out below is a year-end comparison of fair and book values of the Group's financial instruments by category. Market values have been used to determine fair values. The book value of all other financial instruments is equal to their fair value.

		2005				2004	
	Note	Notional principal amount £m	Book value £m	Fair value £m	Notional principal amount £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations							
Long-term borrowings	17		(99.1)	(100.0)		(98.5)	(100.0)
			(99.1)	(100.0)		(98.5)	(100.0)
Derivative financial instruments held to manage the interest rate and currency profile							
Forward foreign currency contracts		84.6		(3.0)	104.5		(8.8)
Interest rate swap				(0.1)			0.3
	24	84.6		(3.1)	104.5		(8.5)

24. Hedges

Derivative financial instruments are accounted for using hedge accounting to the extent that they are held to hedge a financial asset or liability and their gains and losses are not recognised until the exposure that is being hedged is itself recognised. Where such instruments do not hedge an underlying asset or liability, they are accounted for using fair value accounting.

	Total gains/(losses) £m
Unrecognised gains and losses on hedges at 1 February 2004	(8.5)
Gains and losses arising in previous years recognised during the year	8.5
Gains and losses arising in the previous years not recognised during the year	-
Gains and losses arising in the year not recognised during the year	(3.1)
Unrecognised gains and losses on hedges at 29 January 2005	(3.1)
Of which gains and losses expected to be recognised within one year	(3.1)

Notes to the Accounts continued

25. Provisions for Liabilities and Charges

	Woolworths big W reorganisation £m	Insurance £m	Deferred tax £m	Onerous property contracts £m	Total £m
Balance at 1 February 2004	-	(3.4)	(24.0)	(0.4)	(27.8)
(Charge)/credit to profit and loss account	(20.2)	0.1	3.7	(0.1)	(16.5)
Utilised during the year	1.7	0.9	-	-	2.6
Other	-	(4.3)	-	-	(4.3)
Balance at 29 January 2005	(18.5)	(6.7)	(20.3)	(0.5)	(46.0)

The Woolworths big W reorganisation provision has been set up to recognise the expected costs of the reconfiguration of the out-of-town stores and the majority of this is expected to crystallise within the next three years.

Within the onerous property contracts provision, the Group has provided against future liabilities for all long-term idle properties and properties sublet at a shortfall. The provision is based on the discounted value of future cash outflows relating to rent, rates and service charges. This will be utilised within an 11-year period. Insurance provisions at 29 January 2005 include self-insurance provisions which represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. Self-insurance provisions are expected to be utilised over a two to three-year period.

	Note	2005 £m	2004 £m
Provision for deferred taxation			
Accelerated capital allowances		(23.3)	(27.0)
Other timing differences		3.0	3.0
Total provision for deferred taxation		(20.3)	(24.0)
Opening balance		(24.0)	(23.5)
Deferred taxation credit/(charge) in profit and loss account for the year	8	3.7	(0.5)
Closing balance		(20.3)	(24.0)

At 29 January 2004 the Company had a deferred tax asset of £0.6 million (2004: £0.1 million deferred tax liability).

26. Share Capital

	Number of shares m	£m
Group and Company		
Authorised		
Ordinary shares of 12.5 pence each at 29 January 2005 and 31 January 2004	1,600.0	200.0
Called up and fully paid		
Ordinary shares of 12.5 pence each		
At 1 February 2004	1,412.9	176.6
Issued during the year	22.2	2.8
At 29 January 2005	1,435.1	179.4

The number of ordinary shares issued during the year was 22,196,752 with a nominal value of £2.8 million relating to the Executive and ShareSave share options exercised for a cash consideration of £6.8 million.

Notes to the Accounts continued

27 Capital and Reserves a) Shareholders' Funds

	Called up share capital £m	Share premium reserve £m	Demerger reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Group						
At 1 February 2004 as previously stated	176.6	1.2	24.1	3.1	256.4	461.4
Prior period adjustment to reflect ESOP shares netted against equity	-	-	-	-	(4.3)	(4.3)
As restated	176.6	1.2	24.1	3.1	252.1	457.1
Issue of share capital	2.8	4.0	-	-	-	6.8
Transfer	-	-	-	(0.1)	0.1	-
Unrealised gain on acquisition of joint venture	-	-	-	-	4.1	4.1
Net movement of shares held	-	-	-	-	0.2	0.2
Loss for the financial year	-	-	-	-	(3.4)	(3.4)
At 29 January 2005	179.4	5.2	24.1	3.0	253.1	464.8
Company						
At 1 February 2004 as previously stated	176.6	1.2	24.1	-	31.1	233.0
Prior period adjustment to reflect ESOP shares netted against equity	-	-	-	-	(4.3)	(4.3)
As restated	176.6	1.2	24.1	-	26.8	228.7
Issue of share capital	2.8	4.0	-	-	-	6.8
Net movement of shares held	-	-	-	-	0.2	0.2
Profit for the financial year	-	-	-	-	79.8	79.8
At 29 January 2005	179.4	5.2	24.1	-	106.8	315.5

b) Reconciliation of Movement in Shareholders' Funds

	Note	2005 £m	Group Restated 2004 £m
Profit for the financial year		2.0	46.0
Dividends	9	(5.4)	(21.2)
(Loss)/retained profit for the financial year		(3.4)	24.8
Issue of share capital	26, 27(a)	6.8	1.6
Unrealised gain arising on formation of joint venture		4.1	-
Net movement of own shares		0.2	(0.1)
Opening equity shareholders' funds as previously reported		461.4	435.0
Prior year adjustment		(4.3)	(4.2)
Opening equity shareholders' funds as restated		457.1	430.8
Closing equity shareholders' funds as restated		464.8	457.1

The Group has adopted Urgent Issues Task Force Abstract 38 (UITF 38) 'Accounting for ESOP Trusts' for these financial results. As a result, shares in the Company held through the ESOP which were previously reported as investments, are now recorded as a deduction from equity shareholders' funds. The comparative figures for investments and profit and loss reserve have been restated to reflect the change in treatment such that shareholders' funds at 31 January 2004 and 1 February 2003 have been reduced by £4.3 million and £4.2 million respectively.

28. Consolidated Cash Flow

a) Reconciliation of Operating Profit to Net Cash Flow from Operating Activities

	2005 £m	2004 £m
Group operating profit	7.9	75.7
Depreciation, amortisation and impairment	82.6	61.8
Increase in stocks	(9.4)	(5.9)
Increase in debtors	(6.0)	(19.2)
Increase/(decrease) in creditors	83.8	(1.5)
Loss on disposal of fixed assets	3.3	2.1
Net cash inflow from operating activities	162.2	113.0

Notes to the Accounts continued

28. Consolidated Cash Flow continued b) Analysis of Changes in Net Funds

	At 1 February 2004 £m	Cash flow £m	Non cash items £m	At 29 January 2005 £m
Cash and current bank accounts	153.8	53.9	-	207.7
Bank overdraft	(3.8)	3.8	-	-
Cash and current bank accounts (net of overdraft)	150.0	57.7	-	207.7
Deposit with banks	1.4	(0.7)	-	0.7
Finance leases due within one year	-	-	(0.1)	(0.1)
Cash inflow before use of liquid resources and financing	151.4	57.0	(0.1)	208.3
Finance leases due after more than one year	-	-	(0.5)	(0.5)
Senior Notes	(98.5)	-	(0.6)	(99.1)
Net funds at the end of the year	52.9	57.0	(1.2)	108.7

c) Reconciliation of Net Cash Flow to Movement in Net Funds

	2005 £m
Increase in cash in the year	57.7
Movement in deposits with banks	(0.7)
Movement in finance lease obligations	(0.6)
Movement in Senior Notes	(0.6)
Change in net funds in the year	55.8
Net funds at the start of the year	52.9
Net funds at the end of the year	108.7

29. Pension Costs

During the year the Group implemented changes to the Woolworths Group Pension Scheme (a funded defined benefit scheme) and the Woolworths Group Retirement Trust (a defined contribution scheme). These changes were aimed at providing appropriate arrangements with secure funding for the Group and were disclosed last year.

Woolworths Group Retirement Trust (WGRT)

Colleagues who joined after 3 June 2003 are no longer eligible to join the WGRT although existing membership is allowed to continue. Payments to the WGRT are charged against profits as incurred. The pension cost for this scheme, charged to the profit and loss account, is £0.5 million, reflecting contributions paid to the WGRT (2004: £0.6 million).

Woolworths Group Pension Scheme (WGPS)

Colleagues who joined after 3 June 2003 are now subject to different eligibility conditions and terms within the WGPS. The main conditions are a one-year wait before voluntary entry and a 6 per cent contribution rate for members.

Actuarial valuation Statement of Standard Accounting Practice 24 'Accounting for Pension Costs'

The pension cost calculated in accordance with the SSAP 24 accounting standard has been assessed by independent actuaries, based on a valuation of the WGPS as at 1 April 2002 using the projected unit method and the following principal financial assumptions.

	Per cent pa
Price inflation	2.8
Pay increases	3.8
Pension increases	2.7
Discount rate before retirement	7.25
Discount rate after retirement	6.0

Assets were taken at market value, £165.2 million, and represented 94.7 per cent of the value of the scheme's liabilities after allowing for future pay increases. The past service deficit on the SSAP 24 assumptions therefore amounted to £9.3 million.

The Group has continued to contribute to the WGPS at the rate of 13.5 per cent of pensionable pay. The Group's contribution rate will be reviewed at the next formal valuation, due no later than 1 April 2005. Under SSAP 24 the pension cost for the year to 29 January 2005 is £13.7 million (2004: £16.2 million), which is split into a regular cost of £12.5 million (2004: £15.0 million) and a variation of £1.2 million (2004: £1.2 million). However, contributions from the participating employers into the scheme over the year to 29 January 2005 amounted to £16.0 million (2004: £16.2 million) and this higher amount has been charged to the profit and loss account. At 29 January 2005 there was a prepayment of £nil (2004: £nil) on the balance sheet in respect of pensions.

The Group's funding policy differs from the accounting policy to the extent that different assumptions are used in setting the funding policy of the scheme. The funding policy has been set using the following assumptions (per annum): a discount rate for past service benefits of 6.25 per cent, a discount rate for future service benefits of 6.5 per cent, pay increases of 4.0 per cent, and price inflation and pension increases of 2.5 per cent.

Notes to the Accounts continued

29. Pension Costs continued

Financial Reporting Standard 17 'Retirement Benefits'

The pension cost calculated in accordance with the FR17 accounting standard has been assessed by independent actuaries, based on a valuation of the WGPS as at 1 April 2002 using a projected unit method. The additional disclosures required by FRS 17 are set out below. These are in respect of the WGPS only and cover the period from 1 April 2002, which reflects the actual lifetime of the WGPS so far.

The major assumptions used to calculate the liabilities under FRS 17 are set out below:

	29 January 2005 % pa	31 January 2004 % pa	1 February 2003 % pa
Discount rate	5.4	5.6	5.3
Inflation	2.7	2.8	2.3
Pay increase	3.3	3.8	3.3
Pension increases	2.5	2.7	2.4

The following assumptions were made regarding future returns on the assets held by the WGPS:

	Expected rate of return % pa	29 January 2005 Market value £m	Expected rate of return % pa	31 January 2004 Market value £m	Expected rate of return % pa	1 February 2003 Market value £m
Equities	8.0	175.0	8.3	148.0	7.9	98.9
Bonds	4.6	48.3	4.9	41.3	4.4	36.6
Total	7.3	223.3	7.6	189.3	7.0	135.5

The amounts that would have appeared on the balance sheet under FRS 17 are:

	29 January 2005 £m	31 January 2004 £m	1 February 2003 £m
Market value of assets	223.3	189.3	135.5
Liabilities	(320.8)	(283.8)	(270.3)
Deficit in scheme	(97.5)	(94.5)	(134.8)
Related deferred tax assets	29.3	28.4	40.4
Net pension liability	(68.2)	(66.1)	(94.4)

The amounts that would have been charged to the profit and loss account for the year are:

	29 January 2005 £m	31 January 2004 £m
Current service cost	16.9	21.4
Total charge against operating profit	16.9	21.4
Expected return on scheme assets	(14.9)	(10.2)
Interest on scheme liabilities	16.4	14.2
Total charge to finance income	1.5	4.0
Total profit and loss charge	18.4	25.4

Notes to the Accounts continued

29. Pension Costs continued

Financial Reporting Standard 17 'Retirement Benefits' continued

The change in the scheme's deficit over the year is analysed below:

	29 January 2005 £m	31 January 2004 £m
Deficit in scheme at beginning of period	(94.5)	(134.8)
Current service cost	(16.9)	(21.4)
Expected return on scheme assets	14.9	10.2
Interest on scheme liabilities	(16.4)	(14.2)
Contributions	16.0	16.2
Actuarial (loss)/gain charged to STRGL	(0.6)	49.5
Deficit in scheme at end of period	(97.5)	(94.5)

The amounts that would have been recognised in the Group Statement of Total Recognised Gains and Losses (STRGL) over the year is set out below:

	29 January 2005 £m	31 January 2004 £m
Actual return less expected return on scheme assets	1.8	24.9
Experience gains arising on the scheme liabilities	7.3	31.0
Changes in assumptions underlying the present value of scheme liabilities	(9.7)	(6.4)
Actuarial (loss)/gain recognised in the STRGL	(0.6)	49.5

	29 January 2005	31 January 2004	For the ten months ended 1 February 2003
Actual return less expected return on scheme assets			
a) Amount (£m)	1.8	24.9	(58.1)
b) Per cent of scheme assets	0.8%	13.2%	42.8%
Experience gains/(losses) arising on the scheme liabilities			
a) Amount (£m)	7.3	31.0	(17.1)
b) Per cent of scheme liabilities	2.3%	10.9%	6.3%
Total amount recognised in STRGL			
a) Amount (£m)	(0.6)	49.5	(93.5)
b) Per cent of scheme liabilities	0.2%	17.4%	34.6%

The effect of FRS 17 on the Group's net assets and reserves is set out below:

	29 January 2005 £m	31 January 2004 Restated £m
Net assets excluding pension liability	464.8	457.3
Pension liability (net of deferred tax)	(68.2)	(66.1)
Net assets including pension liability	396.6	391.2
Profit and loss reserve excluding pension liability	253.1	252.1
Net pension liability	(68.2)	(66.1)
Profit and loss reserve including pension liability	184.9	186.0

Notes to the Accounts continued

30. Commitments

	2005 Land and buildings	2005 Plant and equipment	2004 Land and buildings	Group 2004 Plant and equipment
Annual commitments under non-cancellable operating leases expiring:				
Within one year	1.3	0.5	1.9	1.7
Within two to five years	5.7	5.2	4.2	2.5
After five years	144.7	3.7	143.7	-

The Company has no annual commitments under operating leases (2004: £nil).

Capital commitments contracted but not provided for by the Group amounted to £nil (2004 : £nil). The Company has no capital commitments (2004: £nil).

31. Contingent Assets and Liabilities

On the formation of 2entertain, Woolworths Group guaranteed, for a period of three years to September 2007, the minimum level of profits from certain pre-existing VCI contracts. In any one year the maximum impact of the guarantee on the Group profits is £3.9 million. Based on results to date no material liability exists, however the future performance of these contracts is uncertain. As at the balance sheet date no provision has been made.

In common with a number of retailers Woolworths Group has challenged Customs and Excise on the recoverability of VAT on merchant services. Should Woolworths Group be successful in its challenge, as at the balance sheet date the size of any repayment would have been £7.4 million.

The Group had no contingent liabilities as at 31 January 2004.

During the year the Company cancelled its guarantee in respect of certain banking facilities of a subsidiary undertaking (2004: £8.3 million).

32. Share Options

The granting of all options is made at the discretion of the Remuneration Committee, which consists solely of Non-Executive Directors.

Under the Executive Share Option Schemes, participants were granted options on a half-yearly basis from an annual allocation of options based on their position in the Group. The option exercise price was the market price at the time of grant. Subject to Group performance, options are capable of exercise after at least three years and within ten years of the date of grant. No further options have been or will be granted since 25 March 2004. Participants may instead receive awards of shares under the Annual Incentive Plan.

Under the ShareSave Plan, eligible UK employees can enter into an Inland Revenue approved savings contract for a period of three years whereby shares may be acquired with repayments under the contract. The option exercise price is the average market price over three days shortly before an offer is made. No discount has been applied and options are exercisable within a six-month period from the conclusion of a three-year period from the date of the grant.

The rules of the Executive Share Option Schemes and ShareSave Plans include provision for the early exercise of options in certain circumstances.

Options granted under the various schemes over ordinary shares of 12.5 pence each, including those noted in the Directors' Remuneration Report on pages 20 to 25 are shown in the table below:

	Date Options granted	Exercise price per share pence	No of persons holding options	Exercisable from	Exercisable to	2005 No of shares for which rights are exercisable	2004 No of shares for which rights are exercisable
Executive Share Options	26/09/01	30.5	48	26/09/04	25/09/11	20,556,469	28,809,606
	24/04/02	50.0	72	24/04/05	23/04/12	7,825,633	8,024,579
	10/07/02	38.5	-	10/07/05	09/07/12	-	519,480
	01/08/02	30.5	-	26/09/04	25/09/11	-	1,705,967
	11/09/02	31.5	302	11/09/05	10/09/12	10,175,153	12,867,807
	27/03/03	30.5	59	27/03/06	26/03/13	8,078,831	10,638,653
	11/09/03	43.5	73	11/09/06	10/09/13	7,238,025	7,982,500
	25/03/04	41.5	64	25/03/07	24/03/14	6,763,171	-
ShareSave Options	23/10/01	30.5	626	01/12/04	31/05/05	1,978,023	14,148,024
	06/06/02	51.0	2,096	01/08/05	31/01/06	4,261,504	5,518,565
	27/05/03	34.5	2,652	01/08/06	31/01/07	10,635,461	13,659,002
	28/05/04	40.5	3,015	01/08/07	31/01/08	10,392,525	-

The table above includes the options which will be met by shares held in the Employee Share Ownership Plan Trust (ESOP).

Notes to the Accounts continued

32. Share Options continued

The Employee Share Ownership Plan Trust (ESOP)

The Group's ESOP is a discretionary trust which has been funded by a £4.1 million (2004: £4.3 million) interest free loan from the Company and its subsidiaries to acquire shares in the Group.

The ESOP's current shareholding is 12,145,065 shares at a market value of £4.9 million on 29 January 2005. The right to receive dividends on these shares has been waived. The cost of running the trust is included in the profit and loss account.

The ESOP has undertaken to transfer shares to employees on exercise of various options granted under the Executive Share Options Scheme and to hold shares awarded to participants in the Woolworths Group Incentive Plan (WIP). Shares are also held to cover the National Insurance (NI) charges that are payable on the exercise of share options.

As at 29 January 2005 the liabilities of the ESOP are as follows:

	2005 No of shares for which rights subsist	2004 No of shares for which rights subsist
Executive share options	5,724,718	8,338,919
Performance Share Plan	520,000	-
WIP	764,146	481,567
NI	4,483,718	4,156,457
Unallocated	652,483	-

33. Related Party Transactions

The Group had the following material transactions with related parties during 2004 and 2005.

Joint Ventures

During the year the Company and its subsidiaries carried out a number of transactions with joint ventures in the normal course of business and on an arms-length basis. The names of the joint ventures, the nature of these transactions and their total value are shown below:

	Value of transactions £m	2005 Receivable/ (payable) at year-end £m	Value of transactions £m	2004 Receivable/ (payable) at year-end £m
Transactions with Flogistics Ltd in which the Group held a 50 per cent interest to 26 September 2004				
Trading	2.7	-	19.1	(15.7)
Transactions with 2entertain Limited in which the Group holds a 40 per cent interest				
Funding balances	-	3.2	-	-
Trading	31.4	0.1	-	-

Five Year Record

Profit and Loss Account	2005 £m	Restated 2004 £m	Restated 2003 £m	Restated 2002 £m	Restated 2001 £m
Turnover					
Group and share of joint ventures	2,897.1	2,795.1	2,740.2	2,623.1	2,525.0
Less: share of joint ventures' turnover	(41.9)	(20.4)	(49.7)	(23.8)	-
Group turnover	2,855.2	2,774.7	2,690.5	2,599.3	2,525.0
Cost of sales	(2,116.5)	(1,995.9)	(1,934.2)	(1,882.6)	(1,777.7)
Gross profit	738.7	778.8	756.3	716.7	747.3
Selling expenses	(568.8)	(578.8)	(565.0)	(547.6)	(515.9)
Administrative expenses	(177.7)	(138.4)	(146.7)	(202.1)	(172.6)
Other operating income	15.7	14.1	11.1	9.5	10.1
Group operating profit/(loss)	7.9	75.7	55.7	(23.5)	68.9
Analysed as:					
Continuing operations	7.9	75.7	55.7	(19.8)	85.6
Discontinued operations	-	-	-	(3.7)	(16.7)
Share of operating profit/(loss) in joint ventures	10.2	1.2	(1.6)	3.1	-
Operating profit/(loss) including joint ventures	18.1	76.9	54.1	(20.4)	68.9
Non-operating exceptional items	-	-	(5.5)	(12.1)	-
Profit/(loss) before interest	18.1	76.9	48.6	(32.5)	68.9
Net interest payable	(8.8)	(10.2)	(10.6)	(13.9)	(14.6)
Profit/(loss) on ordinary activities before taxation	9.3	66.7	38.0	(46.4)	54.3
Taxation on profit on ordinary activities	(7.1)	(20.6)	(12.7)	(1.5)	(13.8)
Profit/(loss) on ordinary activities after taxation	2.2	46.1	25.3	(47.9)	40.5
Earnings/(loss) per share (pence)					
Basic	0.1	3.3	1.8	(3.4)	2.9
Diluted	0.1	3.3	1.7	(3.4)	2.9
Basic - adjusted	3.6	3.5	2.6	1.6	4.5
Diluted - adjusted	3.6	3.5	2.6	1.6	4.4
Balance Sheet					
Intangible assets	12.0	58.7	63.7	68.4	89.5
Tangible assets	312.1	323.7	332.6	345.5	338.0
Investments	57.2	0.2	0.2	0.1	-
Total fixed assets	381.3	382.6	396.5	414.0	427.5
Net current assets ¹	229.2	201.0	159.9	134.6	2,320.3
Non current liabilities	(46.0)	(27.8)	(27.3)	(25.2)	(26.6)
Capital employed	564.5	555.8	529.1	523.4	2,721.2
Equity shareholders' funds	464.8	457.1	430.8	425.9	2,721.3
Equity minority interest	0.1	0.2	0.3	-	(0.1)
Net debt	99.6	98.5	98.0	97.5	-
Capital employed	564.5	555.8	529.1	523.4	2,721.2

Notes:

1. Net current assets in 2001 include an amount of £2,223.4 million in respect of amounts owed by Kingfisher which were subsequently cleared on demerger by way of a non-cash dividend to Kingfisher.
2. 2002 and 2001 have not been restated for the impact of FRS5, Application note G.
3. The five-year record has been restated for the reclassification of advertising contributions from suppliers between cost of sales and selling expenses and the impact of UITF 38 'Accounting for ESOP Trusts'.
4. Earnings per share have been restated to reflect the effect of dilutive shares.

Shareholder Information

Analysis of Shareholders Geographic Breakdown as at 29 January 2005

Region	29 January 05 shares	%
United Kingdom	1,433,068,416	99.86
North America	80,727	0.01
Europe	1,703,077	0.12
Australia and New Zealand	99,868	0.01
Rest of the world	113,658	0.01
Total	1,435,065,746	100.00
Issued capital	1,435,065,746	

Range of Shares as at 29 January 2005

a) All Origins

Range	Number of holders	% of total holders	Number of shares	% of total shares
1 - 1,000	21,155	57.25	9,051,115	0.63
1,001 - 5,000	11,614	31.43	26,443,837	1.84
5,001 - 10,000	2,198	5.95	16,237,125	1.13
10,001 - 100,000	1,539	4.16	40,125,764	2.80
100,001 +	446	1.21	1,343,207,905	93.60
Subtotals	36,952	100.00	1,435,065,746	100.00
Register totals	36,952		1,435,065,746	

b) Certified

Range	Number of holders	% of total holders	Number of shares	% of total shares
1 - 1,000	20,444	55.33	8,680,214	0.60
1,001 - 5,000	10,801	29.23	24,363,153	1.70
5,001 - 10,000	1,893	5.12	13,748,841	0.96
10,001 - 100,000	873	2.36	18,018,549	1.26
100,001 +	31	0.08	13,817,248	0.96
Subtotals	34,042	92.12	78,628,005	5.48
Register totals	36,952		1,435,065,746	

c) Crest

Range	Number of holders	% of total holders	Number of shares	% of total shares
1 - 1,000	711	1.92	370,901	0.03
1,001 - 5,000	813	2.20	2,080,684	0.14
5,001 - 10,000	305	0.83	2,488,284	0.17
10,001 - 100,000	666	1.80	22,107,215	1.54
100,001 +	415	1.12	1,329,390,657	92.64
Subtotals	2,910	7.88	1,356,437,741	94.52
Register totals	36,952		1,435,065,746	

Shareholder Information continued

Payment of Dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The Company mandates dividends through the BACS ('Bankers' Automated Clearing Services') system. The benefit to shareholders of the BACS payment method is that the Registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder's bank or building society account. Shareholders who have not yet arranged for dividends to be paid direct to their bank or building society account and wish to benefit from this service should request the Company's Registrar (address overleaf) to send them a Dividend/Interest mandate form or alternatively complete the mandate form attached to any future dividend tax voucher.

Dividend Reinvestment Plan

The Company provides a Dividend Reinvestment Plan enabling shareholders to apply their cash dividends to purchase additional ordinary shares in the market at competitive dealing rates. Full details can be obtained from the Registrar. If you have previously completed a mandate form to join the Plan, you need take no further action.

Shareholder Information on the Internet

The Company maintains an investor relations zone on its website (www.woolworthsgroupplc.com) which allows access to share price information, management biographies, copies of company reports and other useful investor information.

In addition, Computershare Investor Services PLC, the Company Registrar, has introduced a facility where shareholders are able to access details of their shareholding in the company over the internet subject to complying with an identity check. This service can be accessed on their website www.computershare.com

Woolworths Group plc is registered in England and Wales (Number 03855289).

Shareholder Information continued

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Notes to the Accounts continued

30. Commitments

	2005 Land and buildings	2005 Plant and equipment	2004 Land and buildings	Group 2004 Plant and equipment
Annual commitments under non-cancellable operating leases expiring:				
Within one year	1.3	0.5	1.9	1.7
Within two to five years	5.7	5.2	4.2	2.5
After five years	144.7	3.7	143.7	-

The Company has no annual commitments under operating leases (2004: £nil).

Capital commitments contracted but not provided for by the Group amounted to £nil (2004 : £nil). The Company has no capital commitments (2004: £nil).

31. Contingent Assets and Liabilities

On the formation of 2entertain, Woolworths Group guaranteed, for a period of three years to September 2007, the minimum level of profits from certain pre-existing VCI contracts. In any one year the maximum impact of the guarantee on the Group profits is £3.9 million. Based on results to date no material liability exists, however the future performance of these contracts is uncertain. As at the balance sheet date no provision has been made.

In common with a number of retailers Woolworths Group has challenged Customs and Excise on the recoverability of VAT on merchant services. Should Woolworths Group be successful in its challenge, as at the balance sheet date the size of any repayment would have been £7.4 million.

The Group had no contingent liabilities as at 31 January 2004.

During the year the Company cancelled its guarantee in respect of certain banking facilities of a subsidiary undertaking (2004: £8.3 million).

32. Share Options

The granting of all options is made at the discretion of the Remuneration Committee, which consists solely of Non-Executive Directors.

Under the Executive Share Option Schemes, participants were granted options on a half-yearly basis from an annual allocation of options based on their position in the Group. The option exercise price was the market price at the time of grant. Subject to Group performance, options are capable of exercise after at least three years and within ten years of the date of grant. No further options have been or will be granted since 25 March 2004. Participants may instead receive awards of shares under the Annual Incentive Plan.

Under the ShareSave Plan, eligible UK employees can enter into an Inland Revenue approved savings contract for a period of three years whereby shares may be acquired with repayments under the contract. The option exercise price is the average market price over three days shortly before an offer is made. No discount has been applied and options are exercisable within a six-month period from the conclusion of a three-year period from the date of the grant.

The rules of the Executive Share Option Schemes and ShareSave Plans include provision for the early exercise of options in certain circumstances.

Options granted under the various schemes over ordinary shares of 12.5 pence each, including those noted in the Directors' Remuneration Report on pages 20 to 25 are shown in the table below:

	Date Options granted	Exercise price per share pence	No of persons holding options	Exercisable from	Exercisable to	2005 No of shares for which rights are exercisable	2004 No of shares for which rights are exercisable
Executive Share Options	26/09/01	30.5	48	26/09/04	25/09/11	20,556,469	28,809,606
	24/04/02	50.0	72	24/04/05	23/04/12	7,825,633	8,024,579
	10/07/02	38.5	-	10/07/05	09/07/12	-	519,480
	01/08/02	30.5	-	26/09/04	25/09/11	-	1,705,967
	11/09/02	31.5	302	11/09/05	10/09/12	10,175,153	12,867,807
	27/03/03	30.5	59	27/03/06	26/03/13	8,078,831	10,638,653
	11/09/03	43.5	73	11/09/06	10/09/13	7,238,025	7,982,500
	25/03/04	41.5	64	25/03/07	24/03/14	6,763,171	-
ShareSave Options	23/10/01	30.5	626	01/12/04	31/05/05	1,978,023	14,148,024
	06/06/02	51.0	2,096	01/08/05	31/01/06	4,261,504	5,518,565
	27/05/03	34.5	2,652	01/08/06	31/01/07	10,635,461	13,659,002
	28/05/04	40.5	3,015	01/08/07	31/01/08	10,392,525	-

The table above includes the options which will be met by shares held in the Employee Share Ownership Plan Trust (ESOP).

Notes to the Accounts continued

32. Share Options continued

The Employee Share Ownership Plan Trust (ESOP)

The Group's ESOP is a discretionary trust which has been funded by a £4.1 million (2004: £4.3 million) interest free loan from the Company and its subsidiaries to acquire shares in the Group.

The ESOP's current shareholding is 12,145,065 shares at a market value of £4.9 million on 29 January 2005. The right to receive dividends on these shares has been waived. The cost of running the trust is included in the profit and loss account.

The ESOP has undertaken to transfer shares to employees on exercise of various options granted under the Executive Share Options Scheme and to hold shares awarded to participants in the Woolworths Group Incentive Plan (WIP). Shares are also held to cover the National Insurance (NI) charges that are payable on the exercise of share options.

As at 29 January 2005 the liabilities of the ESOP are as follows:

	2005 No of shares for which rights subsist	2004 No of shares for which rights subsist
Executive share options	5,724,718	8,338,919
Performance Share Plan	520,000	-
WIP	764,146	481,567
NI	4,483,718	4,156,457
Unallocated	652,483	-

33. Related Party Transactions

The Group had the following material transactions with related parties during 2004 and 2005.

Joint Ventures

During the year the Company and its subsidiaries carried out a number of transactions with joint ventures in the normal course of business and on an arms-length basis. The names of the joint ventures, the nature of these transactions and their total value are shown below:

	Value of transactions £m	2005 Receivable/ (payable) at year-end £m	Value of transactions £m	2004 Receivable/ (payable) at year-end £m
Transactions with Flogistics Ltd in which the Group held a 50 per cent interest to 26 September 2004				
Trading	2.7	-	19.1	(15.7)
Transactions with 2entertain Limited in which the Group holds a 40 per cent interest				
Funding balances	-	3.2	-	-
Trading	31.4	0.1	-	-

Five Year Record

	2005 £m	Restated 2004 £m	Restated 2003 £m	Restated 2002 £m	Restated 2001 £m
Profit and Loss Account					
Turnover					
Group and share of joint ventures	2,897.1	2,795.1	2,740.2	2,623.1	2,525.0
Less: share of joint ventures' turnover	(41.9)	(20.4)	(49.7)	(23.8)	-
Group turnover	2,855.2	2,774.7	2,690.5	2,599.3	2,525.0
Cost of sales	(2,116.5)	(1,995.9)	(1,934.2)	(1,882.6)	(1,777.7)
Gross profit	738.7	778.8	756.3	716.7	747.3
Selling expenses	(568.8)	(578.8)	(565.0)	(547.6)	(515.9)
Administrative expenses	(177.7)	(138.4)	(146.7)	(202.1)	(172.6)
Other operating income	15.7	14.1	11.1	9.5	10.1
Group operating profit/(loss)	7.9	75.7	55.7	(23.5)	68.9
Analysed as:					
Continuing operations	7.9	75.7	55.7	(19.8)	85.6
Discontinued operations	-	-	-	(3.7)	(16.7)
Share of operating profit/(loss) in joint ventures	10.2	1.2	(1.6)	3.1	-
Operating profit/(loss) including joint ventures	18.1	76.9	54.1	(20.4)	68.9
Non-operating exceptional items	-	-	(5.5)	(12.1)	-
Profit/(loss) before interest	18.1	76.9	48.6	(32.5)	68.9
Net interest payable	(8.8)	(10.2)	(10.6)	(13.9)	(14.6)
Profit/(loss) on ordinary activities before taxation	9.3	66.7	38.0	(46.4)	54.3
Taxation on profit on ordinary activities	(7.1)	(20.6)	(12.7)	(1.5)	(13.8)
Profit/(loss) on ordinary activities after taxation	2.2	46.1	25.3	(47.9)	40.5
Earnings/(loss) per share (pence)					
Basic	0.1	3.3	1.8	(3.4)	2.9
Diluted	0.1	3.3	1.7	(3.4)	2.9
Basic - adjusted	3.6	3.5	2.6	1.6	4.5
Diluted - adjusted	3.6	3.5	2.6	1.6	4.4
Balance Sheet					
Intangible assets	12.0	58.7	63.7	68.4	89.5
Tangible assets	312.1	323.7	332.6	345.5	338.0
Investments	57.2	0.2	0.2	0.1	-
Total fixed assets	381.3	382.6	396.5	414.0	427.5
Net current assets ¹	229.2	201.0	159.9	134.6	2,320.3
Non current liabilities	(46.0)	(27.8)	(27.3)	(25.2)	(26.6)
Capital employed	564.5	555.8	529.1	523.4	2,721.2
Equity shareholders' funds	464.8	457.1	430.8	425.9	2,721.3
Equity minority interest	0.1	0.2	0.3	-	(0.1)
Net debt	99.6	98.5	98.0	97.5	-
Capital employed	564.5	555.8	529.1	523.4	2,721.2

Notes:

1. Net current assets in 2001 include an amount of £2,223.4 million in respect of amounts owed by Kingfisher which were subsequently cleared on demerger by way of a non-cash dividend to Kingfisher.
2. 2002 and 2001 have not been restated for the impact of FRS5, Application note G.
3. The five-year record has been restated for the reclassification of advertising contributions from suppliers between cost of sales and selling expenses and the impact of UITF 38 'Accounting for ESOP Trusts'.
4. Earnings per share have been restated to reflect the effect of dilutive shares.

Shareholder Information

Analysis of Shareholders Geographic Breakdown as at 29 January 2005

Region	29 January 05 shares	%
United Kingdom	1,433,068,416	99.86
North America	80,727	0.01
Europe	1,703,077	0.12
Australia and New Zealand	99,868	0.01
Rest of the world	113,658	0.01
Total	1,435,065,746	100.00
Issued capital	1,435,065,746	

Range of Shares as at 29 January 2005

a) All Origins

Range	Number of holders	% of total holders	Number of shares	% of total shares
1 - 1,000	21,155	57.25	9,051,115	0.63
1,001 - 5,000	11,614	31.43	26,443,837	1.84
5,001 - 10,000	2,198	5.95	16,237,125	1.13
10,001 - 100,000	1,539	4.16	40,125,764	2.80
100,001 +	446	1.21	1,343,207,905	93.60
Subtotals	36,952	100.00	1,435,065,746	100.00
Register totals	36,952		1,435,065,746	

b) Certified

Range	Number of holders	% of total holders	Number of shares	% of total shares
1 - 1,000	20,444	55.33	8,680,214	0.60
1,001 - 5,000	10,801	29.23	24,363,153	1.70
5,001 - 10,000	1,893	5.12	13,748,841	0.96
10,001 - 100,000	873	2.36	18,018,549	1.26
100,001 +	31	0.08	13,817,248	0.96
Subtotals	34,042	92.12	78,628,005	5.48
Register totals	36,952		1,435,065,746	

c) Crest

Range	Number of holders	% of total holders	Number of shares	% of total shares
1 - 1,000	711	1.92	370,901	0.03
1,001 - 5,000	813	2.20	2,080,684	0.14
5,001 - 10,000	305	0.83	2,488,284	0.17
10,001 - 100,000	666	1.80	22,107,215	1.54
100,001 +	415	1.12	1,329,390,657	92.64
Subtotals	2,910	7.88	1,356,437,741	94.52
Register totals	36,952		1,435,065,746	

Shareholder Information continued

Payment of Dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The Company mandates dividends through the BACS ('Bankers' Automated Clearing Services') system. The benefit to shareholders of the BACS payment method is that the Registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the shareholder's bank or building society account. Shareholders who have not yet arranged for dividends to be paid direct to their bank or building society account and wish to benefit from this service should request the Company's Registrar (address overleaf) to send them a Dividend/Interest mandate form or alternatively complete the mandate form attached to any future dividend tax voucher.

Dividend Reinvestment Plan

The Company provides a Dividend Reinvestment Plan enabling shareholders to apply their cash dividends to purchase additional ordinary shares in the market at competitive dealing rates. Full details can be obtained from the Registrar. If you have previously completed a mandate form to join the Plan, you need take no further action.

Shareholder Information on the Internet

The Company maintains an investor relations zone on its website (www.woolworthsgroupplc.com) which allows access to share price information, management biographies, copies of company reports and other useful investor information.

In addition, Computershare Investor Services PLC, the Company Registrar, has introduced a facility where shareholders are able to access details of their shareholding in the company over the internet subject to complying with an identity check. This service can be accessed on their website www.computershare.com

Woolworths Group plc is registered in England and Wales (Number 03855289).

Shareholder Information continued

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