THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services Act 1986, if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Kingfisher Ordinary Shares, you should immediately forward this document and the accompanying documents to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This document, which comprises listing particulars relating to Woolworths Group plc, has been prepared in accordance with the Listing Rules made under section 142 of the Financial Services Act 1986. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act. This document has been prepared in connection with the demerger of the general merchandising business of Kingfisher plc (the "Demerger") as described in this document, and assumes that, unless the context requires otherwise, the Demerger has become effective.

Application has been made to the UK Listing Authority for the entire ordinary share capital of Woolworths Group plc to be admitted to the Official List and to the London Stock Exchange for such ordinary share capital to be admitted to trading on the London Stock Exchange's market for listed securities. These applications are subject to the passing of the resolution concerning the Demerger by holders of Kingfisher Ordinary Shares at the Extraordinary General Meeting. It is expected that, if the Demerger is approved by the holders of Kingfisher Ordinary Shares at the Extraordinary General Meeting, admission of the Woolworths Group Shares, to be issued to holders of Kingfisher Ordinary Shares on Kingfisher's register of members at 6.00 a.m. on 28 August 2001 in connection with the Demerger, to the Official List and to trading on the London Stock Exchange's market for listed securities will become effective and that unconditional dealings will commence in the Woolworths Group Shares at 8.00 a.m. on 28 August 2001.

WOOLWORTHS GROUP plc

(Incorporated and registered in England and Wales under the Companies Act 1985, Registered No. 3855289)

Introduction of Woolworths Group Shares of 12.5p each to the Official List

Sponsored by UBS Warburg

UBS Warburg and Credit Suisse First Boston are acting exclusively for Kingfisher plc and Woolworths Group plc in connection with the Demerger and Admission and no one else and will not be responsible to anyone other than Kingfisher plc and Woolworths Group plc for providing the protections afforded to customers of UBS Warburg or Credit Suisse First Boston nor for providing advice in relation to the Demerger or Admission. UBS Warburg and Credit Suisse First Boston are regulated for the conduct of investment business in the United Kingdom by The Securities and Futures Authority Limited.

The distribution of this document in certain jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of such jurisdictions. Woolworths Group Shares distributed in the Demerger will not be registered under the US Securities Act.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. Neither the delivery of this document nor any issue and allotment made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Woolworths Group plc since the date hereof or that the information in this document is correct as of any time subsequent to the date of this document.

Date ... 1-8/2001

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Information regarding forward-looking statements

This document contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of Woolworths Group plc to differ materially from the information presented herein. Forward-looking statements include information concerning possible and assumed future results of the Group's operations, earnings, economic conditions affecting the industries in which the Group operates and demand and other aspects of the Group's business. When used in this document, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should", and similar expressions, as they relate to the Group or its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Group undertakes no obligation to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise save in respect of any requirement under English statutory law or the Listing Rules. You should rely only on the information contained in this document. The Group has not, and neither UBS Warburg nor Credit Suisse First Boston has authorised anyone to provide you with information different from that contained in this document. If anyone provides you with different or inconsistent information, you should not rely on it. This document is not an offer to sell or a solicitation of an offer to buy shares of the Group in any jurisdiction. The information contained in this document is accurate as of the date of this document, regardless of the time of delivery of this document or any shares of the Group.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2001
Latest time and date for receipt of forms of proxy for the Extraordinary General Meeting of Kingfisher	10.30 a.m. on Wednesday, 22 August
Extraordinary General Meeting	10.30 a.m. on Friday, 24 August
Latest time and date for transfers of Kingfisher Ordinary Shares in order for transferee to be registered for the Demerger Record Time	5.00 p.m. on Friday, 24 August
Suspension of dealings in Kingfisher Ordinary Shares on Euronext Paris (and UK Bank holiday)	Monday, 27 August (all day)
Demerger Record Time	6.00 a.m. on Tuesday, 28 August
Effective date of Demerger, listing of the Company and commencement of dealings in Woolworths Group Shares on the London Stock Exchange and crediting of Woolworths Group Shares to CREST accounts	8.00 a.m. on Tuesday, 28 August
Despatch of definitive certificates for Woolworths Group Shares	by Friday, 31 August

All references in this document are to London times unless otherwise stated.

DEMERGER HELPLINE

Any Kingfisher Shareholder with questions on the Demerger or this document should telephone the Demerger helpline on 0870 889 3108 (from the UK) or +44 870 889 3108 (from outside the UK) between 9.00 a.m. and 5.00 p.m., Monday to Friday until 7 September 2001. The Demerger helpline cannot provide advice on the merits of the Demerger or give any financial advice and will not make available any information beyond that contained in this document.

OVERSEAS SHAREHOLDERS

Further details of the Demerger for holders of Kingfisher Shares or Kingfisher ADRs who are citizens or residents of countries other than the United Kingdom are set out in paragraph 3 of Part 2 of this document.

DIRECTORS, SECRETARY AND ADVISERS

Directors of the Company

Gerald Michael Nolan Corbett	*(Chairman)*
Christopher Charles Bevan Rogers	*(Finance Director)*
Keith Fleming	*(Director)*
Andrew Nigel Wendover Beeson	*(Non-Executive Director)*
Roger Evenden Jones	*(Non-Executive Director)*
Prudence Margaret Leith	*(Non-Executive Director)*

The business address of each of the Directors is Woolworth House, 242-246 Marylebone Road, London NW1 6JL.

Company Secretary

Christopher Rogers

Registered and Head Office

Woolworth House
242-246 Marylebone Road
London NW1 6JL

Advisers

Sponsor and Joint Broker	UBS Warburg 1 Finsbury Avenue London EC2M 2PP
Joint Broker	Credit Suisse First Boston One Cabot Square London E14 4QJ
Auditors and Reporting Accountants	PricewaterhouseCoopers 1 Embankment Place London WC2N 6RH
Legal Advisers to the Company	Freshfields Bruckhaus Deringer 65 Fleet Street London EC4Y 1HS
Legal Advisers to the Sponsor	Clifford Chance LLP 200 Aldersgate Street London EC1A 4JJ
Registrar	Computershare Investor Services PLC Owen House PO Box 435 8 Bankhead Crossway North Edinburgh EH11 4BR

SUMMARY KEY INFORMATION

The following information should be read in conjunction with the full text of this document from which it is derived.

Business summary

The Woolworths Group is principally a UK retailer focused on the home and family, offering its customers value-for-money on an extended range of products. It is built around the well known Woolworths brand which is represented in towns and cities throughout the UK.

Woolworths Mainchain, which comprises 788 of the Group's 904 retail stores, is a high street retailer for consumers' everyday general shopping requirements. Its strategy is to tailor its product ranges and store sizes to meet the distinct market needs of customers in different locations.

The Group has recently launched two new retail formats, Big W and Woolworths General Store to take advantage of changing retail trends by providing a broader product offering across a more comprehensive range of store locations.

The Group is also a leader in UK entertainment wholesale distribution and entertainment retailing. Its entertainment businesses include EUK, VCI, MVC and Streets Online.

Summary of Demerger

On 13 September 2000 the board of directors of Kingfisher announced its plans to demerge the general merchandise businesses. The Demerger of the general merchandise businesses (excluding Superdrug, the separate disposal of which was completed on 20 July 2001) will enable management to pursue (independently of Kingfisher) the recovery and growth strategies that best meet its long term objectives with the aim of ensuring that the value of the Group is more fully recognised by the market.

Kingfisher and the Company have agreed that, subject to the passing of the Demerger Resolution and Admission, Kingfisher will transfer its interests in the underlying general merchandise businesses to the Company in satisfaction of the Demerger Dividend. In consideration for the transfer to it of those interests, the Company will issue Woolworths Group Shares to Kingfisher Shareholders on the basis of one Woolworths Group Share for each Kingfisher Ordinary Share held at the Demerger Record Time.

Key strengths

The Directors believe that the key strengths of the Group include:

Leading brand with a reputation for value-for-money

The Group's Woolworths brand is one of the best-recognised retail brands in the UK. The core attributes of the brand include a reputation for value-for-money, familiarity and good quality.

Breadth of product range

The Group's breadth of product range across the various general merchandise categories has mass market appeal. The breadth of range provides authority relative to local retail competition. The Group's businesses have leading or significant market share in many of their key general merchandise categories.

Retail presence

The Group has a substantial portfolio of 904 stores located throughout the UK. The Group's stores see, on average, over 6.5 million customer transactions per week.

Innovation and flexibility

The Group has demonstrated an ability to take advantage of changing retail trends in the UK market and to respond to the growth in new channels through the development of differentiated store formats and new retail channels, while capitalising on additional product range and store location opportunities.

Experienced management and committed staff

The Group has a senior management team with significant retailing experience. A number of training and development programmes and store incentive schemes have been introduced with the aim of ensuring the continued commitment of staff to the Group's future performance.

Financial performance

Over the past decade, the Group's businesses have proved their ability to grow sales and generate significant cashflow, thereby demonstrating the potential for further progress.

Strategy

The Group is a major force in UK general merchandise retailing and the Directors believe that the Group has significant opportunities for profitable expansion. This is based on the Group's presence in large and fast-growing categories of general merchandise, retail brands with a reputation for value-for-money, retail formats that aim to meet customer needs wherever they choose to shop, a pivotal role in UK entertainment distribution and experienced management.

The Directors recognise that over the last two years the Group's financial performance has deteriorated and that as a result, the key priority will be to restore the Group's core retail business, Woolworths Mainchain, to its historic level of profitability and cashflow. The Group will address this by applying significant focus to cost control, inventory management, improvements in customer and product offer, availability, merchandising and in-store retail disciplines.

Longer term, the Group's strategy to generate shareholder value will be based on:

- Creating a lean organisation focused on value creation
- Sharpening the customer proposition at Woolworths Mainchain
- Improving inventory management and product availability
- Lowering everyday prices through superior sourcing
- Steady roll-out of the complementary Big W and Woolworths General Store growth formats
- Leveraging product and retail expertise across the Group's businesses
- Building on the Group's pivotal position in entertainment
- Restructuring the Group's e-commerce activities

Summary financial information

The table below, the contents of which have been extracted without material adjustment from the Accountants' reports in Part 3 of this document, summarises the trading record of the Group for the three financial years ended 3 February 2001. Investors should read the Accountants' reports set out in Part 3 of this document and should not rely solely on the summary information set out below.

	Year ended		
	3 February 2001 £m	**29 January 2000 £m**	**30 January 1999 £m**
Turnover	2,525.0	2,261.5	2,072.1
Gross profit	761.2	736.9	681.1
Operating profit	94.6	126.4	143.9

Segmental analysis	Year ended		
	3 February 2001 £m	**29 January 2000 £m**	**30 January 1999 £m**
Turnover			
Woolworths Mainchain	1,936.2	1,840.9	1,763.2
Big W	70.6	16.0	—
Woolworths General Store	12.6	—	—
Total Woolworths	2,019.4	1,856.9	1,763.2
MVC	130.0	101.6	80.1
EUK	257.7	200.5	182.1
VCI	67.7	60.6	16.9
E-commerce and other new channels	5.3	3.5	—
Other	44.9	38.4	29.8
Total Group	2,525.0	2,261.5	2,072.1
Operating profit			
Woolworths Mainchain	91.4	122.3	113.6
Big W	(8.9)	(4.7)	—
Woolworths General Store	(3.0)	(1.4)	—
Total Woolworths	79.5	116.2	113.6
MVC	2.7	1.0	0.9
EUK	23.8	20.0	30.0
VCI	0.2	0.9	(0.6)
E-commerce and other new channels	(14.5)	(11.4)	—
Total retail profit	91.7	126.7	143.9
Other income/(expense)	2.9	(0.3)	—
Total Group	94.6	126.4	143.9

Current trading and prospects

Kingfisher reported on 23 May 2001 that for the 13 weeks ending 5 May 2001, total sales for the general merchandise businesses (excluding Superdrug) were up by 6.1 per cent. compared with the corresponding period in 2000. It was reported that initiatives set in train in the previous financial year focusing on improving ranges, product availability and value to customers helped deliver sales growth in the sector. The new Big W and Woolworths General Store formats continued to show promise for the future.

It was announced on 3 July 2001 that since the end of the first quarter, Woolworths' like-for-like sales growth had improved. Like-for-like sales in July have been marginally lower than the previous year. Further, a successful programme to reduce Woolworths' stock levels and a strong performance in the relatively lower margin entertainment category, together with year on year increases in store operating costs, have had a significant adverse impact on Woolworths Mainchain's overall profitability in the first half of the current year.

The key priority in the current year for the Group continues to be the reduction of stock levels, the elimination of slow-moving stock and the return to cash generation. Action is also being taken to reduce the losses in the Group's e-commerce businesses although the benefits are not expected to be seen until the next financial year.

The Directors recognise that all these initiatives are necessary for the future strength of the Group but they will result in significant costs. It is anticipated that these costs (together with those arising from the establishment of group head office functions and the reduced profitability of Woolworths Mainchain in the first half) are likely to have a significant effect on profitability for the Group for the current financial year. Whilst it is recognised that the Group operates in a competitive marketplace, the Directors believe that implementation of the Group's strategy, including cost control, inventory management and superior merchandising will position the Group to take advantage of the opportunities available to it for profitable growth.

Dividend policy

The Directors intend to adopt a dividend policy for the Company which takes into account the long term development of the business and the underlying earnings of the Group, whilst maintaining an appropriate level of dividend cover which is expected to become more aligned with those of its peer group as profitability recovers.

The Directors intend to pay an interim dividend for the six month period ending 4 August 2001 which will reflect the Group's performance as if it had been independent throughout that period. It is intended that the Group's interim dividend will be paid in December and that the final dividend will be paid in July in the approximate proportions of 20 per cent. and 80 per cent. respectively of the total annual dividend.

PART 1: INFORMATION ON THE WOOLWORTHS GROUP

1 Introduction

The Woolworths Group is principally a UK retailer focused on the home and family, offering its customers value-for-money on an extended range of products. It is built around the well known Woolworths brand which is represented in towns and cities throughout the UK.

Woolworths Mainchain, which comprises 788 of the Group's 904 retail stores, is a high street retailer for consumers' everyday general shopping requirements. Its strategy is to tailor its product ranges and store sizes to meet the distinct market needs of customers in different locations.

The Group has recently launched two new retail formats, Big W and Woolworths General Store to take advantage of changing retail trends by providing a broader product offering across a more comprehensive range of store locations. Big W is positioned as a high volume out-of-town superstore offering an extensive breadth of product range at competitive prices in an attractive shopping environment. Woolworths General Store is a convenience drugstore format offering extended trading hours, a comprehensive range of health & beauty products, a convenience food range as well as other general merchandise and, where appropriate, a pharmacy.

The Group also operates the entertainment businesses EUK, VCI, MVC and Streets Online. EUK is Britain's largest wholesale distributor of home entertainment products whilst VCI is an audio-visual publishing group. MVC is a specialist high street retailer of entertainment products with 88 stores. Streets Online, one of the UK's leading specialist online entertainment retailers, was acquired in December 2000 to complement the MVC high street store chain.

2 The Group's marketplace

2.1 The general merchandise market

The Group operates in the UK general merchandising market, which is both large and highly fragmented, with participants of varying sizes and covering different category mixes. The overall market in the UK targeted by the Group was estimated by Verdict to be worth over £30 billion in 2000. According to Verdict, the majority of the categories in that market have significant growth potential as set out below. The Directors believe that the Group has established itself as one of the UK's leading retailers in many of its key general merchandise categories.

General merchandise category (as defined by Verdict)	Category size 2000 (£ billion)	% Compound annual growth rate 2000-2005
Entertainment[1]	4.9	8.2
Toys[2]	2.5	5.9
Home/housewares[3]	9.5	5.7
Confectionery[4]	10.5	3.5
Childrenswear[5]	3.5	1.5

1 Music, video and electronic games
2 Soft toys and board games
3 Textiles, soft furnishings and household hardware
4 Sweets/chocolates, soft drinks, seasonal products
5 Up to 9 years of age

Source: Verdict category forecasting, June 2001

The Group is the UK leader in retail entertainment in terms of consumer expenditure. Entertainment is a high growth category, driven by music and multi media, in particular, the rapid growth of DVD as a new format and the launch of new games consoles and related software. In addition, this category is seeing the development of important new selling channels with Streets Online and MVC positioned to benefit from anticipated growth in the on-line market.

Two trends in retail shopping have developed over the past ten years: an increase in out-of-town stores and growth in convenience and extended hours shopping. In response, whilst maintaining focus on Woolworths Mainchain, the Group has positioned itself to take advantage of these developments, and its strategy remains to have a presence in both urban and out-of-town shopping areas.

2.2 Customer reach

The Group's formats are designed to appeal to the value-conscious consumer. Woolworths is a mass market retailer with a leading brand and a broad product offering at competitive prices. Woolworths' mission is "to be at the heart of the community and the best loved retailer for kids, home and family leisure". The Group's Woolworths brand is one of the best-recognised retail brands in the UK and Woolworths stores see, on average, 6.5 million customer transactions per week.

Big W offers out-of-town shopping targeted at the mass market and is particularly conducive to family shopping outings. In contrast, Woolworths General Store targets high street convenience shoppers with the extended hours helping to attract a broad customer base.

MVC aims to distinguish itself from other specialist high street entertainment retailers by offering, through multi-channels, depth of product range, including an extensive back catalogue at competitive prices. MVC's typical customer is a frequent high-spending buyer of entertainment products.

3 History and development

F.W. Woolworth, a subsidiary of its US parent, was founded in the UK in 1909 as part of its parent company's global expansion plan. The first store opened in Liverpool, beginning a rapid roll out throughout the UK. F.W. Woolworth was subsequently listed on the London Stock Exchange with its US parent retaining a majority shareholding. In 1982 Paternoster Stores, the forerunner to present day Kingfisher, acquired the entire Woolworths business in the UK.

Following the acquisition, the new management implemented a strategy to focus the product offering, centralise accounting, invest in new information systems, rationalise the store base, reduce costs and centralise distribution. The merchandise was concentrated on selective ranges which remain at the core of the Woolworths product range today.

During the mid to late 1980s, management rationalised the offer further into clearly defined categories: entertainment, home, kids (toys and clothing) and confectionery. This enabled further development of the individual product ranges through the use of branded, own-brand and exclusive merchandise such as Ladybird clothing and Chad Valley toys. In the late 1990s, the management extended the Woolworths brand into other retail formats and alternative channels to accelerate growth by taking advantage of changing retail trends. This resulted in the opening of the first Big W store in 1999 and Woolworths General Store in 2000.

MVC was founded in 1991 as a joint venture between Kingfisher Group and former directors of Our Price. Kingfisher provided approximately three-quarters of the equity funding at the time and subsequently acquired 100 per cent. control of MVC in 1996. EUK was established by EMI in 1946, and subsequently became a joint venture between a number of record companies. Woolworths became EUK's largest customer and, in 1986, EUK was acquired by the Kingfisher Group. VCI was founded in 1985 and was a pioneer of retail video sales in the UK. It was floated on the London Stock Exchange in 1994 and was acquired by Kingfisher in November 1998.

Streets Online was founded in 1996 and has attracted over 450,000 registered customers since its launch. Kingfisher acquired an 85 per cent. shareholding in Streets Online in December 2000 and following further equity investment by Kingfisher, the Group now owns 91.4 per cent. of Streets Online.

4 The Group strategy

The Group is a major force in UK general merchandise retailing and the Directors believe that the Group has significant opportunities for profitable expansion. This is based on the Group's presence in large and fast-growing categories of general merchandise, retail brands with a reputation for value-for-money, retail formats that aim to meet customer needs wherever they choose to shop, a pivotal role in UK entertainment distribution and experienced management.

The Directors recognise that over the last two years the Group's financial performance has deteriorated and, as a result, the key priority will be to restore the Group's core retail business, Woolworths Mainchain, to its historic level of profitability and cashflow. The Group will address this by applying significant focus to cost control, inventory management, improvements in customer and product offer, availability, merchandising and in-store retail disciplines.

Longer term, the Group's strategy to generate shareholder value will be based on:

Creating a lean organisation focused on value creation

The Group aims to take advantage of the Demerger to revitalise its businesses and the way in which they operate. Each business will be focused on maximising cash generation and investing cash at superior returns. Additionally the internal operations of each business will be reviewed to avoid unnecessary duplication, simplify processes and create clearer accountabilities. The Directors believe that this will enable the Group to improve effectiveness and increase the speed of decision-making.

Sharpening the customer proposition at Woolworths Mainchain

The Group's strategy for its core business is based on tailoring ranges to meet different customer needs at each of its store locations. This involves adding health & beauty products and a stronger range of household products in Local Needs and Needs Plus stores, to reinforce their attractiveness for everyday shopping. An authoritative offering in the home product category is to be created for City Destination stores, to increase their appeal to consumers making special shopping trips. In addition, the Group will also explore opportunities for Woolworths Mainchain to enter markets where it is not currently represented.

Improving stock management and product availability

The Group will focus on improving product availability and accordingly, is undertaking several projects to improve stock management. A new in-store suite of systems, including an EPOS (electronic point of sale) system, is now in place in all Big W stores. It is also being trialled in 25 stores across the Woolworths Mainchain and Woolworths General Store formats. The systems are designed to speed up transaction times at the till and enable category managers to better manage stock in-store. A project to integrate a planning and replenishment system is being implemented, beginning with the confectionery category this autumn.

Lowering everyday prices through superior sourcing

The Group has a reputation for value-for-money. It intends to continue to identify and implement ways to reduce the costs of the products it procures, and then to reflect cost reductions in lower prices to customers. Specifically it is looking to increase substantially the procurement of products on a global basis directly from the manufacturer, thereby ensuring the best possible terms. It aims to develop exclusive supplier relationships that should allow product to be sourced at best prices and moved through the supply chain at minimum cost. This should allow the best possible value to customers whilst improving overall profitability. In addition, Woolworths Mainchain is implementing a pricing strategy which focuses investment in low pricing on key lines to specifically reinforce the value-for-money reputation.

Steady roll-out of the complementary Big W and Woolworths General Store growth formats

Big W and Woolworths General Store have been developed to complement the existing Woolworths Mainchain formats by taking advantage of retail trends towards out-of-town and convenience shopping respectively. There has been an encouraging early response to these new retail formats. Whilst the Directors intend to continue a steady roll-out across the UK, the Group will initially do so at a slower rate than originally envisaged to enable it to focus on restoring the performance of its existing core business. In the near term, a priority for Big W will be to drive like-for-like sales growth and improve sales densities through both the enhancement of existing ranges, such as homeware and clothing, and the addition of new ranges, including sports and leisure, car care and jewellery. For Woolworths General Store, the focus will be to develop the proposition to achieve the most profitable mix of products, including the higher margin health & beauty category and improved range density.

Leveraging product and retail expertise across the Group's businesses

Big W and Woolworths General Store are examples of how the Group can take advantage of its comprehensive coverage of key general merchandise categories to meet consumer shopping needs. The Group's future strategy involves further leveraging its product and retail expertise across its key businesses. This will include strategies which add health & beauty products originally sourced for Woolworths General Store to Woolworths Mainchain's Local Needs and Needs Plus stores, introduce homewares sourced for Big W into Woolworths' City Destination stores, and use state-of-the-art picking at EUK's new distribution centre to maximise chart availability in all the Group's stores that carry entertainment products. Furthermore, the Group intends to transfer best retail skills and practices from one format to another, in particular, from Woolworths General Store to the further development of Woolworths Mainchain.

Building on the Group's pivotal position in entertainment

The Directors believe that the Group's position as both a leading UK store retailer of entertainment products and the leading UK wholesale distributor of entertainment products through EUK, provides it with a powerful additional platform for growth. In addition, Streets Online is an award winning online retailer of entertainment products. The Group plans to increase sales of entertainment products to third party retailers by using EUK's procurement scale and increased capacity at its new distribution facility, and to the Group's retail customers through a multi-channel strategy which enables its customers to buy entertainment products through whichever distribution channel is most convenient to them.

Restructuring the Group's e-commerce activities

Following a review by the management of the Group's e-commerce activities it has been decided that the Woolworths entertainment offering over the Internet will be absorbed into Streets Online and operated out of Crawley. Further, Streets Online's operations are being integrated with those of MVC to save costs and to enhance MVC's entertainment proposition. The remainder of Woolworths' e-commerce activities are being closed down. The results of these actions are expected to reduce losses from the Group's e-commerce activities next year.

5 The Group's businesses

5.1 Woolworths Mainchain

Woolworths Mainchain, which now operates a portfolio of 788 stores across the UK, had a combined turnover of over £1.9 billion and retail profit of £91.4 million for the year ended 3 February 2001. Stores range in size from under 5,000 square feet to over 30,000 square feet with total retail space of over 6.5 million square feet. Merchandise sold in stores includes the core product categories of entertainment, confectionery, toys, children's clothing, stationery, home and events.

The majority of stores are located on highly visible retail sites and are divided into three distinct groups based on the particular mix of market size, catchment area and target customers. By tailoring the product range and store sizes to meet the distinct market needs of customers in different locations, Woolworths appeals to a large number of customers for a wide range of shopping occasions.

A summary of the Woolworths Mainchain formats is set out below:

	Woolworths Mainchain		
	Local Needs	Needs Plus	City Destination
Number of stores	459	220	118
Average size (sq ft)	4,882	10,464	17,466
Total sq ft ('000)	2,241	2,302	2,061
Market types	Small towns and suburbs with few chain competitors	Larger towns and small cities with some chain competitors	Urban centres with a large number of competitors

Store numbers as at 3 February 2001. Eleven stores were converted to the Woolworths General Store format and two new City Destination stores were opened subsequent to 3 February 2001.

Local Needs stores

Local Needs stores are generally located in small towns, smaller suburbs or neighbourhoods where there are relatively few competitor stores. Woolworths aims to be the retailer of choice in the local shopping market by meeting customers' basic everyday shopping needs. The Local Needs product range is weighted towards the basic end of frequently purchased categories such as kitchen & household, DIY, confectionery, children's clothing and entertainment.

Needs Plus stores

Needs Plus stores are usually located in the central shopping area of small cities, large towns and in the high street of large suburbs. The Needs Plus offer builds upon the foundation product range of Local Needs stores and offers a broader and deeper range of products. With on average approximately twice the space per store, Woolworths Needs Plus stores are able to deliver more comprehensive ranges in categories such as home and children's clothing.

City Destination stores

City Destination stores are located on prime shopping streets in major metropolitan areas, major regional shopping centres, cities and large towns. Competition between specialist retailers within each of City Destination's product categories in these areas is high. Choice, quality and value are considered to be the key customer buying factors. Accordingly, City Destination stores offer comprehensive product ranges at competitive prices.

5.2 New formats

The Group has launched two new formats over the past two years to take advantage of changing customer requirements and retail trends in the UK.

Big W

Big W is a superstore format developed to meet consumer demand for convenient, out-of-town shopping. It aims to offer more categories and ranges of products than any other general merchandise retailer and to become the primary destination store in its area for homeware, clothing and seasonal event products. Big W also aims to offer consistently low prices through utilising the Group's significant buying power.

The stores are large out-of-town and edge-of-town formats of, on-average, 75,000 square feet of internal retail space and include car parking facilities and often a garden centre. The emphasis on providing customers with a unique and enjoyable shopping experience is delivered through a combination of customer service, convenient locations, longer opening hours and an innovative "retail-tainment programme". Where the size of the store allows, cafés are standard operations and further complementary concessions include Thomas Cook, Carphone Warehouse, Specsavers and Time Computers.

Big W sells a full range of health & beauty products and convenience ranges in confectionery, entertainment, toys and gardenware primarily sourced from EUK, Woolworths, Superdrug and B&Q. Big W will continue to focus on improving its product offering and margins through enhancing its core product categories and ranges and introducing new categories, including jewellery, car care goods and sports products. Big W's main out-of-town competitor is Asda Wal-Mart but it also faces competition from Tesco and the specialists in each of its product categories.

The first Big W store was opened in Edinburgh in June 1999 and the current portfolio comprises nine stores. Like-for-like sales growth has been in line with management's expectations and on the four Big W stores open for more than one year was 10.5 per cent. for the first 25 weeks of the current financial year. A further four new store openings are currently intended for the current financial year at an estimated average capital expenditure cost of approximately £3.5 million per store which will be funded by the Group out of its operating cash flows. In addition to the existing nine Big W stores and the further four planned new openings in the current financial year, the Group is investigating further sites, 15 of which already have planning consents.

Woolworths General Store

Woolworths General Store is a local convenience retail format open seven days a week and offering extended opening hours (7 a.m. – 11 p.m. Monday to Saturday). It combines the brand and product category strengths of Woolworths with the health & beauty focus of US drugstore chains. The stores average 9,800 square feet in size. This enables Woolworths General Store to offer comprehensive ranges in health & beauty, a convenience food and drinks range as well as traditional Woolworths ranges and, where appropriate, a pharmacy.

Seven Woolworths General Stores were opened during the 2001 financial year as conversions from existing Woolworths Mainchain stores. These converted stores have recorded increased average sales per square foot of approximately 40 per cent. as a result of intensification of ranges, improved stock densities and extended trading hours.

12 Woolworths General Stores have been opened since 3 February 2001 and a further two new stores are intended to be opened in the current financial year. Pharmacy licences have been obtained for 17 of the 21 stores expected to be open at the year end. The current estimated average capital expenditure cost (excluding a pharmacy licence) is approximately £860,000 per store. Funding for this capital expenditure will be made by the Group out of its operating cash flows. The Directors believe there is scope to build on the success of the Woolworths General Store format through acquiring new sites, converting existing Woolworths Mainchain stores as well as applying the product and retail expertise acquired from this format to the further development of the Woolworths Mainchain. The Woolworths General Store format is being constantly refined to offer the optimal product mix appropriate to each location.

5.3 Entertainment businesses

The Group is the leader in UK entertainment wholesale distribution and a leading entertainment retailer. In addition to Woolworths Mainchain's retail strength in the entertainment category, the Group's other related entertainment businesses are:

- MVC;
- Streets Online;
- Entertainment UK (EUK);
- VCI.

The aggregate wholesaling, distribution and retail turnover for these entertainment businesses was in excess of £1 billion for the financial year ended 3 February 2001.

MVC

MVC is a multi-channel retailer of entertainment products comprising music (CDs, cassettes, mini-discs), video (VHS and DVD) and computer games. MVC targets the frequent high-spending buyer of entertainment products and aims to distinguish itself from other specialist high street entertainment retailers by offering depth of product range, including an extensive back catalogue, at competitive prices. MVC has 88 stores in the UK, located principally on high streets, in shopping centres and retail parks of small to medium-sized towns. MVC's principal competitors are the other specialist entertainment retailers such as HMV, Our Price and Virgin.

MVC operates a cardholder loyalty scheme and has established a substantial database of over 6 million MVC cardholders of whom approximately 50 per cent. have made purchases in the past year. Customers are offered the opportunity to join the cardholder scheme for free, which immediately entitles them to clearly marked price discounts on all products purchased. MVC collects the details of all cardholder transactions via the cardholder database, which offers significant marketing opportunities.

Following a rapid store-opening programme between 1997 and 1999, a strategic review in 2000 concluded that MVC's investment programme should include the delivery of an e-commerce offering to take advantage of the anticipated growth in this channel. MVC's entertainment website (mvc.co.uk) was launched in February 2001.

Streets Online

Streets Online is an on-line retailer (streetsonline.co.uk) of entertainment products, including music, videos, DVDs, games and books. In addition, Streets Online operates Xchange, an entertainment products exchange for second hand or hard to find products.

The Group owns over 91 per cent. of Streets Online. An initial 85 per cent. was acquired from various individual and corporate shareholders, including Freeserve plc, on 15 December 2000. The rationale for the acquisition of Streets Online was to offer a leading edge capability in online entertainment retailing and accelerated delivery of online retailing for MVC. Accordingly, the operations of Streets Online are currently being integrated with those of MVC under a single management team.

Streets Online generated sales of £10.4 million for the year ended 31 December 2000 and had over 370,000 registered customers at the end of December 2000. It currently has over 450,000 registered customers. The site was voted the 'Best Consumer Shopping Site in the UK' in the Intel-sponsored 'The Future UK Internet Awards' held in September 2000. Amazon is Streets Online's primary online competitor.

EUK

EUK is Britain's largest wholesale distributor of home entertainment products, providing value-added category management services to leading retailers and servicing over 2,300 stores throughout the UK with total turnover of £786 million. EUK currently supplies approximately 25 per cent. of the UK music industry's output and approximately one-third of the UK video industry's output (including DVDs). Although EUK's origins were in music distribution, the Directors believe that the company has been a leading influence in developing the distribution of other entertainment formats such as video in the late 1980s, video games in the early 1990s and more recently DVDs. EUK's product distribution portfolio includes CDs, DVDs, mini-discs, cassettes, singles, pre-recorded videos, video games, computer software and books.

EUK acts as an intermediary between entertainment suppliers and retailers. It aggregates products from multiple suppliers into a single store shipment and adds value through managing the retailer's inventory. EUK assists its customers in determining the range of product required. It then sources this product from multiple suppliers, receives the stock at its distribution sites, picks and aggregates the orders and packages the products for individual customers. Products are then distributed to customers by third party carriers. EUK also offers sale or exchange rights to the customer, marketing and promotional management, store fixtures and point of sale design, in-store merchandising and a dedicated call centre that deals with customer queries.

EUK's strategy is to drive customer, supplier and market growth through being a multi-channel consumer-focused entertainment business. An integral part of this strategy focuses on supporting the development of the entertainment element of the Group's retail businesses. EUK's largest customer is Woolworths Mainchain, which contributed 51 per cent. of total turnover for the year ended 3 February 2001. A further 17 per cent. of turnover over the same period related to MVC, Big W and Woolworths General Store. EUK also serves large third party retailers including Tesco, Safeway, Waitrose, Makro, Early Learning Centre and Comet. Following its acquisition by Wal-Mart, Asda, which accounted for 10 per cent. of EUK's turnover, has ceased sourcing product from EUK with effect from 1 February 2001. The Directors are confident that EUK is well positioned to replace the value of the Asda contract with growth from new and existing customers.

EUK has launched two other new business units, EUK Direct and ROSS. EUK Direct offers a wholesale distribution service and a 'direct to home' solution to entertainment retailers on the Internet, on interactive television and to retailers that offer catalogue sales and in-store kiosk ordering. ROSS offers a security-tagging product that both seals the product casing and also deters theft.

EUK's few major direct competitors in the UK include Total Home Entertainment and US-based Handleman. While the Directors recognise the potential threat to EUK of retailers seeking to source music and video product direct from the suppliers, they believe that retailers will continue to value EUK's ability to offer a single source of supply with associated management of their inventory availability, range and product selection.

VCI

VCI is an audio-visual publishing group comprising three divisions: Video, Demon Music Group (DMG) and a distribution operation, DISC Distribution (DISC).

The Video division is the leading independent video publisher in the UK with established relationships with major content providers including Granada Media Group, Channel 4, Film 4, BSkyB, Manchester United and Gullane Entertainment (owners of the Thomas the Tank Engine brand). Video licences acquired from copyright owners usually provide exclusive rights for a given period to individual titles or catalogues. With net annual video and DVD sales of approximately 6.7 million units, the Video division has significant market share in the Sports, TV, Music and Children's sectors. Cinema Club, a 50:50 joint venture with Columbia Tristar, is the leading low price film label in the UK with sales of a further 5.6 million units per annum. The Video division's customers include EUK (38 per cent. of sales), WH Smith, HMV and Virgin.

DMG is one of the leading publishers of budget audio product. It owns and licenses content which it sells via catalogue marketing within this market segment. DMG offers an extensive range of music titles including rock, pop and world music which are published under, amongst others, the Demon and Crimson labels. The Crimson label is exclusive to EUK. It has recently formed a joint venture with Ministry of Sound, creating a new label called Decadance. DMG is the second largest music publisher in the budget music segment behind EMI and its competitors also include the budget arms of major record labels such as Universal's Spectrum and BMG's Camden. DMG's customers include EUK (40 per cent. of sales), HMV and Virgin.

DISC provides a high level of distribution services to VCI's core publishing divisions as well as to over 60 independent third party video labels including Pearson and Clear Vision, the WWF wrestling video publisher. It has the additional benefit of access to the Group's strong channels to market through EUK and the Woolworths and MVC retail businesses. Last year, DISC handled over 26 million units. The business combines warehousing, picking, packing and shipping of product together with a full sales service, which includes invoicing and product presentation to customers.

6 Merchandise

6.1 Woolworths Mainchain, Big W and Woolworths General Store

The merchandising mix of the combined Woolworths businesses principally comprises seven core categories.

Entertainment

The entertainment product offering comprises CDs (albums and singles), cassettes (albums and singles), VHS video, DVDs, blank video and audio tapes, video games, PC software, books, newspapers and magazines, mobile phones and related products. In the last year margins declined as Woolworths responded to discounting by supermarkets. Woolworths' strategy is to maximise potential in growth formats such as DVD and video games.

Home

The home category comprises four main sections: DIY, kitchen and household, garden and gifts. Improved ranges of kitchenware, bathroomware and home adornments have been implemented to increase sales growth.

Confectionery

The product offering includes leading brand confectionery and the well-known Woolworths Pic 'n' Mix format. Plans include a focus on gift confectionery, a reduction in promotions, reduced dependency on everyday confectionery and improvements to the supply chain.

Toys

Woolworths offers a full range of toys including its own-label offering, Chad Valley. Although sales increased last year, margin declined as action was taken to reduce stock on several key lines. Plans for toys include the de-seasonalisation of outdoor toys by launching an Outdoor Home delivery catalogue, a programme to capture "pocket money" sales and improvements to forecasting and range planning.

Clothing

Woolworths' key asset in this category is its Ladybird brand which has a reputation for quality and value-for-money. The Woolworths Mainchain clothing offering includes kids fashion, kids essentials and adult essentials. Big W also offers a broader range of adult clothing. Last year sales and margin both declined. In-store availability was not good for operational reasons and the ranges were insufficiently differentiated on style or quality to command a price premium. This has been addressed by the introduction of new ranges, an increase in direct sourcing from overseas factories and improved availability in-store.

Events

The events category comprises Christmas merchandise and other seasonal event merchandise, greetings cards, table and partyware. The priority is to improve in-store disciplines and controls, to improve the display of greetings cards and to increase the sales of everyday greetings cards.

Stationery

Stationery products are grouped into teen and adult stationery, kids' stationery and arts and crafts. The product range is being overhauled to reduce the number of product lines.

6.2 Entertainment businesses

MVC

Over 95 per cent. of MVC's music sales are in CD format. VHS sales continue to represent the majority of video sales. In addition, over the past three years, MVC has actively developed its DVD range. DVD will continue to be a significant area of focus for MVC as the DVD market is expected to continue its rapid growth. Playstation sales represent the majority of MVC's computer games sales and the launch of Playstation 2 in November 2000 has made this format the most significant in MVC's range of computer games.

EUK

The majority of products supplied by EUK is chart related music, video and multimedia releases in a variety of formats. EUK also sources non-chart catalogue products, particularly for MVC given its specialist music focus and for its EUK Direct business.

VCI

VCI's product offering includes CDs, videos, DVDs and audio cassettes. Currently 15 per cent. of the video division's sales are in DVD format. VCI plans to maximise future growth potential by increasing its share of the rapidly growing DVD market, particularly the non-feature film market.

7 Advertising and marketing

The Group's businesses have a consistent marketing strategy of enhancing brand awareness in their consumer markets. This specifically supports various merchandise initiatives through advertising across a broad range of media and a variety of consumer marketing activities such as in-store promotions, catalogues and public relations campaigns.

Woolworths is a major retail advertiser in the UK with total advertising and marketing expenditure in the year ended 3 February 2001 of £43.1 million including supplier funded advertising. Media advertising is spread across television, press and radio. Media advertising for Woolworths and MVC concentrates heavily on television at peak seasons such as Christmas and Easter. A significant proportion of media expenditure comprises co-operative advertising with suppliers for promotions and product launches. In-store promotions generally include product specials designed to boost customer traffic through stores and to reduce the impact of seasonal fluctuations in sales. Point of sale materials are designed to highlight the delivery of distinctive value versus the competition.

The Woolworths advertising and marketing strategy focuses on creating a consistent branding image, emphasising the entertainment offerings and focusing on its core customers, families and children, through daytime television and catalogues. Woolworths also undertakes public relations campaigns to foster its image as "Britain's best loved retailer".

MVC's customer marketing is targeted at MVC cardholders, who are generally high spending, frequent purchasers of entertainment products. MVC adopts personalised and focused cardholder marketing to promote incremental sales and is focusing on initiatives to increase the value of the card to cardholders and to increase MVC's share of their total entertainment spend. As the nature of entertainment product makes it difficult to differentiate on range alone, the Directors believe that cardholder information held on the database provides MVC with a key competitive advantage and significant opportunities to develop stronger relationships with its cardholders.

8 Supply chain

8.1 Woolworths

Woolworths has a centralised buying strategy with the buying function located at its head office in London. Separate buying teams are in place for each product category. These category teams include category planners, buyers, merchandisers, marketeers and supply chain specialists.

A central replenishment system is used for ordering non-seasonal stock and uses daily sales information to help determine purchasing levels. Products such as entertainment and confectionery have short lead times of less than a week with major suppliers. Seasonal lines have longer lead times and the buying team forecasts expected demand well in advance of the seasonal period.

Woolworths' market position in toys and confectionery enables it to seek particularly competitive terms with its suppliers. Major suppliers in these categories include Hasbro, Mattel, Cadbury, Nestlé and Mars. In the entertainment category, Woolworths currently sources most of its product from EUK.

Woolworths' strategy is to reduce costs by buying direct from suppliers or from low cost manufacturers in Asia, Eastern Europe and the Middle East. In doing so, it will apply its policy of social responsibility, including an appropriate ethical approach to the behaviour of suppliers and manufacturers. In particular it has an arm's length sourcing arrangement with Kingfisher Asia Limited (described further in paragraph 14.6 of Part 5 of this document). The Directors believe that this strategy enables Woolworths to source products of equivalent or superior quality at lower cost. In addition, new product innovations can be delivered more quickly through closer cooperation with manufacturers. The Directors believe that the most significant opportunities for such cost reductions exist in the toys, home, clothing and stationery categories. In these areas, and most particularly toys, the volumes purchased are sufficiently large to source direct from the manufacturer and where they are able to do so, to source goods overseas.

A significant proportion of products for Big W and Woolworths General Store is sourced from Woolworths Mainchain and Superdrug. Supplies from Superdrug are the subject of an arm's length supply agreement entered into in July 2001, details of which are set out in paragraph 14.5 of Part 5 of this document. Big W also has a dedicated buying team responsible for sourcing other lines carried by its stores.

The Woolworths distribution network consists of five core distribution centres through which merchandise is distributed to the individual stores. The distribution centres are located in Swindon, Castleton (two), Rugby and Winsford covering approximately 1.5 million square feet in total and facilitating approximately 100 million picks per annum. Rugby is a new facility that has been introduced in order to handle the additional volumes being generated by continuing growth in Woolworths Mainchain and the Big W and Woolworths General Store formats.

There are also two short-term distribution operations covering a total of 240,000 square feet and five transhipment centres supporting the distribution centres. In addition, a further distribution centre in Braunstone provides customer order fulfilment services for the catalogue, Internet and Open television sales channels. All transport operations are currently outsourced.

8.2 Entertainment businesses

MVC

MVC's central buying function sources approximately 75 per cent. of its product from EUK. EUK uses its critical mass to negotiate purchase prices and is responsible for distribution to MVC stores, which is generally fulfilled within one day. The remainder of MVC's purchases are supplied directly from third party suppliers to MVC stores with order fulfilment typically completed within a week.

EUK

EUK's buying function is split into three primary areas - music, video and multimedia/books. EUK's market for both music and videos is concentrated with a few primary suppliers in each sector.

The EUK distribution network consists of four distribution centres located in Perivale, Hayes, Greenford and Colnbrook with total floor space of over 500,000 square feet. The new distribution centre in Greenford opened in August 2000. EUK provides a vendor management inventory service to its customers. Replenishment requirements are generally calculated overnight from its customers store sales data and picked and despatched next day for delivery in-store the following day. Large stores are generally replenished daily (Monday to Friday), smaller stores two to three times a week.

EUK is in the process of migrating its despatch operations to Greenford with the objective of closing the Perivale distribution centre. The Greenford operation is a purpose built, state-of-the-art distribution centre covering approximately 317,000 square feet, with an automated solution capable of handling 160 million units per year. The Directors believe that the Greenford operation will reduce future distribution costs whilst ensuring sufficient capacity for further expansion of EUK's customer business and will provide more efficient value added services to EUK's customers.

VCI

VCI's content buying function is carried out separately in each of its publishing divisions. The buying teams are primarily responsible for negotiating acquisition and licensing agreements for the supply of content. Suppliers used for video duplication include VDC and Deluxe whilst Disctronics and Technicolor are used for DVDs. CD manufacturing for DMG is performed by Technicolor.

DISC is able to supply over 9,000 UK outlets from a 72,000 square foot distribution centre located in North London. It ships direct to store generally within 24 to 48 hours of order receipt. Distribution is performed either by DISC vehicles or is outsourced to Securicor Omega.

9 Information systems

The Group's businesses operate a number of different business-specific IT systems, which are predominantly maintained in-house but are supplemented by various third party support and maintenance agreements. The Woolworths in-house IT capability is substantial and includes systems development and programme management. The Group's IT strategy is focused on delivering cost effective systems and services through group-wide contracts which aim to deliver synergies whilst meeting the specific needs of each of the operating businesses.

Major systems implementation will include the proposed roll out of a new in-store suite of systems which will cover both sales floor and back office processes and an overhaul of Woolworths' core transactional systems e.g. central master data, replenishment and planning systems, in support of the Group's multi-format businesses.

The new in-store suite of systems, including an EPOS system, is in use in all Big W stores. It is also being trialled in 25 stores across the Woolworths Mainchain and Woolworths General Store formats. Upon completion of the trial the rollout is expected to be completed to all Woolworths stores. The total cost of implementation is estimated at £52 million over five years of which £9.4 million was incurred in the year ended 3 February 2001. The Directors believe that the new system, which is Euro compliant, will provide substantial improvements in customer service through improved transaction speeds at the tills, better in-store visibility of stock levels and on-shelf availability and the ability to price merchandise at local levels.

The core transactional systems transformation centres on the implementation of the SAP enterprise system. The first phase is complete, providing the base infrastructure, master data and price management. This year will see the implementation of pricing and promotions management across all formats providing the capabilities for differential pricing.

During the past 12 months a new approach and system has been introduced in support of Woolworths' range planning processes. This should provide improvements in both product selection and range architecture and drive improvements in sales and margin. In addition work is underway to deliver integrated planning and replenishment systems based on the decision support solutions provided from Manugistics. The systems are designed to improve availability cost effectively through optimising the timing of flows of stock and the use of supply chain resources. Initial focus is on establishing a robust sales forecasting process and improvements to the Group's internal supply chain. Following this, the Directors intend to seek to develop collaborative working practices with the Group's key suppliers with a view to driving further efficiency and availability improvements. The overall cost of the core central systems transformation is estimated at £37 million over five years of which £8.8 million was incurred in the year ended 3 February 2001.

10 Property

The Group owns one freehold, one part freehold and part leasehold and 11 long leasehold store properties. The remaining properties are held on short leasehold arrangements with lease terms which typically range from 11 to 25 years. Since the Group, in order to offer a broader range of merchandise categories, operates large stores with associated average rents per square foot being generally less than for smaller stores, the Directors accordingly believe that the Group's average rental charges per square foot on its store portfolio are lower than those of its specialist competitors, providing it with a competitive advantage.

The Group has revised the terms of its leases on 152 existing properties. These are held by the Group on mostly 25 year institutional leases from Chartwell Land plc (or one of its subsidiaries), members of the Kingfisher Group, with five yearly upwards only rent reviews staggered across the portfolio. The rent increases at the rent reviews under each lease are to the higher of open market value or a fixed 2.5% per annum increase calculated from the rental value as at December 2000. In the case of leases in respect of which the first review date falls prior to 31 December 2003, the rent at the first review will be a figure calculated by applying a fixed 2.5% increase per annum from the rental value at December 2000, not to the prevailing open market value. Under the terms of these revised leases, there is a moratorium for three years on the serving of schedules of dilapidations by any landlord. The estimated present cost to make good dilapidations, if these schedules were able to be served and enforced, would be approximately £19.7 million. The Directors believe that these costs are likely to be reduced through ongoing repairs and maintenance and negotiation at that time with the landlord. Kingfisher has announced its intention to dispose of its general merchandise high street property portfolio including those properties occupied under these leases.

11 Management and Corporate Governance

The Board

Gerald Corbett (49) Chairman

Gerald Corbett was appointed Chairman of Kingfisher's General Merchandise Division in March 2001. He was previously Chief Executive of Railtrack from 1997 to 2000. Prior to that he was Finance Director of Grand Metropolitan from 1994 to 1997 and held the same position at Redland from 1987 to 1994. His retail experience also includes five years as Group Financial Controller and Corporate Finance Director of Dixons from 1982 to 1987. He worked for the Boston Consultancy Group from 1975 to 1977 and 1979 to 1982. He has a MSc in business studies from London Business School with distinction (1979). Gerald was a non-executive director of MEPC from 1994 to 1997 and of Burmah Castrol from 1998 to 2000.

Christopher Rogers (41) Finance Director

Christopher Rogers was appointed to be Finance Director of Woolworths Group plc in May 2001. He was previously Commercial Director at Comet Group plc, a position he held from 1997. Prior to that he was Finance Director at Comet from 1993. Before moving to Comet, Christopher was employed by Kingfisher plc from 1988, where he was Group Financial Controller from 1991 to 1993, and Corporate Finance Manager from 1988 to 1991 with responsibility for investor relations and corporate transactions. After graduating from Durham University with a degree in Economics, Christopher qualified as a Chartered Accountant with Price Waterhouse.

Keith Fleming (41) Managing Director, Woolworths Mainchain

Keith Fleming was appointed Managing Director of Woolworths Mainchain in 2000 and now has primary responsibility for the Woolworths Mainchain Local Needs and Needs Plus Stores. Keith previously held the position of Finance and Systems Director of Woolworths. He has been employed by Woolworths for over 12 years having joined as a Financial Controller of the Commercial Division in 1989. Keith was previously Financial Director of Quadrant Communications. After graduating from Edinburgh University with a Business degree, he qualified as a Chartered Accountant at Moores and Rowland.

Andrew Beeson (57) Non-Executive Director

Andrew Beeson was appointed a Non-Executive Director of Woolworths Group plc in July 2001. He is currently Deputy Chairman of Beeson Gregory Group plc, the firm he founded in 1989, and will become Chairman in September 2001. Prior to that he was a Director of ANZ McCaughan from 1987 to 1989, and a Director of ANZ Merchant Bank from 1985 to 1987. In 1963 Andrew joined Capel-Cure Linton Clarke, later Capel Cure Myers, becoming a partner in 1972 and Head of Institutional Sales in 1979. He was a Member of the DTI Committee "Creating Quality Dialogue Between Smaller Quoted Companies and Fund Managers", and he was awarded the Coopers & Lybrand "PLC Achievement Award" in 1995.

Roger Jones (63) Non-Executive Director

Roger Jones was appointed Non-Executive Director of Woolworths Group plc in July 2001. He was 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 spent the majority of his career at Woolworths, joining F.W. Woolworth in 1958. He has held various positions within Woolworths plc, including Board responsibility for retail operations, property and store planning, security, distribution, logistics, buying and marketing. He is also a Member of Council for Barnado's.

Prue Leith (61) Non-Executive Director

Prue Leith was appointed Non-Executive Director of Woolworths Group plc in July 2001. She currently holds Non-Executive Directorships at Whitbread plc, since 1995, and TriVen plc, since 1999. Prue was previously a Non-Executive Director at Halifax plc, from 1995 to 1999, and Argyll Group plc, from 1989 to 1996. She started Leith's Good Food, a commercial catering company in 1965 and Leith's Restaurant in 1969. She became Managing Director of her own company, Prudence Leith Ltd in 1972, and opened the Leith's School of Food and Wine in 1975 where she was Chairman. Prue was awarded an OBE in 1989, and Business Woman of the Year in 1990. She has written several books and has been a cookery correspondent and cookery editor for a number of national newspapers.

Senior management

Ken Lewis (48) Commercial and Marketing Director, Woolworths

Ken Lewis was appointed Marketing Director of Woolworths in 2000 adding the Commercial Director responsibilities the same year. He joined Woolworths in 1986 and has subsequently held the positions of Trading Director for toys and stationery, Commercial Director of EUK and Managing Director of MVC. Ken previously worked for Boots.

Bob Hetherington (53) Managing Director, Big W

Bob Hetherington was appointed Managing Director of Big W in May 2000 and was given management responsibility for the Woolworths Mainchain City Destination Stores in July 2001. He joined Woolworths in September 1998 as General Operations Director, Out of Town, where he was responsible for developing the concept that has subsequently grown into Big W. Bob joined Wal-Mart in 1997 as Vice-President International Operations and was subsequently appointed as Country Manager, Puerto Rico. Prior to that, Bob spent 26 years at F.W. Woolworths in Canada where he held various senior management positions, including Executive Vice-President F.W. Woolworths and Senior Vice-President Woolco Division.

Steven Round (42) Managing Director, Woolworths General Store

Steven Round was appointed Managing Director of Woolworths General Store in 1999 having been selected to trial and then launch Woolworths General Store. He joined Superdrug in 1990 where he held the positions of Strategy Director, Property Director and then Marketing Director. Steven was also responsible for starting pharmacy within Superdrug. Prior to joining Superdrug, Steven held the position of Marketing Manager at Beechams and Guinness.

David Cain (43) Managing Director, MVC and Streets Online

David Cain was a founding member of MVC and was appointed Managing Director in January 2000, having been a Director since 1994. He has extensive experience in music retailing and previously spent ten years at Our Price where his responsibilities included those of Operations Director. From June 2001, David also assumed management responsibility for Streets Online.

Richard Cowan (55) Managing Director, EUK

Richard Cowan was appointed Managing Director of EUK in February 1994, having joined EUK as Operations Director in 1990. He previously worked for Wiggins Teape as Commercial Director for four years with responsibility for customer service processes across Europe. Richard's earlier career was spent with the Mars Group.

Richard Green (44) Managing Director, VCI

Richard Green was appointed Managing Director of VCI in 1999. He joined EUK in 1989 where he held several management positions, including Commercial Director for five years. Richard's previous employers include Safeway/Argyll Group and BhS.

Corporate governance

The Board supports high standards of corporate governance. Following Admission, the Board intends, where practicable, to comply with the Combined Code published by the UK Listing Authority following the recommendations of the Committee on Corporate Governance chaired by Sir Ronald Hampel and put in place the procedures required to comply with the internal control aspects of the Combined Code in accordance with the Turnbull Report.

Gerald Corbett will initially be Chairman of the Company with operational responsibility for the Group. A Chief Executive, with appropriate retail experience, will be appointed to the Board as soon as possible. Following this appointment, and after a suitable settling in period, the functions of Non-Executive Chairman and Chief Executive will be split, with Mr Corbett becoming Non-Executive Chairman. Andrew Beeson is the senior Non-Executive Director.

The Board has established audit, remuneration and nominations committees, each of which has duties and responsibilities formally delegated to it by the Board.

Audit Committee

The Audit Committee comprises the Non-Executive Directors and its chairman is Roger Jones. It will meet at least twice a year and will, amongst other matters, be responsible for making recommendations to the Board on the appointment of auditors and the audit fee, for reviewing the conduct and control of the annual audit and internal financial controls. It also will have responsibility for the proper reporting of the financial performance of the Group and for reviewing financial statements before publication.

Remuneration Committee

The Remuneration Committee comprises the Non-Executive Directors and its chairman is Andrew Beeson. The committee, which will normally meet at least twice a year, has responsibility 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.

Nominations Committee

The Nominations Committee comprises the Chairman and the Non-Executive Directors and its chairman is Prue Leith. It will be responsible for monitoring and reviewing the composition of the Board and for reviewing and recommending appointments to the Board.

12 Summary financial information on the Group

The table below, the contents of which have been extracted without material adjustment from the Accountants' reports in Part 3 of this document, summarises the trading record of the Group for the three years ended 3 February 2001. Investors should read the Accountants' reports set out in Part 3 of this document and should not rely solely on the summary information set out below.

	Year ended		
	3 February 2001 £m	**29 January 2000 £m**	**30 January 1999 £m**
Turnover	2,525.0	2,261.5	2,072.1
Gross profit	761.2	736.9	681.1
Operating profit	94.6	126.4	143.9
Cash flow from operating activities	19.1	174.4	142.2

Segmental analysis	Year ended		
	3 February 2001 £m	**29 January 2000 £m**	**30 January 1999 £m**
Turnover			
Woolworths Mainchain	1,936.2	1,840.9	1,763.2
Big W	70.6	16.0	—
Woolworths General Store	12.6	—	—
Total Woolworths	2,019.4	1,856.9	1,763.2
MVC	130.0	101.6	80.1
EUK	257.7	200.5	182.1
VCI	67.7	60.6	16.9
E-commerce and other new channels	5.3	3.5	—
Other	44.9	38.4	29.8
Total Group	2,525.0	2,261.5	2,072.1
Operating profit			
Woolworths Mainchain	91.4	122.3	113.6
Big W	(8.9)	(4.7)	—
Woolworths General Store	(3.0)	(1.4)	—
Total Woolworths	79.5	116.2	113.6
MVC	2.7	1.0	0.9
EUK	23.8	20.0	30.0
VCI	0.2	0.9	(0.6)
E-commerce and other new channels	(14.5)	(11.4)	—
Total retail profit	91.7	126.7	143.9
Other income/(expense)	2.9	(0.3)	—
Total Group	94.6	126.4	143.9

The Woolworths Group's turnover has grown over the three financial years ended 3 February 2001 from £2,072.1 million to £2,525.0 million representing growth of 9.1 per cent. and 11.7 per cent. each year respectively. This has been driven principally by growth in Woolworths Mainchain where overall sales increased from £1,763.2 million to £1,936.2 million (4.4 per cent. and 5.2 per cent. growth each year respectively) with total selling space increasing from 6.2 million square feet to 6.6 million square feet. In addition, the new store formats (Big W and Woolworths General Store) contributed £83.2 million from a base of zero in the first year.

The Group's retail profit has fallen from £143.9 million to £91.7 million over the three year period as further described below. Cash flow has also reduced as lower profitability was combined with increased stock levels, capital expenditure and start-up costs of new formats.

After five years of steady profit growth from £65.3 million in 1996 to £122.3 million in the year to 29 January 2000, the profitability of Woolworths Mainchain reduced in the financial year ended 3 February 2001 to £91.4 million. This fall in profitability has arisen partly as a result of costs associated with increased stock levels, product mix and pricing actions. Stock held by Woolworths rose by over £100 million at sale value to £546 million. This was caused principally by Woolworths Mainchain buying to a sales forecast which was not achieved. The stock increase led to a rise in distribution costs, shrinkage and a reduction in margin as prices were reduced to clear excess stock. Reducing stock levels is a major priority in the current financial year.

In terms of product mix, sales performed strongly in low margin categories such as entertainment, mobile communications and toys, but returned a relatively weak performance in higher margin categories such as clothing and home.

In entertainment, the largest category at Woolworths Mainchain, action was taken to reduce prices to ensure stores were competitive. This led to a small increase in category share but a reduction in margin percentage. Toy margins fell largely as a result of action to shift high levels of stock. In clothing, margins declined as the business responded to heavy competition from discount retail competitors.

Across all categories, measures have been put in place to grow sales and margins which include the introduction of new ranges, a change in sourcing patterns (especially for clothing), actions to improve forecasting and reduce stock levels, improved in-store disciplines and the implementation of a pricing strategy which involves focussing price reductions on key lines rather than across the board.

As already highlighted, other factors underlying the reduced margins in the year to 3 February 2001 are higher distribution costs and shrinkage. Distribution costs increased with the increase in available capacity at two of the Woolworths regional distribution centres at Rugby and Winsford. The consequential increase in fixed costs resulted in a higher cost per item. Stock losses increased as a result of the shift towards higher value product and excess stock levels.

The cost of new e-commerce activities and the cost of establishing the new Big W and Woolworths General Store formats also negatively impacted on the Group's overall profitability. Reducing losses in these various formats as rapidly as possible is a priority.

MVC's turnover has continued to grow from £80.1 million to £130.0 million in line with an increase in the number of stores.

EUK's third party sales have grown from £182.1 million to £257.7 million. This has been achieved by the growth in market share of its customers. Profit growth has been impacted by investment in customer terms and the establishment of the EUK Direct business. The profit generated by EUK in the financial year ended 3 February 2001 was £23.8 million.

VCI had a successful year growing sales from £60.6 million to £67.7 million. The business has been refocussed on visual and audio publishing and is well placed to take advantage of market growth, particularly in DVD.

The fall in cash flows from operating activities in the year to 3 February 2001 compared to the prior year principally arose as a result of lower profitability, movements in working capital and increased capital expenditure. Stock levels increased by £116.1 million (2000: increase of £50.9 million) and creditors decreased by £16.5 million (2000: increase of £105.0 million). The working capital movements principally arose as the period included an additional month end UK supplier payment run as a consequence of the 53 week period. The Group's businesses are highly seasonal with the majority of profits and cash flow consistently generated in the last quarter of each year.

The key priority of the Group is to restore profits and cash generation to historic levels. This will require the elimination or turnaround of loss-making activities, reductions in capital expenditure, a reduction in stock levels, a reinvigorated focus on cost, margins and retailing basics such as shrinkage, availability and in-store disciplines.

13 Current trading and prospects

Kingfisher reported on 23 May 2001 that for the 13 weeks ending 5 May 2001, total sales for the general merchandise businesses (excluding Superdrug) were up by 6.1 per cent. compared with the corresponding period in 2000. It was reported that initiatives set in train in the previous financial year focusing on improving ranges, product availability and value to customers helped deliver sales growth in the sector. The new Big W and Woolworths General Store formats continued to show promise for the future.

It was further announced on 3 July 2001 that since the end of the first quarter, Woolworths' like-for-like sales growth had improved. Like-for-like sales in July have been marginally lower than the previous year. Further, a successful programme to reduce Woolworths' stock levels and a strong performance in the relatively lower margin entertainment category, together with year on year increases in store operating costs, have had a significant adverse impact on Woolworths Mainchain's overall profitability in the first half of the current year.

The key priority in the current year for the Group continues to be the reduction of stock levels, the elimination of slow-moving stock and the return to cash generation. Action is also being taken to reduce the losses in the Group's e-commerce businesses although the benefits are not expected to be seen until the next financial year.

The Directors recognise that all these initiatives are necessary for the future strength of the Group but they will result in significant costs. It is anticipated that these costs (together with those arising from the establishment of group head office functions and the reduced profitability of Woolworths Mainchain in the first half) are likely to have a significant effect on profitability for the Group for the current financial year. Whilst it is recognised that the Group operates in a competitive marketplace, the Directors believe that implementation of the Group's strategy, including cost control, inventory management and superior merchandising will position the Group to take advantage of the opportunities available to it for profitable growth.

14 Group dividend policy

The Directors intend to adopt a dividend policy for the Company which takes into account the long term development of the business and the underlying earnings of the Group, whilst maintaining an appropriate level of dividend cover which is expected to become more aligned with those of its peer group as profitability recovers.

The Directors intend to pay an interim dividend for the six month period ending 4 August 2001 which will reflect the Group's performance as if it had been independent throughout that period. It is intended that the Group's interim dividend will be paid in December and that the final dividend will be paid in July in the approximate proportions of 20 per cent. and 80 per cent. respectively of the total annual dividend.

15 Employees

The Directors believe that the Group has a highly committed and motivated team of employees who demonstrate loyalty to the Group's brands and its business mission. The Group continues to place emphasis on high standards of customer care and service. The "customer" ethos is strong and employees are encouraged to develop close links with the communities in which they trade.

Through the continued development of arrangements for employee information, consultation, communication and involvement, including attitude surveys and briefing groups, the Group's employees are encouraged to contribute to making the business better and are consulted regularly on issues or changes which affect them. Learning and development is supported by tailored on and off job programmes for all job roles and senior employees' succession and career development plans are reviewed at least twice a year.

Employees are incentivised as individuals and as teams to achieve their part in the delivery of profit targets. Line managers hold regular performance reviews against clearly stated objectives at all levels in the business. The Group regards employee share ownership as an important incentive in order to align the incentives of Group employees with the interests of shareholders. It is intended that a Sharesave Scheme will be available to all Group employees after a qualifying period of employment. The Group also intends to implement the new All-Employee Share Ownership Plan for the benefit of its employees. Details of the proposed Woolworths Group Employee Share Incentive Schemes are set out in paragraph 7 of Part 5 of this document.

The table below sets out the average number of employees employed by the Group in each of the last three financial years, as extracted without material adjustment from the Accountants' reports set out in Part 3 of this document.

	Year ended		
Average number of persons employed	**3 February 2001**	**29 January 2000**	**30 January 1999**
Stores	32,546	29,106	28,263
Distribution	1,222	1,118	959
Administration	2,068	1,807	1,712
Total	**35,836**	**32,031**	**30,934**
The equivalent number of employees working full-time would have been	20,503	18,355	16,537

PART 2: FURTHER INFORMATION RELATING TO THE DEMERGER

1 Basis of the Demerger

Dividend in Specie

The Demerger is conditional upon the passing of the Demerger Resolution to be proposed as an ordinary resolution at the EGM, and Admission.

The Demerger will be effected by Kingfisher declaring a dividend on the Kingfisher Ordinary Shares, which will be satisfied by the allotment and issue by the Company of Woolworths Group Shares, credited as fully paid up, to the holders of Kingfisher Ordinary Shares on the Kingfisher Share Register at the Demerger Record Time, on the basis of:

one Woolworths Group Share for each Kingfisher Ordinary Share held at the Demerger Record Time

save that in respect of each of Geoffrey Mulcahy and Helen Jones the number of Woolworths Group Shares to be allotted and issued to each of them as a Kingfisher Shareholder shall be reduced by the number of Woolworths Group Shares already held by them at the Demerger Record Time.

In consideration for the issue of Woolworths Group Shares to Kingfisher Shareholders, Kingfisher will transfer to the Company the whole of the issued share capital of Sandelcroft (the holding company for the underlying general merchandise businesses).

The number of Woolworths Group Shares issued on Demerger is not expected to exceed 1,440,000,000 ordinary shares, being the aggregate of 1,405,067,362, the number of Kingfisher Ordinary Shares in issue on 30 July 2001 (the latest practicable date prior to the date of this document) and 34,932,638, the Directors' estimate of the maximum number of additional Kingfisher Ordinary Shares which may be issued prior to the Demerger Record Time.

2 Demerger Resolution

The notice of the EGM accompanies the Circular.

The purpose and effect of Resolution 1 (which is conditional upon Admission) is to effect the Demerger by declaring a dividend equal to the book value of Kingfisher's interest in Sandelcroft and which is to be satisfied by the transfer of the entire issued share capital of Sandelcroft to the Company in consideration for which the Company will allot and issue the Woolworths Group Shares, credited as fully paid up, to the holders of the Kingfisher Ordinary Shares on the basis set out under *"Basis of the Demerger"* above. Approval by Kingfisher Shareholders of this dividend is required by the articles of association of Kingfisher.

3 Admission, Dealings, Share Certificates and CREST and arrangements for French and US Shareholders

Admission

Application has been made for the admission of the Woolworths Group Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective and dealings for normal settlement in the Woolworths Group Shares will commence on the Effective Date.

Dealings and Euronext Paris suspension

For a transferee to be a registered holder of Kingfisher Ordinary Shares by the Demerger Record Time, a transfer of Kingfisher Ordinary Shares must be recorded on the Kingfisher Share Register held by Kingfisher's Registrars by 5.00 p.m. on 24 August 2001. Trading in Kingfisher Ordinary Shares on Euronext Paris will be suspended throughout Monday, 27 August 2001.

Share certificates

Holders of Kingfisher Ordinary Shares on the Kingfisher Share Register at the Demerger Record Time will constitute the opening Share Register of the Company.

The entitlement to receive Woolworths Group Shares pursuant to the Demerger is not transferable save to satisfy valid market claims. It is expected that definitive certificates in respect of Woolworths Group Shares will be posted to entitled holders of Woolworths Group Shares (who hold their shares in certificated form) at their registered address on the Kingfisher Share Register no later than 31 August 2001. Temporary documents of title will not be issued. Pending despatch of the certificates, transfers will be certified against the Share Register by the Registrar. Share certificates will be despatched to shareholders at their own risk.

CREST

CREST is a paperless settlement system enabling shares to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Company Articles will permit the holding of Woolworths Group Shares under the CREST system. The Company has applied for its shares to be admitted to CREST with effect from Admission.

Holders of Kingfisher Ordinary Shares on the Kingfisher Share Register at the Demerger Record Time who hold their Kingfisher Ordinary Shares in uncertificated form through CREST will receive uncertificated Woolworths Group Shares into the same CREST accounts immediately following Admission.

Dividend Mandates

Existing dividend mandates to bank or building society accounts given in relation to dividends paid by Kingfisher will continue to apply to Kingfisher Ordinary Shares and will also be applied automatically to Woolworths Group Shares arising as a result of the Demerger.

French Shareholders

Arrangement for French Holders of Kingfisher Ordinary Shares - Voluntary Transfer Offer

Holders of Kingfisher Ordinary Shares at the Demerger Record Time who hold Kingfisher Ordinary Shares through Euroclear France ("French Euroclear Holders") will be entitled to benefit from a Voluntary Transfer Offer dealing facility ("VTO"). The aim of the VTO is to compensate French Euroclear Holders for the fact that the Woolworths Group Shares they receive will not be listed on Euronext Paris. Holders of Kingfisher Ordinary Shares at the Demerger Record Time whose names appear on the Kingfisher Share Register with an address in France (and who do not therefore hold such shares through Euroclear France) will be excluded from the VTO.

At the Demerger Record Time, Woolworths Group Shares will be issued by the Company to Euroclear France on the basis of the ratio set out in paragraph 1 above. Euroclear France will then distribute such Woolworths Group Shares to those of its affiliates holding Kingfisher Ordinary Shares on behalf of French Euroclear Holders.

French Euroclear Holders will be given the opportunity during a three week period to ask their respective financial intermediary holding Woolworths Group Shares on their behalf ("Intermediary") to transfer their Woolworths Group Shares to Société Générale, acting solely as centralising bank in France in the VTO.

At the end of this period, Société Générale will sell all of the Woolworths Group Shares that have been transferred to it by the Intermediaries on behalf of French Euroclear Holders on the London Stock Exchange in one or more trades (depending on the number of Woolworths Group Shares which have been transferred to Société Générale by the Intermediaries). The aggregate proceeds of the sale(s) will be converted into Euro by Société Générale and distributed pro rata to those Intermediaries (for the relevant French Euroclear Holders who will have transferred Woolworths Group Shares to Société Générale under the VTO).

All the fees of the centralising bank arising in connection with the VTO will be borne by Kingfisher.

The receipt by French Euroclear Holders or by holders of Kingfisher Ordinary Shares whose names appear on the Kingfisher Share Register with an address in France of Woolworths Group Shares or the cash proceeds of any sale under the VTO, may involve certain tax consequences depending, in part, on the particular circumstances of the holder. A summary of certain tax consequences (including in particular capital gains taxation consequences in respect of any subsequent disposal of Woolworths Group Shares) appears in paragraph 9.3 of Part 5 of this document.

French Euroclear Holders and holders of Kingfisher Ordinary Shares resident in France are strongly advised to consult their own advisers as to the overall French tax consequences of their receipt, ownership and disposition (whether under the VTO or otherwise) of Woolworths Group Shares, and the receipt of cash proceeds in respect of such disposition as soon as possible.

Kingfisher ADR Holders

Kingfisher ADR Holders are advised that the Directors do not propose to sponsor an American Depositary Receipt facility for the Woolworths Group Shares. Kingfisher ADR Holders cannot receive the Woolworths Group Shares distributed in the Demerger in the accounts in which their Kingfisher ADRs are held. The Depositary will receive a distribution of Woolworths Group Shares attributable to the Kingfisher Ordinary Shares represented by the Kingfisher ADRs. The Depositary will sell the Woolworths Group Shares on the London Stock Exchange on the first day of trading or as soon as practicable thereafter, convert the cash proceeds into US dollars and distribute such proceeds, net of sale and currency conversion expenses, in US dollars pro rata to Kingfisher ADR holders.

The receipt of Woolworths Group Shares and the cash proceeds from the sale of such shares, by Kingfisher ADR Holders resident in the United States, may involve certain tax consequences depending, in part, on the particular circumstances of the Kingfisher ADR Holder. A summary of certain tax consequences appears in paragraph 9 of Part 4 of the Circular. Holders of Kingfisher ADRs are strongly advised to consult their own advisers as to the overall United States federal, state and local tax consequences of their receipt, ownership and disposition of Woolworths Group Shares, and the receipt of cash proceeds in respect of such disposition as soon as possible.

4 Continuing arrangements between Kingfisher and the Company

Following the Demerger, Kingfisher and the Company will each operate as separate publicly listed companies and neither Kingfisher nor the Company will retain any shareholding in the other. Implementation of the Demerger and the relationship between Kingfisher and the Company after the Demerger is regulated by a Demerger Agreement entered into on 31 July 2001. For a fuller description of the Demerger Agreement see under "Material Contracts" in paragraph 14 of Part 5 of this document.

Services

Kingfisher has agreed with the Company that, following the Demerger, Kingfisher will continue to provide certain limited head office and related services to the Group. These services will be provided on an arm's length and temporary basis pursuant to a Transitional Services Agreement entered into with the Company on 31 July 2001 (or pursuant to ongoing agreements and arrangements). For a fuller description of the Transitional Services Agreement see under "Material Contracts" in paragraph 14 of Part 5 of this document.

Pensions

Kingfisher and the Company have agreed that the Group will continue to participate in the Kingfisher Pension Scheme (KPS) and the Kingfisher Retirement Trust (KRT) until 31 March 2002. The Group will then set up new pension schemes which will be similar to KPS and KRT in all material respects. For those Group employees who consent, transfers will be made from KPS and KRT to the new schemes.

Further details about these arrangements are set out under "Pensions" in paragraph 8 of Part 5 of this document. See also the description of the Pensions deed of division under "Material Contracts" in paragraph 14 of Part 5 of this document.

Intellectual property

Most material intellectual property used by the Group is confined to trade marks, such as the Woolworths name, rights in computer software and databases and, in the case of the entertainment businesses, copyright in sound and video recordings. These intellectual property rights are largely either owned or licensed directly to the individual Group operating companies and therefore continuing arrangements for the use of the rights between Kingfisher and the Group will not be required. However, the Transitional Services Agreement and the Demerger Agreement will contain a short transitional licence of the Kingfisher name to the Group, as well as a cross-licence between the Group and Kingfisher of certain of each other's trade marks for use on employee discount cards. It is also anticipated that those trade marks will be licensed so as to allow continued use on certain gift vouchers and other promotions.

5 Information for overseas shareholders

United States

The staff of the SEC has confirmed in a no-action letter to Kingfisher and Woolworths Group that, among other things, the staff will not recommend that the SEC take enforcement action upon the distribution of Woolworths Group Shares to holders of Kingfisher Ordinary Shares and Kingfisher ADRs without registration under the US Securities Act. Accordingly, registration under the Securities Act of the Woolworths Group Shares to be distributed in the Demerger will not be required.

Kingfisher Shareholders and holders of Kingfisher ADRs who are citizens or residents of the United States are advised that the Woolworths Group Shares have not been and will not be registered under the US Exchange Act. The Group expects to obtain an exemption from the reporting requirements of section 12(g) of the US Exchange Act pursuant to Rule 12g3-2(b) thereunder. Pursuant to such exemption, so long as it has more than 300 shareholders resident in the United States, the Group will comply with the information supplying requirements of Rule 12g3-2(b), which requires the Group to furnish to the SEC information that (A) it has made or is required to make public in the United Kingdom; (B) it has filed or is required to file with the London Stock Exchange and which was made public by the London Stock Exchange; or (C) it has distributed or is required to distribute to its shareholders. Information that is furnished to the SEC by the Company may be obtained from the public reference facilities maintained by the SEC in Washington, DC at prescribed rates.

The primary market for Woolworths Group Shares is expected to be the London Stock Exchange. The Group does not intend to list the Woolworths Group Shares on a US securities exchange or to obtain a quotation on The National Association of Securities Dealers' Automated Quotation system or any other inter-dealer quotation system in the United States. Neither Kingfisher nor the Group intends to take action to facilitate a market in Woolworths Group Shares in the United States. Consequently, Kingfisher believes that it is unlikely that an active trading market in the United States will develop for the Woolworths Group Shares.

Neither the SEC nor any US state securities commission has approved or disapproved the Woolworths Group Shares or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.

Other Jurisdictions

Any person outside the UK who is resident in, or who has a registered address in, or is a citizen of an overseas territory and who is to receive Woolworths Group Shares pursuant to the Demerger should consult his or her professional advisers and satisfy himself or herself as to the full observance of the laws of the relevant territory in connection therewith, including obtaining any requisite government or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory.

The implications of the Demerger for overseas shareholders may be affected by the laws of their respective jurisdictions. Such overseas shareholders should inform themselves about and observe all applicable legal requirements.

In any case, where the Company is advised that the allotment and issue of Woolworths Group Shares to a holder of Kingfisher Ordinary Shares with a registered address outside the United Kingdom would or may infringe the laws of any jurisdiction outside the United Kingdom, or necessitate compliance with any special requirement, the Directors may determine that such Woolworths Group Shares shall be issued to such overseas shareholder, and the overseas shareholder's entitlement to Woolworths Group Shares pursuant to the Demerger shall be sold on behalf of such overseas shareholder as soon as reasonably practicable thereafter at the best price which can reasonably be obtained at the time of sale, with the proceeds of such sale, net of sale and currency conversion expenses, being remitted to the overseas shareholder.

This document has been prepared for the purposes of complying with English law and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of any jurisdictions outside the United Kingdom.

PART 3: ACCOUNTANTS' REPORTS ON THE WOOLWORTHS GROUP AND THE COMPANY

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UBS Warburg Ltd.
1 Finsbury Avenue
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EC2M 2PP

1 August 2001

Dear Sirs,

THE WOOLWORTHS GROUP

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the listing particulars dated 1 August 2001 (the "Listing Particulars") of Woolworths Group plc ("the Company").

The companies and businesses which, following the proposed demerger described in the Circular to the shareholders of Kingfisher plc dated 1 August 2001, will be owned by the Company are collectively referred to throughout this report as the "Woolworths Group" or the "Group". The Woolworths Group did not constitute a statutory sub-group within the Kingfisher group of companies ("the Kingfisher Group") during the period under review. Accordingly it has been necessary to compile combined financial information for the purposes of this report.

Basis of preparation

The combined financial information for the three years ended 3 February 2001 set out below is based on financial returns for those periods, prepared for consolidation purposes by the companies or businesses in the Woolworths Group, and has been prepared on the basis set out in note 1, after making such adjustments as we consider necessary.

Responsibility

Such financial returns, prepared for consolidation purposes, are included in the consolidated financial statements of Kingfisher plc which are the responsibility of the directors of Kingfisher plc who approved their issue.

The directors of the Company are responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to compile the combined financial information set out in our report from the financial returns prepared for consolidation purposes, to form an opinion on the combined financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the combined financial information. The evidence included that previously obtained by us relating to the audit of the consolidated financial statements of Kingfisher. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the consolidated financial statements of Kingfisher and the financial returns prepared for consolidation purposes underlying the combined financial information and whether the accounting policies are appropriate to the circumstances of the Woolworths Group, consistently applied and adequately disclosed.

We planned and performed our work 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 combined financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the combined state of affairs of the Woolworths Group as at the dates stated and of its combined results and combined cash flows for the years then ended.

Combined Profit and Loss Account

£ millions	Notes	Year ended 3 February 2001	2001	Year ended 29 January 2000	2000	Year ended 30 January 1999	1999
Turnover							
Continuing operations		2,524.6		2,261.5		2,055.2	
Acquisitions		0.4		—		16.9	
Group turnover	3		2,525.0		2,261.5		2,072.1
Group operating profit/(loss)	2						
Continuing operations		95.1		126.4		144.5	
Acquisitions		(0.5)		—		(0.6)	
Total operating profit			94.6		126.4		143.9
Exceptional items – non-operating							
Loss on sale of operations	3(ii)		(1.4)		—		—
Net interest payable	4		(14.6)		(5.4)		(4.2)
Profit on ordinary activities before taxation	5		78.6		121.0		139.7
Tax on profit on ordinary activities	8		(20.5)		(36.9)		(43.5)
Profit on ordinary activities after taxation			58.1		84.1		96.2
Profit for the financial year attributable to shareholders			58.1		84.1		96.2
Dividends	9		(30.0)		(83.0)		(90.0)
Retained profit for the financial year			28.1		1.1		6.2
Earnings per share (pence)	10						
Basic			4.3		6.2		7.1
Basic – adjusted*			5.3		7.0		7.1

* Adjusted earnings per share is before exceptional items, acquisition goodwill amortisation and e-commerce and other new channels

The Group has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no significant difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The financial information above may not be representative of future results. For example, the historical capital structure does not reflect the future capital structure and interest costs, certain future operating costs, tax charges and dividends may be significantly different from those that resulted from being part of the Kingfisher Group.

Combined Balance Sheet

£ millions	Notes	3 February 2001	2001	29 January 2000	2000	30 January 1999	1999
Fixed assets							
Goodwill	11	72.0		55.9		58.9	
Other intangible assets	11	17.5		3.1		2.8	
Total intangible assets			89.5		59.0		61.7
Tangible assets	12		338.0		281.9		227.6
			427.5		340.9		289.3
Current assets							
Stocks	14		401.7		285.6		234.7
Debtors due within one year	15		161.8		164.3		112.8
Debtors due after more than one year	15		4.1		5.3		6.6
Cash at bank and in hand			16.8		15.0		14.9
			584.4		470.2		369.0
Creditors							
Amounts falling due within one year	16		(457.8)		(570.3)		(502.5)
Net current assets/(liabilities)			126.6		(100.1)		(133.5)
Total assets less current liabilities			554.1		240.8		155.8
Creditors							
Amounts falling due after more than one year	17		—		—		(3.1)
Provisions for liabilities and charges	24		(4.3)		(4.3)		(4.1)
Net assets			549.8		236.5		148.6
Kingfisher's investment in the Woolworths Group	25		550.5		236.5		148.6
Minority interests			(0.7)		—		—
			549.8		236.5		148.6

Combined Cash Flow Statement

£ millions	Notes	Year ended 3 February 2001	2001	Year ended 29 January 2000	2000	Year ended 30 January 1999	1999
Net cash (outflow)/inflow from operating activities	26a		19.1		174.4		142.2
Returns on investment and servicing of finance							
Interest received		1.9		3.1		1.8	
Interest paid		(16.5)		(8.5)		(6.0)	
Net cash outflow from returns on investment and servicing of finance			(14.6)		(5.4)		(4.2)
Taxation							
UK corporation tax paid			(32.5)		(47.5)		(42.5)
Capital expenditure and financial investment							
Payments to acquire tangible fixed assets		(108.0)		(96.0)		(54.8)	
Receipts from the sale of tangible fixed assets		5.6		1.5		—	
Payments to acquire intangible fixed assets		(15.0)		(0.5)		—	
Net cash outflow from capital expenditure and financial investment			(117.4)		(95.0)		(54.8)
Acquisitions and disposals							
Purchase of subsidiary and business undertakings		(15.1)		—		(48.1)	
Net cash acquired with subsidiary undertakings		0.9		—		1.1	
Disposal of subsidiary undertakings		0.4		—		—	
Net cash outflow from acquisitions and disposals			(13.8)		—		(47.0)
Equity dividends paid to other Kingfisher group companies			(83.0)		(90.0)		(80.0)
Net cash outflow before use of liquid resources and financing			(242.2)		(63.5)		(86.3)
Financing							
Movement in funding balances with other Kingfisher group companies	25	285.9		86.8		77.8	
Capital element of finance lease rental payments		(0.1)		(0.1)		—	
Net increase in loans and finance leases		—		—		0.1	
Net cash inflow from financing			285.8		86.7		77.9
Increase/(decrease) in cash			43.6		23.2		(8.4)
Reconciliation of net cash flow to movement in net debt	26b						
Net debt at start of year			(64.2)		(87.5)		(79.0)
Increase/(decrease) in cash			43.6		23.2		(8.4)
Net decrease/(increase) in loans and finance leases			0.1		0.1		(0.1)
Net debt at end of year			(20.5)		(64.2)		(87.5)

1 Accounting Policies

Basis of preparation

The Combined Financial Information for the Woolworths Group has been prepared in accordance with applicable accounting standards for each of the 52 weeks ended 30 January 1999, 52 weeks ended 29 January 2000 and the 53 weeks ended 3 February 2001 (the three years ended 3 February 2001) by aggregating financial information from applicable individual financial returns prepared for consolidation purposes of the individual companies and businesses forming the Woolworths Group, adjusting for relevant items previously recorded only at a Kingfisher Group level. The Combined Financial Information contained in this report comprises the combined profit and loss accounts, cash flows and balance sheets of the companies and businesses which comprise the Woolworths Group at the date of this report. This Combined Financial Information for the three years ended 3 February 2001 has been prepared in accordance with the principles of merger accounting. The Combined Financial Information has therefore been prepared as if the businesses had been owned and controlled by the Company throughout the entire period from 31 January 1998 or from the date of acquisition by the Kingfisher Group, if later.

The Combined Financial Information has been prepared under historical cost principles, except for certain land and buildings that are included in the Combined Financial Information at valuation, and are prepared in accordance with applicable accounting standards in the United Kingdom. Accounting policies have been consistently applied and on the assumption that the Woolworths Group has operated as a going concern as part of the Kingfisher Group throughout the period.

The following principles have been adopted:

- Intra-group trading transactions, management charges, interest and tax are recorded in the profit and loss account to the extent they arise with Kingfisher businesses outside the Woolworths Group.
- All other intra-group transactions have been reflected as movements in Kingfisher's investment in the Woolworths Group.

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, acquired licences, copyrights and trademarks, are stated at cost less amortisation.

Purchased goodwill arising on acquisitions after 31 January 1998 is treated as an asset on the balance sheet. Goodwill is amortised on a systematic basis over its estimated useful economic life.

In estimating the useful economic life of goodwill arising, account has been taken of the nature of the business acquired, the extent of continuing barriers to market entry and expected future impact of competition.

Depreciation

Depreciation of tangible fixed assets is provided to write off the cost or valuation to estimated residual value over the estimated useful life of the asset to the Group. It is the Group's policy to maintain its properties in a state of good repair to prolong their estimated useful lives.

Prior to 30 January 2000, the directors considered that, in the case of freehold and long leasehold properties occupied by the Group, the estimated residual values at the end of their useful economic lives, based on the prices prevailing at the time of acquisition or subsequent valuation, were not materially different from their current carrying values. The lives of these properties and their residual values were such that no provision for depreciation was considered necessary. With the introduction of FRS 15, the depreciation rates noted below have been applied from 30 January 2000.

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

Freehold and long leasehold buildings – stores	— 2%
Freehold and long leasehold buildings – warehouses/offices	— 5%
Short leaseholds	— over the remaining period of the lease
Leasehold improvements	— over estimated useful life
Leasehold fixtures	— between 10% and 15%
Computers and electronic equipment	— between 25% and 50%
Motor cars	— 25%
Commercial vehicles	— $33\frac{1}{3}$%

Impairment of fixed assets and goodwill

The need for any fixed asset or goodwill impairment write-down 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.

Leased assets

All operating lease payments are charged to the profit and loss account in the financial year to which the payments relate.

The cost of assets held under finance leases is included within tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account as incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes appropriate attributable overheads.

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 accounts in the period in which they are earned.

Pensions

The Kingfisher Group operates defined benefit and defined contribution pension schemes for its UK employees. In each case a separate fund is being accumulated to meet the accruing liabilities. The assets of each of these funds are all held under trusts which are entirely separate from the Kingfisher Group's assets.

The cost of pensions to the Woolworths Group in respect of the Kingfisher Group's defined benefit schemes is charged to the profit and loss account so that it is spread over the working lives of employees. Variations to pension costs caused by differences between the assumptions used and actual experience are spread over the average remaining working lives of the current employees at each actuarial valuation date.

Deferred taxation

Provision has been made for deferred taxation, using the liability method, on all material timing differences to the extent that it is considered probable that the liability or asset will crystallise.

The Group has not yet adopted FRS 19 "Deferred Taxation" which requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. The standard requires that provision be made for accelerated capital allowances and other short term timing differences. If the standard had been adopted the impact would have been to (decrease)/increase the reported tax charge and reduce the reported profit after tax by £1.8 million in 2001 (2000: £12.0 million, 1999: £(11.3) million). The cumulative effect of these changes on the reserves at 3 February 2001 would have been £21.4 million.

Derivative financial instruments

The Kingfisher Group uses derivative financial instruments to hedge the Woolworths Group's exposure to fluctuations in interest rates and exchange rates.

For the purposes of notes 18, 19 and 21 to 23, short-term debtors and creditors have been excluded.

2 Operating profit

£ millions	Continuing	Acquisitions	Year ended 3 February 2001 Total	Year ended 29 January 2000 Total	Continuing	Acquisitions	Year ended 30 January 1999 Total
Group turnover	2,524.6	0.4	2,525.0	2,261.5	2,055.2	16.9	2,072.1
Cost of sales	(1,763.4)	(0.4)	(1,763.8)	(1,524.6)	(1,381.5)	(9.5)	(1,391.0)
Gross profit	**761.2**	—	**761.2**	**736.9**	**673.7**	**7.4**	**681.1**
Selling expenses	(529.8)	—	(529.8)	(493.7)	(438.5)	(4.5)	(443.0)
Administrative expenses	(147.8)	(0.5)	(148.3)	(130.0)	(102.0)	(3.5)	(105.5)
Other income	11.5	—	11.5	13.2	11.3	—	11.3
Group operating profit/(loss)	**95.1**	**(0.5)**	**94.6**	**126.4**	**144.5**	**(0.6)**	**143.9**

3 Segmental analysis

Turnover represents retail sales and services supplied. Turnover excludes transactions made between companies within the Woolworths Group and value added tax.

Materially, all of the turnover originated in the UK. The analysis of turnover by destination is not materially different to the analysis of turnover by origin.

£ millions			Year ended 3 February 2001	Year ended 29 January 2000	Year ended 30 January 1999
a) Turnover by origin					
Retail sales					
	Woolworths:	Mainchain	1,936.2	1,840.9	1,763.2
		Big W	70.6	16.0	—
		General Store	12.6	—	—
			2,019.4	1,856.9	1,763.2
	MVC		130.0	101.6	80.1
	EUK		257.7	200.5	182.1
	VCI		67.7	60.6	16.9
	E-commerce and other new channels		5.3	3.5	—
	Other(i)		44.9	38.4	29.8
Total Group			2,525.0	2,261.5	2,072.1
b) Profit before tax					
Retail profit	Woolworths:	Mainchain	91.4	122.3	113.6
		Big W	(8.9)	(4.7)	—
		General Store	(3.0)	(1.4)	—
			79.5	116.2	113.6
	MVC		2.7	1.0	0.9
	EUK		23.8	20.0	30.0
	VCI(ii)		0.2	0.9	(0.6)
	E-commerce and other new channels		(14.5)	(11.4)	—
Total Retail profit			91.7	126.7	143.9
Other income/(expense)(iii)			2.9	(0.3)	—
Operating profit			**94.6**	**126.4**	**143.9**
Exceptional items – loss on sale of operations(iv)			(1.4)	—	—
Net interest payable			(14.6)	(5.4)	(4.2)
Profit before tax			**78.6**	**121.0**	**139.7**

£ millions		**Year ended 3 February 2001**	**Year ended 29 January 2000**	**Year ended 30 January 1999**
c) Net assets/(liabilities)				
Retail	Woolworths	416.6	204.3	112.9
	MVC	23.5	20.3	12.2
	EUK	48.9	(14.7)	(5.1)
	VCI	(1.0)	13.6	14.1
Other(v)		61.8	13.0	14.5
Total Group		**549.8**	**236.5**	**148.6**

(i) Other retail sales relate to the sale of gift vouchers to third parties.

(ii) VCI profit is stated after charging goodwill amortisation of (2001: £3.0 million; 2000: £3.0 million; 1999: £0.4 million).

(iii) Other income/expense relate to the intercompany income arising through the Kingfisher gift vouchers arrangements.

(iv) The non-operating exceptional item of £1.4 million in the year ended 3 February 2001 shown in the profit and loss account relates to the loss on disposal of Andre Deutsch Limited, the book division of VCI. There is no tax credit in relation to this exceptional item.

(v) Other assets comprise the unallocated net assets of the combined Woolworths Group.

4 Net interest payable

£ millions	**Year ended 3 February 2001**	**2001**	**Year ended 29 January 2000**	**2000**	**Year ended 30 January 1999**	**1999**
Interest receivable from other Kingfisher Group companies	(1.6)		(1.2)		(1.7)	
Bank and other interest receivable	(0.3)		(1.9)		(0.1)	
		(1.9)		(3.1)		(1.8)
Interest payable to other Kingfisher Group companies	16.5		8.2		5.6	
Bank and other interest payable Bank loans and overdrafts	—		0.3		0.4	
		16.5		8.5		6.0
Net interest payable		14.6		5.4		4.2

5 Profit on ordinary activities before taxation

£ millions	**2001**	**2000**	**1999**
Profit on ordinary activities before taxation is stated after charging:			
Auditors' remuneration for audit	0.2	0.2	0.2
Auditors' remuneration for non-audit services	0.1	0.1	0.2
Operating leases:			
Land and buildings	117.7	102.6	92.2
Plant and equipment	3.0	3.8	4.2
Depreciation of tangible fixed assets			
— owned assets	46.0	39.8	42.3
— under finance leases	—	0.1	—
Loss on the disposal of fixed assets	2.9	0.3	1.9
Amortisation of acquisition goodwill	3.1	3.0	0.4
Amortisation of other intangible assets	0.6	0.2	—
Year 2000 costs	—	2.2	2.3

Fees paid to the auditors for non-audit services were £0.1 million (2000: £0.1 million; 1999: £0.2 million). In addition, £4.5 million of non-audit services has been capitalised in 2001 (£0.3 million: 2000) in respect of costs incurred on the implementation of computer systems.

6 Employees

£ millions	2001	2000	1999
Staff costs			
Wages and salaries	296.7	258.9	239.4
Social security costs	15.0	13.8	13.2
Other pension costs	13.4	12.0	8.3
	325.1	284.7	260.9
Number:			
Average number of persons employed			
Stores	32,546	29,106	28,263
Distribution	1,222	1,118	959
Administration	2,068	1,807	1,712
	35,836	32,031	30,934
The equivalent number of employees working full time would have been	20,503	18,355	16,537

7 Directors' remuneration

Keith Fleming was the only member of the Woolworths Group Board to be employed by the Group during the period. Details of his emoluments and share interests are as follows:

Salaries and benefits:

£'000	2001	2000	1999
Salary	212	176	147
Benefits	24	20	16
Annual bonus	26	40	52
Total remuneration	262	236	215
Long term incentive	118	—	—

During the year the actual aggregate gains on Kingfisher share options at the date of exercise were £Nil (2000: £141,425; 1999: £52,373).

Pensions

£'000	2001	2000	1999
Age	41	40	39
Years of service	10	9	8
Increase in accrued pension (£'000)	2	2	2
Accrued pension (£'000)	21	19	16
Pension cost (£'000)	13	14	11

Share interests in Kingfisher shares

Executive share options

2001

At start of year	Granted during year	Exercised during year	Lapsed during year	At end of year	Option price (pence)	Date from which exercisable	Expiry date
39,572	—	—	—	39,572	328.5	16/4/00	15/4/07
21,656	—	—	—	21,656	549.5	27/4/01	26/4/08
16,760	—	—	—	16,760	781.0	01/4/02	31/3/09
—	45,273	—	—	45,273	521.0	17/4/03	16/4/10
—	28,541	—	—	28,541	473.0	25/9/03	24/9/10
77,988	73,814	—	—	151,802			

2000

At start of year	Granted during year	Exercised during year	Lapsed during year	At end of year	Option price (pence)	Date from which exercisable	Expiry date
27,408	—	27,408	—	0	291.5	01/5/99	08/6/99
39,572	—	—	—	39,572	328.5	16/4/00	15/4/07
21,656	—	—	—	21,656	549.5	27/4/01	26/4/08
—	16,760	—	—	16,760	781.0	01/4/02	31/3/09
88,636	16,760	27,408	—	77,988			

1999

At start of year	Granted during year	Exercised during year	Lapsed during year	At end of year	Option price (pence)	Date from which exercisable	Expiry date
16,600	—	16,600	—	0	225.0	28/4/98	28/4/98
27,408	—	—	—	27,408	291.5	01/5/99	30/4/06
39,572	—	—	—	39,572	328.5	16/4/00	15/4/07
—	21,656	—	—	21,656	549.5	27/4/01	26/4/08
83,580	21,656	16,600	—	88,636			

The market price of shares on 3 February 2001 was 480.00p (2000: 477.00p, 1999: 624.50p) and the range during the year was 353.75p to 630.00p (2000: 477.00p to 930.00p, 1999: 425.00p to 694.00p).

Roger Jones was the only Woolworths Group director who was a director of Kingfisher plc during the period. He was also Chairman of EUK and MVC during the period. Roger Jones had a service contract which terminated when he retired as a director of Kingfisher plc on 31 March 1998.

The remuneration shown in the table includes his salary for the period from 1 February 1998 to 31 March 1998.

	1999			
£'000	Salary	Benefits	Total	Long term incentive
Roger Jones	54	12	66	100

8 Taxation

£ millions	2001	2000	1999
Tax charge on profit for the year			
United Kingdom corporation tax at 30.00% (2000: 30.16%; 1999: 31.00%)	21.2	39.8	44.3
Relief for double taxation	—	(0.7)	(0.8)
Overseas taxation	0.8	0.7	1.1
	22.0	39.8	44.6
Prior year adjustments	(1.5)	(2.9)	(1.1)
	20.5	36.9	43.5

The lower effective rate of tax in 2001 principally relates to the impact of prior year adjustments.

9 Dividends

£ millions	2001	2000	1999
Payable to Kingfisher Group companies	30.0	83.0	90.0

10 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period as shown below by the weighted average number of ordinary Kingfisher shares in issue during the year. The number of shares used is 1,369.5 million for the year to 3 February 2001 (1,357.1 million for the year to 29 January 2000 and 1,351.2 million for the year to 30 January 1999).

Supplementary adjusted earnings per share figures are presented. These exclude the effects of exceptional items, acquisition goodwill amortisation and e-commerce and other new channel losses in the year and are presented to allow comparison to prior years on a like for like basis.

	2001		2000		1999	
	Earnings £ millions	Per share amount pence	Earnings £ millions	Per share amount pence	Earnings £ millions	Per share amount Pence
Basic earnings per share						
Earnings attributable to ordinary shareholders	58.1	4.3	84.1	6.2	96.2	7.1
Supplementary earnings per share						
Exceptional items (post-tax)	1.4	0.1	—	—	—	—
Acquisition goodwill amortisation	3.1	0.2	3.0	0.2	0.4	—
E-commerce and other new channels (post tax)	10.1	0.7	8.0	0.6	—	—
Basic – adjusted earnings per share	72.7	5.3	95.1	7.0	96.6	7.1

11 Intangible fixed assets

£ millions	Goodwill Business acquisition	Other Intangible assets
Cost		
At 31 January 1998	—	—
Additions	59.3	2.8
At 30 January 1999	59.3	2.8
Additions	—	0.5
At 29 January 2000	59.3	3.3
Additions	19.2	15.0
At 3 February 2001	78.5	18.3
Amortisation		
At 31 January 1998	—	—
Charge for year	(0.4)	—
At 30 January 1999	(0.4)	—
Charge for year	(3.0)	(0.2)
At 29 January 2000	(3.4)	(0.2)
Charge for year	(3.1)	(0.6)
At 3 February 2001	(6.5)	(0.8)
Net book amount		
At 31 January 1998	—	—
At 30 January 1999	58.9	2.8
At 29 January 2000	55.9	3.1
At 3 February 2001	72.0	17.5

Other intangible assets comprise trade marks and licences. Additions to other intangible assets in the year to 3 February 2001 relate to the acquisition of the Ladybird trade mark.

12 Tangible fixed assets

£ millions	Land and buildings	Fixtures, fittings and equipment	Total
Cost or valuation			
At 31 January 1998	16.7	478.1	494.8
Subsidiary undertakings at date of acquisition	5.2	3.2	8.4
Additions	1.0	53.7	54.7
Disposals	(0.9)	(113.6)	(114.5)
At 30 January 1999	22.0	421.4	443.4
Depreciation			
At 31 January 1998	(4.1)	(279.6)	(283.7)
Charge for year	(0.5)	(41.8)	(42.3)
Subsidiary undertakings at date of acquisition	(0.5)	(1.9)	(2.4)
Disposals	0.6	112.0	112.6
At 30 January 1999	(4.5)	(211.3)	(215.8)
Net book amount			
At 30 January 1999	17.5	210.1	227.6
At 31 January 1998	12.6	198.5	211.1
Assets in the course of construction included above			
At 30 January 1999	—	0.3	0.3
At 31 January 1998	—	—	—

£ millions	Land and buildings	Fixtures, fittings and equipment	Total
Cost or valuation			
At 30 January 1999	22.0	421.4	443.4
Additions	0.9	95.1	96.0
Disposals	(1.3)	(4.9)	(6.2)
At 29 January 2000	21.6	511.6	533.2
Depreciation			
At 30 January 1999	(4.5)	(211.3)	(215.8)
Charge for year	(0.6)	(39.3)	(39.9)
Disposals	0.5	3.9	4.4
At 29 January 2000	(4.6)	(246.7)	(251.3)
Net book amount			
At 29 January 2000	17.0	264.9	281.9
At 30 January 1999	17.5	210.1	227.6
Assets in the course of construction included above			
At 29 January 2000	—	19.9	19.9
At 30 January 1999	—	0.3	0.3

12 Tangible fixed assets (continued)

£ millions	Land and buildings	Fixtures, fittings and equipment	Total
Cost or valuation			
At 29 January 2000	21.6	511.6	533.2
Subsidiary undertakings at date of acquisition	—	4.3	4.3
Additions	0.6	107.4	108.0
Disposals	(9.4)	(6.8)	(16.2)
At 3 February 2001	12.8	616.5	629.3
Depreciation			
At 29 January 2000	(4.6)	(246.7)	(251.3)
Charge for year	(0.5)	(45.5)	(46.0)
Subsidiary undertakings at date of acquisition	—	(1.5)	(1.5)
Disposals	3.3	4.2	7.5
At 3 February 2001	(1.8)	(289.5)	(291.3)
Net book amount			
At 3 February 2001	11.0	327.0	338.0
At 29 January 2000	17.0	264.9	281.9
Assets in the course of construction included above			
At 3 February 2001	—	—	—
At 29 January 2000	—	19.9	19.9

The cost of tangible fixed assets includes £0.2 million (2000: £0.2 million; 1999: £0.2 million) in respect of assets held under finance leases.

The related accumulated depreciation at the end of the year was £0.1 million (2000: £0.1 million; 1999: £Nil)

12 Tangible fixed assets (continued)

£ millions	Freehold	Long leasehold	Short leasehold	Total 1999
Land and buildings				
At valuation	6.7	0.1	—	**6.8**
At cost	2.3	0.4	12.5	**15.2**
	9.0	0.5	12.5	**22.0**
Aggregate depreciation	—	—	(4.5)	**(4.5)**
Net book amount				
At 30 January 1999	9.0	0.5	8.0	**17.5**

£ millions	Freehold	Long leasehold	Short leasehold	Total 2000
Land and buildings				
At valuation	6.7	0.1	—	**6.8**
At cost	2.3	0.4	12.1	**14.8**
	9.0	0.5	12.1	**21.6**
Aggregate depreciation	—	—	(4.6)	**(4.6)**
Net book amount				
At 29 January 2000	9.0	0.5	7.5	**17.0**

£ millions	Freehold	Long leasehold	Short leasehold	Total 2001
Land and buildings				
At valuation	6.7	0.1	—	**6.8**
At cost	2.3	0.4	3.3	**6.0**
	9.0	0.5	3.3	**12.8**
Aggregate depreciation	(0.1)	—	(1.7)	**(1.8)**
Net book amount				
At 3 February 2001	8.9	0.5	1.6	**11.0**

If land and buildings had not been revalued, the cost to the Group would have been:

£ millions	2001	2000
Cost	10.5	19.2
Aggregate depreciation	(2.2)	(5.5)
Net amount	8.3	13.7

13 Fixed asset investments

The following companies are the principal subsidiary undertakings of the Woolworths Group plc. All the companies are owned, either directly or indirectly, by Kingfisher plc and will be owned, either directly or indirectly, by Woolworths Group plc following Demerger.

Principal subsidiaries

Company	Country of incorporation and operation	% owned and voting rights	Description of share classes owned	Main activity
Woolworths plc	Great Britain	100%	Ordinary and Deferred	Retail
Entertainment UK Ltd	Great Britain	100%	Ordinary	Wholesale
MVC Entertainment Ltd	Great Britain	100%	Ordinary	Retail
VCI plc	Great Britain	100%	Ordinary	Publishing
Streets Online Limited	Great Britain	89%	Ordinary	E-retail

All the companies incorporated in Great Britain are registered in England and Wales.

Since 3 February 2001, the holding in Streets Online Limited has increased to 91.4%.

14 Stocks

Stocks wholly comprise finished goods and goods for resale.

15 Debtors

£ millions	2001	2000	1999
Amounts falling due within one year			
Trade debtors	76.2	103.2	70.3
Owed by other Kingfisher Group companies	37.7	20.1	3.5
Corporation tax	0.5	—	—
Other debtors	30.6	21.2	17.0
Prepayments	16.8	19.8	22.0
Total debtors	161.8	164.3	112.8
Amounts falling due after more than one year	4.1	5.3	6.6

16 Creditors

£ millions	2001	2000	1999
Amounts falling due within one year			
Bank loans	37.3	79.1	102.2
Trade creditors	132.6	164.6	95.1
Owed to other Kingfisher Group companies	60.3	120.7	129.9
Corporation tax	12.1	15.5	11.0
Other taxation and social security	86.7	80.6	72.2
Other creditors	46.6	48.0	30.3
Accruals and deferred income	82.2	61.7	61.7
Obligations under finance leases	—	0.1	0.1
	457.8	570.3	502.5

17 Creditors

£ millions	2001	2000	1999
Amounts falling due after more than one year			
Bank loans	—	—	3.0
Obligations under finance leases	—	—	0.1
	—	—	3.1
Finance leases fall due for repayment as follows:			
Between one and two years	—	—	0.1

18 Treasury risk management

The main financial risks faced by the Woolworths Group and managed by the Kingfisher Group treasury function are funding risk, interest rate risk and currency risk.

Funding risk

The Woolworths Group is funded through intra-group funding balances which are either non interest-bearing or bear interest at floating rates linked to the base rate. Upon demerger, these intra-group funding balances will be settled.

Interest rate risk

As the Woolworths Group is funded by Kingfisher in the manner described above, it is subject to fluctuations in interest rates. The Woolworths Group does not make use of any derivative financial instruments in relation to interest rate risk management.

Currency risk

Operating companies are required to hedge all significant currency transaction exposures into their functional currency.

All external hedging transactions are undertaken by Kingfisher Group, and therefore, gains and losses on hedges of the Group's transactions and assets are included within the Kingfisher Group financial statements.

After taking into account the effect of any hedging transactions entered into to manage currency exposures, there were no significant net foreign currency monetary assets or liabilities at the balance sheet date. Matched assets and liabilities are those that generate no gain or loss in the profit and loss account, because they are denominated in the same currency as the Group operations to which they relate.

19 Interest rate and currency profile of gross financial liabilities

£ millions	Gross Liabilities	Floating Rate Liabilities	Non-interest bearing liabilities	Weighted average time until maturity
				Years
At 3 February 2001				
Sterling	942.1	280.8	661.3	—
Gross liabilities	942.1	280.8	661.3	—
Of which				
Amounts due to Kingfisher Group companies included in funding balances	903.3			
Bank loans and overdrafts	37.3			
Onerous property contracts	1.5			
	942.1			
At 29 January 2000				
Sterling	760.4	114.9	645.5	—
Gross Liabilities	760.4	114.9	645.5	—
Of which				
Amounts due to Kingfisher Group companies included in funding balances	679.8			
Bank loans and overdrafts	79.1			
Onerous property contracts	1.5			
	760.4			
At 30 January 1999				
Sterling	771.9	127.7	644.2	—
Gross liabilities	771.9	127.7	644.2	—
Of which				
Amounts due to Kingfisher Group companies included in funding balances	668.4			
Bank loans and overdrafts	102.2			
Onerous property contracts	1.3			
	771.9			

The floating rate liabilities have interest rates based upon bank base rates.

20 Interest rate and currency profile of gross financial assets

£ millions	Gross assets	Floating rate assets	Non-interest bearing assets
At 3 February 2001			
Sterling	3,066.2	9.9	3,056.3
Gross financial assets	3,066.2	9.9	3,056.3
Of which			
Amounts due from Kingfisher Group companies included in funding balances	3,049.4		
Cash at bank and in hand	16.8		
	3,066.2		
At 29 January 2000			
Sterling	3,126.8	67.5	3,059.3
Gross financial assets	3,126.8	67.5	3,059.3
Of which			
Amounts due from Kingfisher Group companies included in funding balances	3,111.8		
Cash at bank and in hand	15.0		
	3,126.8		
At 30 January 1999			
Sterling	3,202.1	133.7	3,068.4
Gross financial assets	3,202.1	133.7	3,068.4
Of which			
Amounts due from Kingfisher Group companies included in funding balances	3,187.2		
Cash at bank and in hand	14.9		
	3,202.1		

The floating rate financial assets have interest rates based upon bank base rates.

21 Maturity of financial liabilities

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

£ millions	2001	2000	1999
Within one year	956.9	758.9	767.5
Between one and two years	1.5	1.5	4.4
	958.4	760.4	771.9

22 Borrowing facilities

Borrowing facilities are arranged for the Kingfisher group and as such there are no undrawn committed facilities relating specifically to the Woolworths Group for the three years ended 3 February 2001.

23 Fair values of financial assets and liabilities

There are no material differences between the book and fair values of the Woolworths Group's financial assets and liabilities. Intercompany funding balances are repayable on demand.

24 Provisions for liabilities and charges

£ millions	Pensions	Onerous property contracts	Total
Balance at 31 January 1998	2.8	2.6	5.4
Utilised in the year	—	(1.3)	(1.3)
Balance at 30 January 1999	2.8	1.3	4.1
Transfer to profit and loss account	—	0.2	0.2
Balance at 29 January 2000 and at 3 February 2001	2.8	1.5	4.3

£ millions	2001	2000	1999
Deferred taxation not provided			
Accelerated capital allowances	20.2	17.6	13.4
Potential chargeable gains on properties	0.7	0.7	0.7
Other	1.2	2.0	(5.8)
	22.1	20.3	8.3

Within the pensions provision, the final salary pension fund provision for the UK pension scheme has remained unchanged at £2.8 million. This provision arises through accounting for the UK pension costs under SSAP 24 (see note 27).

Within the onerous property contracts provision, the Woolworths Group has provided against future liabilities for all properties sublet at a shortfall and long term idle properties. The provision is based on the value of future cash outflows relating to rent, rates and service charges.

25 Combined reconciliation of movement in Kingfisher's investment in Woolworths Group

£ millions	Year ended 3 February 2001	Year ended 29 January 2000	Year ended 30 January 1999
Profit for the financial year	58.1	84.1	96.2
Dividends payable to other Kingfisher Group companies	(30.0)	(83.0)	(90.0)
Movement in Kingfisher funding balances	285.9	86.8	77.8
Net addition to investment in Woolworths Group	314.0	87.9	84.0
Opening investment in Woolworths Group	236.5	148.6	64.6
Closing investment in Woolworths Group	550.5	236.5	148.6
Represented by			
Net balances with other Kingfisher companies (note 31)	(2,146.1)	(2,432.0)	(2,518.8)
Aggregated share capital and reserves of Woolworths Group companies	2,696.6	2,668.5	2,667.4
	550.5	236.5	148.6

26 Combined cash flow

(a) Reconciliation of operating profit to net cash flow from operating activities

£ millions	2001	2000	1999
Group operating profit	94.6	126.4	143.9
Depreciation and amortisation	49.7	43.1	42.7
Increase in stocks	(116.1)	(50.9)	(24.3)
Increase in debtors	4.5	(49.7)	1.9
(Decrease)/increase in creditors	(16.5)	105.0	(22.6)
Increase/(decrease) in provisions	—	0.2	(1.3)
Loss on disposal of fixed assets	2.9	0.3	1.9
Net cash (outflow)/inflow from operating activities	19.1	174.4	142.2

(b) Movement in cash/(debt)

£ millions	Cash	Overdrafts	Finance Leases	Total 1999
1999				
Cash flow for the year	2.8	(11.2)	—	(8.4)
Cash flow from changes in funding and loans	—	—	(0.1)	(0.1)
Changes in cash/(debt) arising from cash flows	2.8	(11.2)	(0.1)	(8.5)
Movement in cash/(debt) in the year	2.8	(11.2)	(0.1)	(8.5)
Opening cash/(debt)	12.1	(91.0)	(0.1)	(79.0)
Closing cash/(debt)	14.9	(102.2)	(0.2)	(87.5)

26 Combined cash flow (continued)

£ millions	Cash	Overdrafts	Finance Leases	Total 2000
2000				
Cash flow for the year	0.1	23.1	—	23.2
Cash flow from changes in funding and loans	—	—	0.1	0.1
Changes in cash/(debt) arising from cash flows	0.1	23.1	0.1	23.3
Movement in cash/(debt) in the year	0.1	23.1	0.1	23.3
Opening cash/(debt)	14.9	(102.2)	(0.2)	(87.5)
Closing cash/(debt)	15.0	(79.1)	(0.1)	(64.2)

£ millions	Cash	Overdrafts	Finance Leases	Total 2001
2001				
Cash flow for the year	1.8	41.8	—	43.6
Cash flow from changes in funding and loans	—	—	0.1	0.1
Changes in cash/(debt) arising from cash flows	1.8	41.8	0.1	43.7
Movement in cash/(debt) in the year	1.8	41.8	0.1	43.7
Opening cash/(debt)	15.0	(79.1)	(0.1)	(64.2)
Closing cash/(debt)	16.8	(37.3)	—	(20.5)

27 Pension costs

The Kingfisher Group operates a variety of pension arrangements for the majority of its employees including those of the Woolworths Group, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. By far the most significant are the funded defined contribution and defined benefit schemes for the Kingfisher Group's UK employees.

The total pension charge in the profit and loss account (see note 6) of £13.4 million (2000: £12.0 million 1999: £8.3 million) includes £0.5 million (2000: £0.5 million; 1999: £0.5 million) for the UK defined contribution scheme.

A formal actuarial valuation of the Kingfisher Group's UK defined benefit scheme of which Woolworths Group employees form an integral part was carried out by a professionally qualified actuary, as at 31 March 1998, using the projected unit method of funding. In this valuation, the assets were taken at their market value of £908 million (including AVCs). A value was placed on the liabilities by discounting the anticipated future benefits, including allowance where appropriate for future increases in pensions and pensionable salaries, using assumptions derived by reference to market conditions as at 31 March 1998. On this basis, the assets were sufficient to cover over 104% of the scheme's liabilities before allowing for the cost of a special increase for the oldest and longest retired pensioners effective from 1 April 1999. The next valuation will be made as at 31 March 2001.

The Woolworths Group pension cost for this scheme charged in the profit and loss account of £12.9 million (2000: £11.4 million; 1999: £7.8 million) is assessed in accordance with the advice of an actuary, using the projected unit method of funding. The principal assumptions adopted (for the whole scheme) were that, over the long term, assets would return 3.75% p.a. in excess of inflation and dividends on UK equities will increase in real terms by 1.1% p.a., pensionable pay would increase in real terms by 1.68%p.a. and increases to pensions in payment would lag price inflation by 0.25% p.a.

28 Annual commitments under operating leases

	2001		2000		1999	
£ millions	Land & buildings	Plant & equipment	Land & buildings	Plant & equipment	Land & buildings	Plant & equipment
Annual commitments under operating leases						
Expiring within one year	1.1	0.7	0.8	0.2	1.1	0.3
Expiring between two and five years	4.4	1.9	4.4	0.6	1.5	0.7
Expiring in five years or more	101.9	—	102.3	—	85.9	—

Capital commitments contracted but not provided for by the Group amounted to £4.1 million (2000: £2.0 million; 1999: £4.0 million).

29 Share options

The following options over ordinary shares in Kingfisher plc were held by employees of the Woolworths Group on 30 June 2001:

		2001
		Number millions
UK and International Executive Option Schemes:	Executive options	5.9
	All employee options	8.9
UK and International Sharesave Schemes		8.4

30 Acquisitions

(a) Acquisition of VCI plc

VCI plc, a UK publishing and distribution group, was acquired by means of a public cash offer which became unconditional on 6 November 1998, the effective date of the acquisition. Acquisition accounting has been used for the transaction.

From the date of acquisition to 31 December 1998, VCI contributed £16.9 million to external turnover, £0.5 million to profit before interest and £0.2 million to profit after interest. During the same period VCI contributed £10.5 million to the Group's net operating cash flows, paid £0.3 million in respect of interest, and repaid financing of £21.3 million.

In its last financial year to 31 December 1997, VCI made a profit after tax and minority interests of £5.2 million. For the period since that date to the date of acquisition, VCI made a loss after tax and minority interests of £3.9 million.

30 Acquisitions (continued)

The details of the transaction showing fair value adjustments are set out in the table below:

		Fair value adjustments	
£ millions	Book value	Revaluations	Fair value to the Group
Intangible fixed assets	1.4	1.5	2.9
Tangible fixed assets	5.6	0.4	6.0
Stocks	7.3	(3.8)	3.5
Rights, advance royalties and production costs	24.0	(9.9)	14.1
Cash	1.1	—	1.1
Other current assets	25.5	(2.5)	23.0
Creditors	(58.9)	(2.9)	(61.8)
	6.0	(17.2)	(11.2)

£ millions	Goodwill arising
Consideration	48.1
Share of net liabilities acquired (100%)	11.2
Goodwill	59.3
Consideration satisfied by:	
Cash (including £1.3 million of acquisition costs)	48.1

The revaluation of intangible assets reflects the recognition of a £2.3 million licence asset, previously written off as goodwill to reserves, less a write-down to estimated net realisable value of other rights. Revaluation of a freehold property gave rise to a £0.4 million surplus.

Stocks, rights, advance royalties and production costs have been written down to net realisable value. Irrecoverable ACT and amounts due from associated undertakings have been written off. Within creditors, further provision for stock returns has been made.

There were no adjustments for alignment of accounting policies.

The directors of the Company consider that the estimated useful economic life of the goodwill acquired arising on the acquisition of VCI is 20 years.

30 Acquisitions (continued)

(b) Acquisition of Streets Online Limited

On 15 December 2000 the Group acquired 85% of the share capital of Streets Online Limited, a music and video/DVD e-commerce business. Acquisition accounting has been used for this transaction. Total consideration was £15.1 million giving rise to goodwill of £19.2 million.

In its last financial year to 31 December 1999, Streets Online made a loss after tax of £6.6 million. For the period since that date to the date of acquisition, 15 December 2000, Streets Online made a loss after tax of £18.1 million.

		Fair value adjustments	
£ millions	**Book Value**	**Revaluations**	**Fair value to the Group**
Tangible fixed assets	3.1	(0.3)	2.8
Stocks	0.1	—	0.1
Cash	0.9	—	0.9
Other current assets	0.8	—	0.8
Creditors	(7.7)	(1.7)	(9.4)
	(2.8)	(2.0)	(4.8)

£ millions	**Goodwill arising**
Consideration	15.1
Net liabilities acquired	4.8
Minority arising	(0.7)
Goodwill	19.2
Consideration satisfied by:	
Cash	15.1

The directors of the Company consider that the estimated useful economic life of the goodwill acquired arising on the acquisition of Streets Online Limited is 5 years.

The revaluation in creditors represents adjustments to provide for unrecorded accruals existing at the date of acquisition. The revaluation in tangible fixed assets represents a change in depreciation of certain fixed assets.

31 Related party transactions

The Company and its subsidiaries have carried out a number of transactions with other Kingfisher group companies in the normal course of business. The nature of these transactions and their total value is shown below:

£ millions	Year ended 3 February 2001	Year ended 29 January 2000	Year ended 30 January 1999
Sales	44.9	38.4	29.9
Rent receivable	0.5	0.5	0.6
Rent payable	(39.2)	(35.8)	(33.1)
Net management charges/central costs	(2.4)	(4.9)	(2.8)
Pension scheme payments	(13.4)	(12.0)	(8.3)
Interest payable	(16.5)	(8.2)	(5.6)
Interest receivable	1.6	1.2	1.7
Fixed asset additions	0.4	—	—
Dividends payable	(30.0)	(83.0)	(90.0)

The net balances with other Kingfisher group companies were:

£ millions	Year ended 3 February 2001	2001	Year ended 29 January 2000	2000	Year ended 30 January 1999	1999
Net current accounts		(22.6)		(100.6)		(126.4)
Gross funding account assets	3,049.4		3,111.8		3,187.2	
Gross funding account liabilities	(903.3)		(679.8)		(668.4)	
Net funding accounts		2,146.1		2,432.0		2,518.8
Total		2,123.5		2,331.4		2,392.4

	Year ended 3 February 2001	Year ended 29 January 2000	Year ended 30 January 1999
Net funding accounts at beginning of year	2,432.0	2,518.8	2,596.6
Movement in funding balances	(285.9)	(86.8)	(77.8)
Net funding accounts of end of year	2,146.1	2,432.0	2,518.8

As disclosed in notes 19 and 20, the funding account asset balances are primarily non interest bearing. Interest is paid on a proportion of the liabilities. The funding account balances represent the amounts due to and from Kingfisher plc that have funded the Woolworths Group business. Upon demerger, these balances will be settled.

32 Post balance sheet events

There have been no material post balance sheet events since 3 February 2001.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
1 Embankment Place
London WC2N 6RH

The Directors
Woolworths Group plc
Woolworth House
242-246 Marylebone Road
London
NW1 6JL

UBS Warburg Ltd.
1 Finsbury Avenue
London
EC2M 2PP

1 August 2001

Dear Sirs,

Woolworths Group plc

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the listing particulars dated 1 August 2001 (the "Listing Particulars") of Woolworths Group plc (the "Company").

The Company was incorporated as Flagbriar Limited on 8 October 1999 and changed its name to Woolworths Group plc on 11 July 2001. Save for entering into the agreements referred to in paragraph 14 of Part 5 of the Listing Particulars, the Company has not yet commenced to trade and has not declared or paid a dividend.

Basis of preparation

The financial information set out below is based on the financial records of the Company, to which no adjustment was considered necessary.

Responsibility

The financial records are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the listing particulars in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial records, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment relevant to the amounts and disclosures in the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary to order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of the Company as at the date stated.

Financial information

The balance sheet of the Company at 3 February 2001 is as follows:

	Notes	£
Current assets		
Debtors – amounts due for Subscriber Share		1
Net assets		**1**
Represented by:		
Share capital		
Ordinary shares of £1 each	2	1
Shareholders' funds		**1**

Notes to the financial information

1. Accounting policies

The balance sheet has been prepared under the historical cost convention in accordance with applicable accounting standards.

2. Share capital

On incorporation, the authorised share capital of the Company was £100 divided into 100 shares of £1.00 each, of which one subscriber share of £1.00 was issued fully paid to the subscriber to the Company's Memorandum of Association, such subscriber share being subsequently transferred to Kingfisher.

3. Post balance sheet events

The proposed demerger includes the following events which will have an impact on Woolworths Group plc:

- the reorganisation of the Company's share capital as described in paragraph 3 of Part 5 of the Woolworths Group plc Listing Particulars;
- the transfer of Sandelcroft (the holding company for the underlying general merchandise businesses) to the Company as described in paragraph 1 of Part 2 of the Woolworths Group plc Listing Particulars;
- Kingfisher plc shareholders will be allotted one Woolworths Group Share for each share held in Kingfisher plc.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

PART 4: PRO FORMA FINANCIAL INFORMATION ON THE GROUP

Basis of pro forma Statement

Set out below is the pro forma financial information of the Woolworths Group for the year to and as at 3 February 2001, which has been prepared on the basis described in the notes below to illustrate the effect of the Demerger on (i) the combined profit of the Woolworths Group as if the Demerger had occurred at the beginning of the financial year ended 3 February 2001; and (ii) the combined net assets of the Woolworths Group as if the Demerger had occurred at 3 February 2001. Owing to the nature of the pro forma financial information it may not give a true picture of the Woolworths Group's financial position and has been prepared for illustrative purposes only. Adjustments have been made to reflect the proposed financing and other arrangements for the Woolworths Group arising from the Demerger.

Woolworths Group plc is the holding company into which the Woolworths Group businesses are to be demerged. It is not material to the proforma information and therefore a separate column for Woolworths Group plc has not been presented.

Unaudited pro forma profit and loss account

£'millions	Woolworths Group year ended 3 February 2001 Note (i)	Demerger Adjustments Note (ii)	Pro forma for the year ended 3 February 2001
Turnover	2,525.0	—	2,525.0
Operating profit	94.6	(3.4)	91.2
Exceptional items – non-operating	(1.4)	—	(1.4)
Net interest (payable)/receivable	(14.6)	2.9	(11.7)
Profit on ordinary activities before taxation	78.6	(0.5)	78.1
Tax on profit on ordinary activities	(20.5)	—	(20.5)
Profit for the year	58.1	(0.5)	57.6

Notes:

(i) The results of the Woolworths Group have been extracted without adjustment from the Accountants' Report on the Woolworths Group set out in Part 3 of this document.

(ii) The adjustments to the pro forma financial information comprise a one-off charge of £3.4 million relating to the Kingfisher incentive plans as described in paragraph 14.2 of Part 5 of this document; and the net effect of:

	£'m
• an interest saving of £14.9 million which is the net amount charged on intra group interest bearing funding described on page 39.	14.9
• an interest charge of £12.0 million which is the amount charged on the net debt of £200 million allocated to Woolworths Group noted on page 61. An interest rate of 6 per cent. has been used to calculate the level of interest.	(12.0)
	2.9

This adjustment does not take into account any tax charge. The UK standard rate of tax is 30 per cent.

(iii) No professional fees or transaction costs relating to the Demerger are to be borne by Woolworths Group other than immaterial amounts as described in paragraph 17.5 of Part 5 of this document.

(iv) No account has been taken of the trading results or other transactions of Woolworths Group subsequent to 3 February 2001.

Unaudited pro forma statement of net assets

£'millions	Woolworths Group year ended 3 February 2001 Note (i)	Demerger Adjustments Note (ii)	Pro forma for the year ended 3 February 2001
Fixed assets			
Intangible assets	89.5	—	89.5
Tangible assets	338.0	—	338.0
	427.5	—	427.5
Current assets			
Stocks	401.7	—	401.7
Debtors:			
Falling due within one year	161.8	—	161.8
Falling due after more than one year	4.1	—	4.1
Cash at bank and in hand	16.8	—	16.8
	584.4	—	584.4
Creditors: amounts falling due within one year	(457.8)	(3.4)	(461.2)
Net current assets	126.6	(3.4)	123.2
Total assets less current liabilities	554.1	(3.4)	550.7
Creditors: amounts falling due after more than one year	—	(200.0)	(200.0)
Provisions for liabilities and charges	(4.3)	—	(4.3)
Net assets	549.8	(203.4)	346.4

Notes:

(i) The net assets of the Woolworths Group have been extracted without adjustment from the Accountants' Report on the Woolworths Group set out in Part 3 of this document.

(ii) The pro forma consolidated balance sheet has been adjusted by (i) £200 million to reflect the level of indebtedness that would be taken on by Woolworths Group as at 4 August 2001 as set out in the Demerger Agreement which will be drawn down from facilities and which will extinguish the net indebtedness with Kingfisher; and (ii) a one-off charge of £3.4 million relating to the Kingfisher incentive plans as described in paragraph 14.2 of Part 5 of this document.

The capital restructuring on Demerger has removed £3,049.4 million of intergroup debtors and £903.3 million of intergroup creditors shown in the Accountant's Report as funding.

(iii) No account has been taken of the trading results or other transactions of Woolworths Group subsequent to 3 February 2001.

The following is the full text of a letter on the pro forma financial information of the Woolworths Group from PricewaterhouseCoopers, the reporting accountants, to the Directors and to UBS Warburg Ltd.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
1 Embankment Place
London WC2N 6RH

The Directors
Woolworths Group plc
Woolworth House
242-246 Marylebone Road
London
NW1 6JL

UBS Warburg Ltd.
1 Finsbury Avenue
London
EC2M 2PP

1 August 2001

Dear Sirs,

The Woolworths Group

We report on the pro forma profit and loss account and pro forma statement of net assets (the "pro forma financial information") set out in Part 4 of the Listing Particulars of Woolworths Group plc dated 1 August 2001. The pro forma financial information has been prepared, for illustrative purposes only, to provide information about how the proposed Demerger might have affected the Woolworths Group's financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Opinion

In our opinion:

1. the pro forma financial information has been properly compiled on the basis stated;
2. such basis is consistent with the accounting policies of the Company; and
3. the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

PART 5: ADDITIONAL INFORMATION

1 Responsibility

The Directors of the Company, whose names appear in paragraph 11 of Part 1 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Incorporation

2.1 The Company was incorporated and registered in England and Wales under the Act as a private limited company under the name of Flagbriar Limited on 8 October 1999. Pursuant to a special resolution, the name of the Company was changed on 1 June 2001 to Woolworths Group Limited. The Company was re-registered as a public limited company on 11 July 2001 and the name of the Company was changed to Woolworths Group plc. The Company's registered number is 3855289. The principal legislation under which the Company operates is the Act and the regulations made under the Act.

2.2 The Company's registered and head office is at Woolworth House, 242-246 Marylebone Road, London NW1 6JL.

3 Share Capital

3.1 On incorporation, the authorised share capital of the Company was £100 divided into 100 shares of £1.00 each, of which one subscriber share of £1.00 was issued fully paid to the subscriber to the Company's Memorandum of Association, such subscriber share being subsequently transferred to Kingfisher.

3.2 By ordinary and special resolutions passed as written resolutions on 6 July 2001 prior to the re-registration of the Company as a public limited company:

3.2.1 each ordinary share of £1.00 in the authorised issued and unissued share capital of the company was subdivided into eight ordinary shares of 12.5p each ("Woolworths Group Shares");

3.2.2 the authorised share capital of the Company was increased to £50,100 by the creation of 50,000 redeemable preference shares of £1.00 each ("Redeemable Shares"), the terms of which provide for automatic redemption (subject to the Company having sufficient distributable profits out of which to do so) upon Admission;

3.2.3 the Directors were generally and unconditionally authorised, in accordance with section 80 of the Act, to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £50,099; and

3.2.4 the Directors were empowered pursuant to section 95 of the Act to allot equity securities for cash as if section 89(1) of the Act did not apply to such allotment.

3.3 On the same date:

3.3.1 50,000 Redeemable Shares, which are redeemable automatically upon Admission, were allotted (but not issued) fully paid to Kingfisher against an undertaking by Kingfisher to pay £50,000 to the Company on or before 4 October 2001;

3.3.2 of the 8 Woolworths Group Shares into which the single issued share of £1.00 held by Kingfisher had been divided, five were transferred to Helen Jones in return for the payment by her to Kingfisher of 62.5p and the other three were transferred to Geoffrey Mulcahy in return for the payment by him to Kingfisher of 37.5p,

thereby allowing the Company to proceed with an application under section 43 of the Act to be re-registered as a public limited company. That application was granted, and the Company was re-registered as a public limited company, on 11 July 2001. Kingfisher was then issued with the 50,000 Redeemable Shares and was registered in the Register as the holder of the 50,000 Redeemable Shares on 12 July 2001.

3.4 By ordinary and special resolutions passed on 27 July 2001, but conditional on Admission:

3.4.1 the Redeemable Shares, subject to them having been redeemed, are to be cancelled from the authorised share capital of the Company;

3.4.2 the authorised share capital of the Company is to be increased to £200,000,000 by the creation of 1,599,999,200 ordinary shares of 12.5p each;

3.4.3 the Directors are generally and unconditionally authorised, in accordance with section 80 of the Act, to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £199,999,999, provided that, other than for allotments in connection with the Demerger, the authority is limited to the allotment of relevant securities up to an aggregate nominal amount of £25,350,765, and provided further that the resolution is stipulated to expire at the conclusion of the first annual general meeting following the passing of the resolution; and

3.4.4 the Directors are empowered pursuant to section 95 of the Act to allot equity securities for cash as if section 89(1) of the Act did not apply to such allotment, provided that this authority is limited to:

(i) the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as practicable) to the respective numbers of Woolworths Group Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal, regulatory or practical problems under the laws or regulations of any overseas territory or the requirements of any regulatory body or stock exchange in any territory, or otherwise howsoever; and

(ii) other allotments of equity securities for cash where the authority shall be limited in aggregate to the allotment of or involving equity share capital not exceeding (in nominal value) 5 per cent. of the nominal value of the issued share capital of the Company immediately following Admission.

3.5 The share capital of the Company as at the close of business on 30 July 2001 (the latest practicable date prior to the date of this document) is, and based on the assumptions set out below, immediately following the Demerger is expected to be:

	Authorised share capital		Issued and fully paid share capital	
As at 30 July 2001	**Number**	**Aggregate nominal amount**	**Number**	**Aggregate nominal amount**
— ordinary shares of 12.5p	800	£100	8	£1
— redeemable preference shares of £1.00	50,000	£50,000	50,000	£50,000
After completion of the Demerger				
— ordinary shares of 12.5p	1,600,000,000	£200,000,000	1,440,000,000	180,000,000
— redeemable preference shares of £1.00	None	Nil	None	Nil

The above "After completion of the Demerger" figures are based on:

(i) £175,633,420 nominal value of Kingfisher Ordinary Shares in issue at 30 July 2001; and

(ii) the assumption that options over 34,932,638 unissued Kingfisher Ordinary Shares are exercised prior to the Demerger Record Time (being the Directors' estimate of the maximum number of options over additional Kingfisher Ordinary Shares which may be exercised prior to the Demerger Record Time).

3.6 The provisions of section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company except to the extent disapplied as referred to in paragraph 3.4.4 above.

3.7 Save as disclosed in paragraph 3.1 above and paragraph 5 below, since 8 October 1999 (the date of incorporation of the Company):

3.7.1 no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for consideration other than cash, to any person;

3.7.2 no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group; and

3.7.3 no share or loan capital of the Company or any other member of the Group is under option or agreed conditionally or unconditionally to be put under option.

3.8 None of the Woolworths Group Shares has been marketed or is being made available to the public in whole or in part in conjunction with the application for listing of those securities, except pursuant to the Demerger. All of the Woolworths Group Shares will be allotted and issued to the holders of Kingfisher Ordinary Shares held at the Demerger Record Time.

3.9 Application has been made to the UK Listing Authority for the Woolworths Group Shares (issued and to be issued) to be admitted to the Official List and for the admission of the Woolworths Group Shares to trading on the London Stock Exchange's market for listed securities. Upon Admission, it is expected that unconditional dealings will commence in the Woolworths Group Shares at 8.00 a.m. on Tuesday, 28 August 2001.

3.10 Upon the Demerger becoming effective, the Company will issue Woolworths Group Shares to holders of Kingfisher Ordinary Shares on the Kingfisher Share Register at the Demerger Record Time on the basis of one Woolworths Group Share for every Kingfisher Ordinary Share held at that time, save that in respect of each of Geoffrey Mulcahy and Helen Jones the number of Woolworths Group Shares to be allotted and issued to each of them as a Kingfisher Shareholder shall be reduced by the number of Woolworths Group Shares already held by them at the Demerger Record Time.

3.11 The Woolworths Group Shares will be issued credited as fully paid up and free from all liens, charges, encumbrances and other third party rights and will rank in full for all dividends and other distributions declared, paid or made by the Company after Admission.

3.12 The Woolworths Group Shares will be in registered form. The Company Articles permit the holding of its shares through CREST. The Directors will apply for the Woolworths Group Shares to be admitted to CREST with effect from Admission. Accordingly, arrangements will be put in place for the holders of Kingfisher Ordinary Shares who hold their Kingfisher Ordinary Shares in uncertificated form to hold their Woolworths Group Shares in uncertificated form and effect settlement of transactions in Woolworths Group Shares within the CREST system. CREST accounts will be credited on Admission.

3.13 Those holders of Kingfisher Ordinary Shares who hold share certificates in respect of Kingfisher Ordinary Shares will receive share certificates in respect of their Woolworths Group Shares. Share certificates are expected to be despatched by the Registrar by 31 August 2001. Temporary documents of title will not be issued, and all transfers between the date on which dealings in Woolworths Group Shares begin and the date on which share certificates in respect of Woolworths Group Shares are despatched will be certified against the Register of the Company. Share certificates will not be renounceable.

In addition to the new share certificates, holders of Kingfisher Ordinary Shares who hold their shares in certificated form should retain their existing share certificates as these will still constitute evidence of title to their Kingfisher Ordinary Shares after the Demerger.

4 Memorandum and Articles of Association

4.1 Memorandum of Association

The memorandum of association of the Company provides that its principal object is to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of its Memorandum of Association which is available for inspection as described in paragraph 18 below.

4.2 Articles of Association

The Company Articles adopted pursuant to a special resolution of the Company passed on 27 July 2001 and to have effect conditionally on Admission contain provisions, *inter alia,* to the following effect:

4.2.1 Rights attaching to shares

(a) Dividends

Subject to the provisions of the Companies Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall exceed the amount recommended by the Board.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. Except as otherwise provided by the rights attached to shares, all dividends shall be apportioned and paid proportionately according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

Subject to the provisions of the Companies Act, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution. If the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the declaration or the lawful payment of an interim dividend on any shares having deferred or non-preferred rights. No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

A general meeting declaring a dividend may, upon the recommendation of the Board, by ordinary resolution direct that it shall be satisfied wholly or partly by the distribution of assets, including without limitation paid up shares or debentures of another body corporate. The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the Board) of all or any dividend specified by that resolution.

Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

The Company shall be entitled to cease sending dividend warrants and cheques by post or otherwise to a member if those instruments have been returned undelivered to, or left uncashed by, that member on at least two consecutive occasions. The entitlement conferred on the Company by the Article in respect of any member shall cease if the member claims a dividend or cashes a dividend warrant or cheque.

(b) Voting rights

Subject to any rights or restrictions attached to any shares, every member who is present in person (or in the case of a corporation is present by a duly authorised representative) shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares unless all moneys presently payable by him in respect of shares have been paid.

(c) Disclosure of interests in shares

If the Board has served notice on a member after a failure by the member to provide information about interests in shares required to be provided under the Companies Act, the Board may direct that, in respect of the shares in relation to which the default occurred:

(i) the member shall not be entitled to attend or vote either in person or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll;

(ii) where the shares represent at least ¼ of one per cent. in nominal value of the issued shares of their class, no payment shall be made whether by way of dividend in specie or otherwise; and

(iii) where the shares represent at least ¼ of one per cent. in nominal value of the issued shares of their class, no transfer shall be registered unless (i) the member is not himself in default as regards supplying the information requested and the transfer is accompanied by a certificate by the member in a form approved by the Board; or (ii) the transfer is an approved transfer (as defined in the Company Articles); or (iii) registration of the transfer is required by the Uncertificated Securities Regulations 1995.

(d) Distribution of assets on liquidation

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Insolvency Act 1986 divide among the members in specie all or any part of the Company's assets and may value any assets and determine how the division shall be carried out; vest all or any part of the assets in trustees for the benefit of the members; and determine the scope and terms of those trusts. No member shall be compelled to accept any asset on which there is a liability.

4.2.2 Transfer of shares

The instrument of transfer of a certificated share (as defined in the Company Articles) may be in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal. The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

(a) is lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

(b) is in respect of only one class of shares; and

(c) is in favour of not more than four transferees.

4.2.3 Changes in share capital

Subject to the provisions of the Companies Act and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine. Subject to the provisions of the Companies Act, and without prejudice to any rights attached to any existing shares or class of shares, shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of the Company or the holder on such terms and in such manner as may be provided by the Company Articles.

Subject to the Company Articles and to the provisions of the Companies Act all unissued shares of the Company are at the disposal of the Board.

The Company may by ordinary resolution increase, consolidate or, subject to the provisions of the Companies Act, sub-divide its share capital. The Company may, by ordinary resolution, also cancel shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. Subject to the provisions of the Companies Act, the Company may by special resolution reduce its share capital, capital redemption reserve and share premium account in any way. Subject to and in accordance with the provisions of the Companies Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par or above or below par).

4.2.4 Variation of rights

Subject to the provisions of the Companies Act, the rights attached to any class of shares may (unless otherwise provided by the terms of allotment of the shares of that class) be varied or abrogated either with the consent of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

4.2.5 Lien and forfeiture

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. Subject to the terms of allotment, the Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. If a payment is not made when due, the Board may give not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. If that notice is not complied with, any share in respect of which it was given may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board. The forfeiture shall include all dividends or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

4.2.6 Directors' interests

A Director shall not vote at a meeting of the Board or a committee of the Board on any resolution of the Board concerning a matter in which he has an interest (other than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company) which is material unless his interest arises only because the case falls within one or more of the following paragraphs:

(a) the resolution relates to the giving to him of any security or indemnity in respect of money lent by him to, or an obligation incurred by him at the request of or for the benefit of, the Company or any of its subsidiaries;

(b) the resolution relates to the giving to a third party of any security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(c) his interest arises in relation to the subscription or purchase by him of shares, debentures or other securities of the Company pursuant to an offer or invitation to members or debenture holders of the Company, or any class of them, or to the public or any section of the public;

(d) his interest arises by virtue of his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares, debentures or other securities of or by the Company or any of its subsidiaries for subscription, purchase or exchange;

(e) the resolution relates to a proposal concerning any other body corporate in which he is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise howsoever, provided that he is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such body corporate (or any other body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);

(f) the resolution relates in any way to a retirement benefits scheme which has been approved, or is conditional upon approval, by the Board of Inland Revenue for taxation purposes;

(g) the resolution relates to any contract or arrangement for the benefit of employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to whom the contract or arrangement relates; and

(h) any proposal concerning any insurance which the Company is empowered to purchase or maintain for or for the benefit of any Directors of the Company.

The Company may by ordinary resolution suspend or relax any provision of the Company Articles prohibiting a Director from voting at a meeting of Directors or of a committee of Directors to any extent, either generally or in respect of any particular matter.

Where proposals are under consideration concerning the appointment (including without limitation fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any body corporate in which the Company is interested, the proposals may be divided and considered in relation to each Director separately. In such cases each of the Directors concerned shall be entitled to vote in respect of each resolution except that concerning his own appointment.

4.2.7 Remuneration of Directors

The ordinary remuneration of the Directors who do not hold executive office for their services (excluding amounts payable under any other provision of the Company Articles) shall not exceed in aggregate £1 million per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board. The emoluments of any Director holding executive office for his services as such shall be determined by the Board, and may be of any description.

Any Director who does not hold executive office and who serves on any committee of the Board, by the request of the Board goes or resides abroad for any purpose of the Company or otherwise performs special services which in the opinion of the Board are outside the scope of the ordinary duties of a director, may be paid such extra remuneration as the Board may determine.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present Director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

The Directors may be paid all travelling, hotel, and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

A Director shall not be required to hold any shares in the capital of the Company by way of qualification.

4.2.8 Appointment of Directors

Unless otherwise determined by ordinary resolution, the number of Directors (other than alternate Directors) shall be not less than two but shall not be subject to any maximum in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board shall hold office only until the next following annual general meeting and if not re-appointed at such annual general meeting, shall vacate office at its conclusion.

4.2.9 Retirement of Directors by rotation

At every annual general meeting one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office; but:

(a) if any Director has at the start of the annual general meeting been in office for more than three years since his last appointment or re-appointment and is not otherwise subject to retirement by rotation, he shall retire; and

(b) if there is only one Director who is subject to retirement by rotation, he shall retire.

4.2.10 Borrowing powers

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities.

4.2.11 Indemnity

Subject to the provisions of the Companies Act but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

4.2.12 Untraced shareholders

The Company shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission if:

(a) during the period of 12 years before the date of the publication of the advertisements referred to in paragraph (b) below (or, if published on different dates, the first date) at least three dividends in respect of the shares in question have been declared and all dividend warrants and cheques which have been sent in the manner authorised by the Company Articles in respect of the shares in question have remained uncashed;

(b) the Company shall as soon as practicable after expiry of the said period of twelve years have inserted advertisements both in a national daily newspaper and in a newspaper circulating in the area of the last known address of such member or other person giving notice of its intention to sell the shares;

(c) during the said period of twelve years and the period of three months following the publication of the advertisements referred to in paragraph (b) above the Company has received no indication either of the whereabouts or of the existence of such member or person; and

(d) if the shares are listed, notice has been given to the relevant listing authority of the Company's intention to make such sale before the publication of the advertisements.

The net proceeds of sale shall belong to the Company which shall be obliged to account to the former member or other person previously entitled for an amount equal to the proceeds.

4.2.13 Members resident outside the United Kingdom

No member shall be entitled to have notices or other documents served on or delivered to him by means of electronic communication if the Board deems it necessary or expedient to serve notice on him or deliver documents to him by some other means authorised by the Company Articles.

Without prejudice to the generality of the foregoing, a member whose registered address is not within the United Kingdom and who gives to the Company an address within the United Kingdom at which a notice or other documents may be served on or delivered to him shall be entitled to have notices or other documents served on or delivered to him at that address but otherwise:

(a) no such member shall be entitled to receive any notice or other document from the Company; and

(b) without prejudice to the generality of the foregoing, any notice of a general meeting of the Company which is in fact sent or purports to be sent to such member shall be ignored for the purpose of determining the validity of the proceedings at such general meeting.

The above is a summary only of certain provisions of the Company Articles the full provisions of which are available for inspection as described in paragraph 18 below.

5 Directors' and other interests

5.1 The Directors and their functions are as follows:

Gerald Michael Nolan Corbett	Chairman
Christopher Charles Bevan Rogers	Finance Director
Keith Fleming	Director
Andrew Nigel Wendover Beeson	Non-Executive Director
Roger Evenden Jones	Non-Executive Director
Prudence Margaret Leith	Non-Executive Director

5.2 Details for each Director of all companies and partnerships outside the Group of which he or she has, at any time in the five years prior to the date of this document, been a director or partner (excluding subsidiaries of any company of which he or she is or was also a director, and therefore excluding members of the Group), are set out below. Each such directorship or partnership is currently held unless otherwise stated:

Gerald Michael Nolan Corbett – Railtrack Group plc (resigned 2001), Burmah Castrol plc (resigned 2000), Grand Metropolitan Finance Public Limited Company (resigned 1997), Grand Metropolitan Public Limited Company (resigned 1997), Inntrepreneur Pub Company Limited (resigned 1997), MEPC plc (resigned 1998), Stag Insurance Company Limited (resigned 1997), Tied Management Limited (resigned 1997), Holtsmere End Farm Limited.

Christopher Charles Bevan Rogers – Comet Group plc (resigned 2001), Time Retail Finance Limited (resigned 2001).

Andrew Nigel Wendover Beeson – Beeson Gregory Group plc, Easdaq SA (Belgium), Carrie Martin Limited (resigned 1997).

Roger Evenden Jones – Killerig Castle Golf & Country Club plc, Kingfisher plc (resigned 1998).

Prudence Margaret Leith – Whitbread plc, TriVen plc, LK Properties Limited, Halifax plc (resigned 1999), Argyll Group plc (resigned 1996).

5.3 None of the Directors has any unspent convictions in relation to indictable offences, has been bankrupt or has made or been the subject of any individual voluntary arrangement.

5.4 None of the Directors has been a director of any company at the time of or within the 12 months preceding the date of its receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.

5.5 None of the Directors has been a partner of any partnership which has been placed into compulsory liquidation or administration or entered into a partnership voluntary arrangement at the time of or within 12 months preceding such event and there have been no receiverships of any assets of any of the Directors or of any partnership of which any of the Directors was a partner at the time of or within 12 months preceding such events.

5.6 None of the Directors has been publicly criticised by any statutory or regulatory authority (including recognised professional bodies) or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5.7 Save as set out in paragraph 5.8 below, no Directors of the Company (or any person connected with a Director of the Company within the meaning of section 346 of the Act) has any interest whatever in the issued share capital of the Company.

5.8 Upon the Demerger becoming effective, the interests of the Directors of the Company, their immediate families and of all persons connected (within the meaning of section 346 of the Act) with such Directors in the issued share capital of the Company (all of which interests are beneficial unless otherwise stated), as required to be notified to the Company pursuant to section 324 or 328 of the Act or required to be entered in the register maintained under the provisions of section 325 of the Act, and, in the case of persons connected with the Directors, as would be required to be so notified or registered if such connected person were a Director of the Company and the interest of that connected person is known to or could with reasonable diligence be ascertained by that Director, are anticipated to be, assuming (a) no dealings in Kingfisher Ordinary Shares by such Directors of the Company or persons connected with them within the meaning of section 346 of the Act during the period up to such date and (b) that options and awards under the Kingfisher Employee Incentive Schemes continue to relate to Kingfisher Ordinary Shares as follows:

Director	Number of Woolworths Group Shares
Gerald Michael Nolan Corbett	—
Christopher Charles Bevan Rogers	257
Keith Fleming	—
Andrew Nigel Wendover Beeson	—
Roger Evenden Jones	126,733
Prudence Margaret Leith	—

5.9 It is proposed that, following the Demerger, options will be granted under the Executive Scheme (described in paragraph 7.2 of this Part 5) to acquire Woolworths Group Shares with an exercise price equal to the market value of such shares shortly before grant. The maximum grants will be based on the amounts for the total exercise price shown against the names below:

Director	Maximum Total Exercise Price
Christopher Charles Bevan Rogers	£675,000
Keith Fleming	£780,000

5.10 The total aggregate remuneration paid and benefits in kind granted to the Directors by any member of the Kingfisher Group in respect of the last completed financial year was £788,376.

5.11 At the date of this document, no remuneration has been paid nor have any benefits in kind been granted to the Directors in such capacity by the Company. On the basis that the Demerger becomes effective, it is estimated that under the arrangements in force as of the date hereof, the aggregate remuneration to be paid and benefits in kind to be granted to the Directors by the Company or any member of the Group for the current financial year will be £1,228,000.

5.12 No Director has waived or agreed to waive any future emoluments during the past financial year.

5.13 No Director has or has had an interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

5.14 There are no outstanding loans granted by any member of the Group to any of the Directors nor has any guarantee been provided by any member of the Group for their benefit.

6 Directors' service agreements

6.1 Gerald Corbett is non-executive Chairman. From Demerger, he will be Executive Chairman on the terms of the service agreement referred to in paragraph 6.2 below. Keith Fleming and Christopher Rogers each have a service agreement with the Company which takes effect upon the completion of the Demerger and are described in paragraph 6.2 below.

6.2 The service agreement of Gerald Corbett takes effect upon completion of the Demerger and terminates automatically after a fixed period of one year, or earlier if a new Chief Executive is found. Gerald Corbett will then revert to being Non-Executive Chairman of the Company on the terms described below at paragraph 6.3. Gerald Corbett may give 6 months' written notice to terminate the service agreement. The service agreement also contains a provision which allows the Company to terminate his employment immediately and obliges the Company on such termination of employment to pay a sum to Gerald Corbett equal to the salary which he would have received for the unexpired period of the service agreement.

The service agreements of Keith Fleming and Christopher Rogers can be terminated by the Company giving 18 months' written notice or by the relevant Director giving 6 months' written notice. Each service agreement also contains a provision for payment in lieu of notice. This allows the Company to terminate employment immediately and obliges the Company on such termination of employment to pay a sum to the relevant Director equal to the salary which the Director would have received for the notice period (or, if notice has already been served, for the unexpired part of the notice period). In Keith Fleming's service agreement there is provision for the sum to be reduced to take into account mitigation and the receipt of a lump sum.

The service agreements of all three 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.

Keith Fleming's and Christopher Rogers' service agreements provide that, for a period of three months following a change of control of the Company, each Director may resign by giving one months' notice in writing. Where such notice is given, or if the Company gives the Director notice to terminate his employment within the period of three months following the change of control, the Director is entitled to a liquidated damages payment. This payment is 16 months' salary, pension supplement, medical insurance premium and company car allowance (if the Director is 50 or over at the time) or 14 months' salary, pension supplement, medical insurance premium and company car allowance (if the Director has not reached the age of 50 at the time). The Company shall also procure that benefits payable to the Director under any applicable pension arrangements are augmented by increasing the Director's pensionable service and pensionable salary as if the Director had remained in service for either a further 16 or 14 months (depending on age as above) and shall consent to early retirement if the Director is aged 50 or over at the date of termination.

Under his service agreement, Gerald Corbett is entitled to 30 days' holiday per year, use of a company car and chauffeur, life insurance benefits equal to twice the earnings cap (in total £190,800 for the 2001/2002 tax year) and private medical insurance. Gerald Corbett is not entitled to participate in the Kingfisher Pension Scheme and will not be entitled to participate in the new defined benefit scheme to be set up by the Group, as described in paragraph 8 of this Part 5 below. Gerald Corbett is, however, provided with an additional supplement of 17 per cent. of basic annual salary.

Under their service agreements, Keith Fleming and Christopher Rogers are each entitled to 30 days' holiday a year, a travel allowance or use of a company car, life insurance benefits equal to four times basic annual salary, private medical insurance and pension. Pension and life insurance benefits will be provided under the Kingfisher Pension Scheme until 31 March 2002 (except that, for Keith Fleming, life insurance in excess of the earnings cap (£95,400 for the 2001/2002 tax year) is provided via a top-up life assurance policy), and after that under the new defined benefit pension scheme to be set up by the Group, as described in paragraph 8 of this Part 5 below. Keith Fleming is also provided with a pension supplement of 6 per cent. of the difference between his basic annual salary and the earnings cap (£95,400 for the tax year 2001/2002).

Following the Demerger, Gerald Corbett will be entitled to a basic annual salary of £375,000 whilst he is Executive Chairman, Keith Fleming will be entitled to a basic annual salary of £260,000 and Christopher Rogers will be entitled to a basic annual salary of £225,000.

Keith Fleming and Christopher Rogers will be entitled to participate in the Woolworths Group Employee Share Incentive Schemes, the main particulars of which are set out in paragraph 7 of this Part 5. Gerald Corbett is entitled to a discretionary bonus of up to 50 per cent. of basic salary based on personal and financial objectives to be set by the Remuneration Committee. Gerald Corbett is not entitled to participate in any executive share option plans or other long-term incentive arrangements.

6.3 Non-Executive Directors' appointment letters

The Non-Executive Directors of the Company are Andrew Beeson, Prue Leith and Roger Jones. Their appointment letters from Kingfisher dated 17 May 2001, which were adopted by a resolution of the Board on 27 July 2001, take effect on Demerger and stipulate a fixed term of 3 years until 31 May 2004. Each Non-Executive Director is entitled to an annual fee of £25,000 in respect of his or her non-executive Directorship.

The terms upon which Gerald Corbett will act as Non-Executive Chairman following the initial period as Executive Chairman described above in 6.2 are set out in an appointment letter from Kingfisher dated 23 July 2001 which was adopted by a resolution of the Board on 27 July 2001. This provides that his appointment will be for an initial fixed term of 3 years from the Demerger and he will be entitled to an annual fee of £75,000 per annum in respect of his role as Non-Executive Chairman.

6.4 Copies of the executive Directors' service agreements and the non-executive Directors' letters of appointment will be available for inspection as noted in paragraph 18 of this Part 5. Save as set out in this paragraph 6, there are no existing or proposed service agreements between any Director or proposed Director and the Company.

7 Woolworths Group Employee Share Incentive Schemes

At the same time as the approval of the Demerger, the shareholders of Kingfisher will vote on the approval of the Woolworths Group Employee Share Incentive Schemes listed below:

Woolworths Group Executive Share Option Scheme ("Executive Scheme");

Woolworths Group Incentive Plan ("Incentive Plan");

Woolworths Group Sharesave Scheme ("Sharesave Scheme");

Woolworths Group All-Employee Share Scheme ("All-Employee Scheme");

Woolworths Group Employee Benefit Trust ("EBT"); and

Woolworths Group Qualifying Employee Share Ownership Trust ("QUEST").

The main features of the Woolworths Group Employee Share Incentive Schemes are described below.

7.1 Features Common to the Woolworths Group Employee Share Incentive Schemes.

The following features are common to all of the Woolworths Group Employee Share Incentive Schemes.

(a) Limits on the issue of Woolworths Group Shares

No awards may be made under the Woolworths Group Employee Share Incentive Schemes which would cause the number of Woolworths Group Shares issued or issuable under all share options granted in any 10 year period, or issued in that period under any other employees' share scheme adopted by the Company, to exceed 10 per cent. of the Company's issued ordinary share capital at the date of grant (or 5 per cent. of such share capital having regard only to options granted or awards made under the Executive Scheme, the Incentive Plan or any other executive share incentive schemes established by the Company).

The Executive Scheme also contains further constraints over granting options within specified periods to ensure that these limits are not used up too quickly.

(b) Rights attaching to Woolworths Group Shares

All Woolworths Group Shares allotted under the Woolworths Group Employee Share Incentive Schemes will rank equally with all other Woolworths Group Shares for the time being in issue (except for any rights arising by reference to a record date before the date of allotment).

(c) Adjustment of Awards

In respect of all of the Woolworths Group Employee Share Incentive Schemes except the All-Employee Scheme, in the event of any increase or variation of share capital or (except in the case of Inland Revenue approved options granted under the Executive Scheme and the Sharesave Scheme) the payment of a capital or special dividend or in any other circumstances similarly affecting awards, the Board may make such adjustments as it considers appropriate to:

(i) in the case of share options, the number of Woolworths Group Shares under option and the price payable on their exercise; and

(ii) in the case of other awards, the number of Woolworths Group Shares subject to the awards.

(d) Alterations

The Board may at any time alter or add to the Woolworths Group Employee Share Incentive Schemes in any respect. However, the prior approval of the Company in general meeting must be obtained for alterations or additions to the advantage of participants, to the rules governing eligibility, limits on participation, terms of exercise, non-assignability of options or awards and adjustment of options or awards. Prior approval of shareholders is not required for minor amendments for administrative advantage, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

(e) Pensionability

No benefits received under the Woolworths Group Employee Share Incentive Schemes will be pensionable except that a decision by an employee to invest his or her own normal salary in buying partnership shares under the All-Employee Scheme will not reduce pension benefits provided by the Woolworths Group except to the extent provided for in the relevant pension scheme.

(f) International arrangements

The Board is authorised to establish arrangements for employees outside the United Kingdom to provide similar benefits to the Woolworths Group Employee Share Incentive Schemes, having regard to local legislation.

7.2 Executive Scheme

The rules of the Executive Scheme mirror those of the Kingfisher Executive Share Option Scheme (1993) after taking account of the amendment to those rules to be proposed at the EGM. The Executive Scheme comprises two parts: the first is intended to be approved by the Inland Revenue and the second will be unapproved for UK tax purposes.

Employees and full-time directors of any member of the Woolworths Group who are not within one year of their normal retirement age will be eligible to be granted options under the Executive Scheme at the discretion of the Remuneration Committee.

Options may relate to new issue or existing Woolworths Group Shares. No payment will be required for the grant of an option.

Options may be granted within the six weeks following:

(a) the approval of the Executive Scheme by Kingfisher shareholders;

(b) in the case of Inland Revenue approved options, the date the Executive Scheme receives approval from the Inland Revenue; or

(c) the day following the announcement by the Company of its results for any period,

or at other times which the Board considers to be sufficiently exceptional to justify a grant being made.

No options may be granted later than 2 June 2003, being 10 years after the Kingfisher Executive Share Option Scheme (1993) was adopted by Kingfisher.

Options are not transferable other than where, by virtue of a participant's death, they may be exercised by his personal representatives.

The Executive Scheme will permit the grant of UK tax-favoured Inland Revenue approved options to a participant having an aggregate exercise price up to the UK Inland Revenue limit of £30,000. The rules also impose a limit on the value of outstanding options which may be satisfied through the issue of new shares of, broadly, four times the participant's annual remuneration.

It is currently intended that options should be granted twice a year and that each grant of options shall not, except in recruitment situations or for grants following the Demerger, exceed the employee's annual base salary. So far as the executive directors of the Company and certain other senior executives of any member of the Woolworths Group are concerned, it is currently envisaged that the first grant following the Demerger will be up to three times annual base salary.

The price per Woolworths Group Share payable upon the exercise of an option will not be less than the higher of:

(a) the middle market quotation for a Woolworths Group Share as derived from the London Stock Exchange Daily Official List on the day the option was granted or an earlier day agreed with the Inland Revenue; and

(b) if the option is expressed to relate solely to unissued Woolworths Group Shares, the nominal value of a Woolworths Group Share.

An option will not normally be exercisable until three years from its grant and shall then normally become exercisable, subject to the satisfaction of any applicable performance conditions. Options will lapse 10 years from the date they were granted or on such earlier date as is determined by the Board at the time of grant.

The Board intends to set performance conditions on the exercise of each option grant. Initially, earnings per share growth will be required to exceed inflation plus six per cent. over any three year period following the grant of the option.

Options generally lapse on cessation of employment although early exercise is permitted irrespective of whether any performance condition has been satisfied in certain leaver situations or in the event of a change of control, a scheme of arrangement or a winding-up of the Company.

7.3 Incentive Plan

Employees and full-time directors of any member of the Woolworths Group who are not within one year of their normal retirement age will be eligible to participate in the Incentive Plan, at the Remuneration Committee's discretion. The Incentive Plan, which is based on the Kingfisher Incentive Plan for which the approval of Kingfisher Shareholders will be sought at the EGM, is intended to provide an integrated approach to variable pay through combining annual bonuses with long term incentives. Participants in the Incentive Plan will not normally be eligible to participate in any other annual bonus plan for the same period as that in which they participate in the Incentive Plan.

Each year Incentive Plan participants may, at the Remuneration Committee's discretion, be awarded a deferred cash bonus. This will be dependant upon the achievement of stretching performance targets related to financial and/or personal performance during the preceding financial year. Initially, it is intended that such deferred bonuses will be up to 45 per cent. of base salary for on target performance, rising to up to 100 per cent. of base salary for exceptional performance.

At the same time as deferred bonuses are awarded, the Remuneration Committee may, at its discretion, grant matching awards over Woolworths Group Shares. The market value (measured at the date of grant) of matching shares awarded will not exceed 100 per cent. of the gross amount of the related deferred bonus. It is envisaged that initial awards will be subject to a 50 per cent. match.

Deferred bonuses will normally be paid to participants following announcement of the Company's annual results following the third anniversary of the date on which they were awarded and will increase or decrease during the deferral period to reflect the increase or decrease in value of the relevant performance unit.

Participants may request the early payment of their deferred bonuses, in which case any associated matching share award will normally lapse. In such circumstances, the deferred bonus will not be increased to reflect any subsequent increase in the relevant performance unit's value but will be decreased to reflect any decrease in that value.

The matching share awards will normally be transferred to participants following announcement of the Company's annual results after the end of the three year deferral period. The Remuneration Committee may specify performance conditions which will need to be met before the shares are transferred. For initial awards, the Remuneration Committee do not believe that any such performance conditions are required as they would merely act as a deterrent for Participants to defer the bonus.

On termination of employment, deferred bonuses will generally be paid and matching share awards will be forfeited. On a change of control of the Company, both deferred bonuses and matching share awards will generally be unaffected except that a participant may request early vesting (in which case deferred bonuses will be paid and matching shares transferred on a reduced basis); and if the change in control will result in Woolworths Group Shares becoming unavailable to satisfy matching share awards, either any available shares may be transferred to participants or the awards may be converted into awards over shares of the acquirer.

No deferred bonuses or matching share awards may be awarded later than ten years after the Incentive Plan is approved by Kingfisher Shareholders. The Remuneration Committee will review executive remuneration, including the operation of the Incentive Plan, no later than five years after its adoption.

No payment will be required for participation in the Incentive Plan. Deferred bonuses and matching share awards are not transferable other than where, by virtue of a participant's death, benefits may be available to his personal representatives.

The Company may issue Woolworths Group Shares for the purposes of the Incentive Plan. The price at which such Woolworths Group Shares are issued shall be determined by the Board but shall not be less than their nominal value.

7.4 Sharesave Scheme

The Sharesave Scheme is intended to be an Inland Revenue approved savings-related share option scheme under the requirements of Schedule 9 to the Income and Corporation Taxes Act 1988.

UK resident directors and employees of participating members of the Woolworths Group with six months' service who are not otherwise excluded by the relevant legislation will be eligible to participate in the Sharesave Scheme. The Board has discretion to vary this eligibility period but may not extend the period beyond five years.

Invitations to apply for options (which may relate to new issue or existing Woolworths Group Shares) may be issued within six weeks of:

(a) the approval of the Sharesave Scheme by the Inland Revenue; or

(b) the announcement by the Company of its results for any period,

or at other times which the Board considers to be sufficiently exceptional to justify a grant.

No invitations may be issued later than 10 years after the Sharesave Scheme is approved by Kingfisher Shareholders.

Options are not transferable other than where, by virtue of a participant's death, they may be exercised by his personal representatives.

There is a limit on the monthly savings by an employee under all savings contracts linked to options granted under the Sharesave Scheme and any other approved savings-related share option schemes operated by the Company. Currently, contributions may not exceed £250 (and the Board can impose a lower maximum amount) and must be a minimum of £5 per month. Options are normally exercisable from the date which is three, five or seven years after the commencement of the savings contract (the "Bonus Date"). The number of Woolworths Group Shares over which a participant is granted an option will be the number that can be acquired on the Bonus Date, at the exercise price, with the savings made plus a bonus payable on the Bonus Date.

The price per Woolworths Group Share payable on exercise of an option will not be less than the higher of:

(a) the minimum percentage permitted by the relevant legislation (currently 80 per cent.) of the average middle market quotation for a Woolworths Group Share as derived from the London Stock Exchange Daily Official List over the three dealing days before invitations to apply for options are issued, on the dealing day before options are granted or on such other dealing day as the Inland Revenue may agree; and

(b) if the option is expressed to relate solely to unissued Woolworths Group Shares, the nominal value of a Woolworths Group Share.

Options will normally only be exercisable for six months from the Bonus Date. Earlier exercise may be permitted following cessation of employment at any time in limited cases such as cessation of employment more than three years from grant where an employee is not dismissed for misconduct, or on reaching age 60 but remaining in employment. Options may also be exercised in the event of a change of control, a scheme of arrangement for amalgamation or reconstruction or winding-up of the Company. In all cases where early exercise is permitted, this will be to the extent possible with the proceeds of the related savings contract at the time of exercise.

7.5 All-Employee Scheme

The Company intends to obtain Inland Revenue approval for the All-Employee Scheme. The trustees of the All-Employee Scheme (the "Trustees") will be either a subsidiary company within the Woolworths Group or a firm of professional trustees.

If the Company decides to operate the All-Employee Scheme in any year, it must offer all UK tax-resident employees of any member of the Woolworths Group the opportunity to participate, provided that it can require employees to have completed a minimum qualifying period of employment before they can participate, although that period must not be more than 18 months.

The All-Employee Scheme contains three elements and the Company will decide each year which, if any, of these elements will be used to offer Woolworths Group Shares to Woolworths Group employees, provided that the All-Employee Scheme may not be operated more than ten years after its approval by Kingfisher Shareholders. The three elements are as follows:

(a) "Free Shares", which may be allocated to a Woolworths Group employee by the Company.

The market value of Free Shares allocated to an employee in any year may not exceed £3,000 or such other limit as may be permitted by the relevant legislation. Free Shares must be allocated to all employees on similar terms (either equally, on the basis of salary, length of service or hours worked), or based on performance targets within the limits specified by the relevant legislation.

(b) "Partnership Shares", which a Woolworths Group employee may purchase out of pre-tax earnings.

The market value of Partnership Shares which an employee can agree to purchase in any year may not exceed £1,500 (or 10 per cent. of an employee's salary, if lower), or such other limit as may be permitted by the relevant legislation. Partnership Shares are purchased on behalf of an employee by the Trustees. The funds used to purchase shares will be deducted from the employee's salary. The intervals at which deductions will take place will be communicated to employees prior to the commencement of their participation in the All-Employee Scheme. Funds deducted from salary will be held on the employee's behalf until they are used to buy Partnership Shares.

(c) "Matching Shares", which may be allocated to a Woolworths Group employee by the Company following a purchase of Partnership Shares.

Matching Shares are additional free shares allocated following a purchase of Partnership Shares. The maximum number of Matching Shares which the Company can allocate to an employee following a purchase of Partnership Shares by the employee is two Matching Shares for every one Partnership Share purchased by the employee, or such other limit as may be permitted by the relevant legislation. There is no minimum ratio of Matching Shares which the Company must provide following a purchase of Partnership Shares. To the extent that Matching Shares are allocated by the Company, the same ratio will apply to all employees who purchase Partnership Shares under the All-Employee Scheme at that time.

The Trustees may either subscribe for unissued Woolworths Group Shares or purchase Woolworths Group Shares in the market for the purposes of the All-Employee Scheme. The money to buy Free Shares or Matching Shares will normally be provided by the employee's employing company and, in respect of the acquisition of Partnership Shares, by the employee.

The Trustees will initially hold all Free Shares or Matching Shares allocated to employees and any Partnership Shares acquired on the employees' behalf. Employees can withdraw Partnership Shares from the trust at any time. Free Shares and Matching Shares awarded to employees will normally be subject to a requirement that the shares are held by the Trustees for a period after the initial allocation. This period will be notified to employees at the time of allocation and will not normally be for less than three years or more than five years (with such variations, if any, as the relevant legislation may permit).

The All-Employee Scheme provides that if an employee ceases to be employed by a member of the Woolworths Group within three years of being allocated Free Shares or Matching Shares (or such shorter period as the Company may specify), his rights to those shares may be forfeited. However, in the event of death, cessation of employment due to injury, redundancy, transfer of the employing business from the Woolworths Group or retirement on reaching age 60, employees will retain any Free Shares and Matching Shares.

The All-Employee Scheme provides that Matching Shares may be forfeited if the corresponding Partnership Shares are withdrawn before the expiry of three years from the date they are allocated.

Employees will be the beneficial owners of Woolworths Group Shares held by the Trustees. Any dividends received in respect of Woolworths Group Shares held by the Trustees may be used to acquire additional Woolworths Group Shares for employees or may be distributed to employees.

7.6 Employee Benefit Trusts

The EBT will be a discretionary trust for the benefit of employees and ex-employees of members of the Woolworths Group. It will have power to buy existing Woolworths Group Shares and subscribe for unissued Woolworths Group Shares to be held for the purposes of Woolworths Group share incentive schemes from time to time. The members of the Woolworths Group will be able to provide funds to the trustee of the EBT for this purpose by way of gift or loan. The EBT may not purchase shares so as to hold more than five per cent. of the issued Woolworths Group Shares without the approval of the Company's shareholders. The trustee of the EBT will be an independent professional trustee and the Company will have powers of appointment and removal of trustees.

The QUEST will be similar to the EBT and, though less flexible, will have certain tax advantages. This trust will be used principally for the purposes of the Sharesave Scheme. The trustee will be a subsidiary of the Company.

8 Pensions

Group employees are currently eligible to participate in either the Kingfisher Pension Scheme ("KPS") or the Kingfisher Retirement Trust ("KRT"). Both schemes have Inland Revenue approval and are contracted out of the State Earnings Related Pension Scheme.

KPS is a defined benefit scheme. The most recent actuarial valuation was carried out as at 31 March 1998 by Watson Wyatt Partners, the actuaries to KPS, on a projected unit basis. The assumptions used and the results are as stated in the notes to the financial statements in Part 3 of this document. Group employers are currently contributing to KPS at the rate of 10 per cent. of pensionable salary. The contribution rates were set with a view to reducing the surplus under the 1998 valuation.

KRT is a defined contribution scheme. Group employers contribute the minimum payments required under the contracting out legislation plus additional contributions generally at the rate of 1 per cent. or 2 per cent. of pensionable salary.

Under the terms of a deed of division entered into on 30 July 2001 between Kingfisher, the Company and the trustee of KPS and KRT:

(a) the Group will continue to participate in KPS after Demerger until 31 March 2002. During this transitional period, the Group will contribute at the rate of 12.6 per cent. of pensionable salary, rather than the 10 per cent. rate which apply to participating employers generally. If a rate higher than 12.6 per cent. is payable by participating employers generally then the Group will pay that higher rate. Further, if the Group increases an employee's pensionable salary during the transitional period by more than 4.75 per cent. per annum, or enhances an employee's benefits, the Group will have to pay a special contribution to KPS to reflect the cost of the increase or enhancement. The Group will set up a new pension scheme as from 1 April 2002, the terms of which will be similar to the terms of KPS in all material respects. Group employees will be given the opportunity to transfer their accrued rights from KPS to the new scheme and there will be a transfer of assets representing those accrued rights from KPS to the new scheme. The transfer amount will be calculated on a past service reserve basis using assumptions set out in the deed of division. Kingfisher will be liable to pay the transfer amount if and to the extent that the amount exceeds the share of fund which the trustee is able to pay under the terms of KPS. If, when the Group ceases to participate in the KPS, the KPS does not meet the minimum funding requirement under the Pensions Act 1995, there would be a debt under that Act on each member of the Group which participated in the KPS in respect of its share of the underfunding. However, on current figures, no such underfunding is anticipated; and

(b) the Group will continue to participate in KRT after Demerger until 31 March 2002 on an arm's length basis. In practice this means that the Group will pay contributions in respect of its employees at the same rates as it did prior to the Demerger. The Group will set up a new pension scheme from 1 April 2002, the terms of which will be similar to the terms of KRT in all material respects. Group employees will be given the opportunity to transfer their accumulated funds from KRT to the new scheme.

In common with many UK occupational pension schemes there is a possibility that individuals who work or have worked on a part-time basis may bring claims alleging that they have been wrongly excluded from the membership of the KPS. Any liability that might arise from such claims in respect of current and former employees of the Group after Admission would fall on the Group and the pensions arrangements established by the Group. However, the Directors believe that the likelihood of the aggregate of any such claims being material in the context of the Group as a whole is remote.

9 Taxation

9.1 United Kingdom taxation

The following paragraphs are intended as a general guide only and are based on current legislation and current Inland Revenue practice. The paragraphs summarise certain aspects of the United Kingdom tax position of holders of Kingfisher Ordinary Shares who are resident or ordinarily resident in the United Kingdom for tax purposes, who beneficially own their Kingfisher Ordinary Shares, and who hold their Kingfisher Ordinary Shares as an investment. Anyone who is any doubt as to their taxation position in respect of their Woolworths Group Shares should consult an appropriate professional adviser.

Dividends on the Woolworths Group Shares

The Company will not be required to account for advance corporation tax in respect of dividends. Furthermore, the Company will not be required to withhold tax at source when paying a dividend.

An individual holder of Woolworths Group Shares resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend paid by the Company which he or she can offset against his or her total income tax liability. The amount of the tax credit for dividends paid is equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the amount of the net cash dividend. The gross dividend is included in computing the income of such an individual holder for UK tax purposes.

The rate of income tax on dividends is 10 per cent. of the gross dividend for taxpayers liable to tax at rates not exceeding the basic rate. The tax credit will discharge the income tax liability on the dividend of an individual holder of Woolworths Group Shares who is not liable to income tax at a rate higher than the basic rate. Higher rate taxpayers will be liable to tax on the dividend at the rate of 32.5 per cent. of the gross dividend; the tax credit will be set against but will not fully match their tax liability on the dividend and they will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the net cash dividend received) to the extent that the gross dividend, when treated as the top slice of their income, falls above the threshold for higher rate income tax.

UK resident taxpayers who are not liable to UK tax on the dividends, including individuals not liable to income tax, pension funds and charities, will not generally be entitled to claim repayment of the tax credit attaching to dividends paid by the Company, although charities will generally be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004. Tax credits on dividends paid by the Company in respect of Woolworths Group Shares held in personal equity plans or individual savings accounts will generally be repayable until 5 April 2004.

UK resident corporate holders of Woolworths Group Shares will not normally be liable to corporation tax in respect of any dividend received. Such holders will not be able to claim repayment of tax credits attaching to dividends.

A holder of Woolworths Group Shares who is not resident in the United Kingdom for tax purposes will generally not benefit from any entitlement to a refund of any part of the tax credit.

Subsequent disposals of Woolworths Group Shares

Taxation of Chargeable Gains

A subsequent disposal of Woolworths Group Shares may give rise to a liability to taxation of chargeable gains. For holders of Woolworths Group Shares who are individuals and who acquired their Kingfisher Ordinary Shares prior to 1 April 1988 indexation allowance will be available until April 1998 (otherwise than to create or augment a capital loss) in respect of that part of the acquisition cost in the Kingfisher Ordinary Shares apportioned to the Woolworths Group Shares. For periods after 5 April 1998 some taper relief may apply to reduce the effective rate of capital gains tax on any gain on a disposal of the Woolworths Group Shares. For holders of Woolworths Group Shares within the charge to corporation tax, any chargeable gain or allowable loss realised on a disposal of the Woolworths Group Shares should be calculated taking into account the apportioned base cost attributable to those shares and (when calculating a chargeable gain but not an allowable loss) indexation allowance on that cost.

Stamp duty and SDRT

Transfers on sales of Woolworths Group Shares will generally be subject to UK stamp duty at a rate of 0.5 per cent. of the consideration given for the transfer. The purchaser normally pays the stamp duty.

An agreement to transfer Woolworths Group Shares will normally give rise to a charge to SDRT at a rate of 0.5 per cent. of the consideration payable for the transfer. If a duly stamped transfer in respect of an agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the condition is satisfied) any SDRT paid is repayable, generally with interest, and otherwise the SDRT is cancelled. Any SDRT charge is, in general, payable by the purchaser.

Paperless transfers of Woolworths Group Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect the SDRT on relevant transactions settled within the CREST system. Deposits of Woolworths Group Shares into CREST will not generally be subject to SDRT, unless the transfer into CREST is itself for consideration.

Stamp duty or SDRT will generally be payable at the rate of 1.5 per cent. on the transfer of Woolworths Group Shares to, or to a nominee or agent for, (i) a depositary who has issued or is to issue depositary receipts in respect of the shares or (ii) a person whose business is or includes the provision of clearance services pursuant to an arrangement regarding the provision of such services, any SDRT generally being the liability of the depositary or clearance service provider in question. The rate is applied, in each case, to the amount or value of the consideration or, in some circumstances, to the value of the shares.

9.2 US Taxation

The following discussion is a summary based on present law of certain US federal income tax considerations relevant to the purchase, ownership and disposition of Woolworths Group Shares. The discussion addresses only US Shareholders that will hold Woolworths Group Shares as capital assets and use the US dollar as their functional currency. It does not address the tax treatment of US Shareholders subject to special rules, such as banks, dealers, traders in securities that elect to mark to market, insurance companies, tax-exempt entities, holders of 10 per cent. or more of the Company's voting shares, persons holding Woolworths Group Shares as part of a hedge, straddle, conversion, or other integrated financial transaction, or constructive sale transaction and persons that are resident or ordinarily resident in the United Kingdom. The Company believes, and this discussion assumes, that it is not and will not become a passive foreign investment company for US federal income tax purposes.

This summary does not address US state or local taxes. It does not consider any investor's particular circumstances. It is not a substitute for tax advice. The Company urges investors to consult their own tax advisers about the tax consequences of purchasing, holding and disposing of Woolworths Group Shares.

As used in this paragraph 9.2, "US Shareholder" means a beneficial owner of Woolworths Group Shares that is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other business entity organised under the laws of the United States, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income tax regardless of its source.

Dividends

US Shareholders generally must include dividends paid on Woolworths Group Shares in their gross income as ordinary income from foreign sources. The dividends will not be eligible for the dividends-received deduction generally available to corporations. Dividends paid to US Shareholders in pounds sterling will be includable in income in a US dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into dollars at that time. Any gain or loss that a US Shareholder recognises on a subsequent conversion of pounds sterling into dollars generally will be US source ordinary income or loss.

A US Shareholder entitled to the benefits of the UK-US income tax treaty may be entitled to a foreign tax credit for UK withholding tax in an amount equal to the tax credit payment that the holder is entitled to receive under the current UK-US tax treaty from the UK Inland Revenue. At current rates, a dividend of £90 entitles an eligible US Shareholder to a payment of £10 offset by a UK withholding tax of £10. Because the tax credit payment and the withholding tax offset each other, the Inland Revenue neither makes the payment nor collects the tax. The offsetting payments nevertheless have tax significance for US Shareholders. A US Shareholder that elects the benefits of the income tax treaty must include the tax credit payment in its income and may claim a foreign tax credit for the UK withholding tax (subject to otherwise applicable limitations on foreign tax credit claims). To make the election, a holder must file a completed US Internal Revenue Service Form 8833 with its US federal income tax return for the relevant year. A US partnership is entitled to benefits under the UK-US income tax treaty only with respect to income allocated to partners who are so entitled. The United Kingdom and the United States recently signed a new tax treaty that does not provide for UK tax credit payments to US shareholders, except during the twelve months after it comes into effect. It is not clear when that will be.

Dispositions

US Shareholders will recognise any capital gain or loss on the sale or other disposition of Woolworths Group Shares in an amount equal to the difference between their adjusted tax basis in the Woolworths Group Shares determined in US dollars and the US dollar value of the amount realised on sale or other disposition. The gain or loss will be long-term gain or loss if the US Shareholder has held the Woolworths Group Shares for more than one year at the time of sale or other disposition. The deductibility of capital losses is subject to limitations. Any gain or loss will generally be treated as arising from US sources.

A US Shareholder that receives pounds sterling upon sale or other disposition of the Woolworths Group Shares will realise an amount equal to the US dollar value of the pounds sterling on the date of sale or other disposition (or in the case of cash basis and electing accrual basis taxpayers, the settlement date). A US Shareholder will have a tax basis in the pounds sterling received equal to the US dollar amount received. Any gain or loss realised by a US Shareholder on a subsequent conversion of pounds sterling into US dollars will be US source ordinary income or loss.

Information Reporting and Backup Withholding

Dividends from the Woolworths Group Shares and proceeds from the sale of the Woolworths Group Shares may be reported to the Internal Revenue Service ("IRS") unless the holder (i) is a corporation, (ii) provides a properly executed IRS Form W-8BEN or (iii) otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number. The amount of any backup withholding tax will be allowed as a credit against the holder's US federal income tax liability.

9.3 French Taxation

The following paragraphs are intended as a general guide only and are based on current legislation. The paragraphs summarise certain aspects of the French tax position of holders of Woolworths Group Shares who are resident in France for the purposes of the income tax convention currently in force between France and The United Kingdom (the "UK/France Tax Treaty") and who beneficially own their Woolworths Group Shares. Anyone who is any doubt as to his or her taxation position should consult an appropriate professional adviser.

Dividends on the Woolworths Group Shares

Under the UK/France Tax Treaty, certain French resident shareholders who receive a dividend from a UK company are entitled to a UK tax credit (equal, at current rates, to 1/9 of the net dividend paid) in respect of such dividend. However, in circumstances where a French resident shareholder is entitled to the tax credit, UK withholding tax applies in an amount equal to the tax credit payment that the shareholder is entitled to receive from the UK Inland Revenue. Consequently, the UK withholding tax is offset by the tax credit and no part of the tax credit is repayable by the UK Inland Revenue. French resident shareholders who are not entitled to the UK tax credit are not subject to UK withholding tax.

French tax resident individuals holding shares as part of their private assets

The cash dividend plus the related 1/9 tax credit received under the UK/France Tax Treaty form part of a French tax resident individual's income for the purposes of personal income tax, and general social contributions (*Contribution Sociale Généralisée* "CSG") payable at the rate of 7.5 per cent., up to 5.1 per cent. being deductible for the purpose of calculating income tax during the year of its payment, and the contribution towards the reimbursement of the social security debt (*Contribution pour le Remboursement de la Dette Sociale* "CRDS") at the rate of 0.5 per cent. and the 2 per cent. social security withholding tax (*Prélèvement Social*).

The tax credit is deductible from the amount of personal income tax payable by the shareholder within the limit of the French income tax levied on the cash dividend, grossed up by the related 1/9 tax credit. Any surplus is not refundable. Dividends received from foreign companies do not benefit from the global tax allowances of FRF 8.000 and FRF 16.000 or the *avoir fiscal*.

By way of example, if a dividend of FRF 100 is distributed by Woolworths Group to a French resident shareholder who benefits from the UK/France Tax Treaty as described above, such shareholder will be deemed to receive FRF 111.11 (100 + 1/9 x 100) for income tax purposes and will be entitled to deduct a tax credit of FRF 11.11 from the amount of personal income tax payable by such shareholder, provided that the tax credit does not exceed the amount of French income tax payable by the shareholder on the taxable distribution.

French tax resident legal entities subject to corporate income tax

Dividends plus the related 1/9 tax credit are subject to corporate income tax at the current rate of 33 1/3 per cent. plus a surtax of 6 per cent. (reduced to 3 per cent. as from 1 January 2002 and likely to be withdrawn as from 1 January 2003) and may also be subject to a 3.3 per cent. social security tax on profits.

Tax credits are deductible from corporate income tax. However, pursuant to the provisions of articles 145 and 216 of the French general tax code (*Code Général des Impôts*), dividends received by legal entities holding at least 5 per cent. of the share capital of the distributing company may benefit from the parent-subsidiary regime which exempts dividends from corporate income tax, other than for a charge assessed on 5 per cent. of the cash dividend as grossed up by the tax credit, which is deemed to cover the fees and expenses of holding the interest in the share capital (reduced to the amount of actual fees and expenses of any nature incurred by the parent company during the relevant tax period). Legal entities may elect to qualify for this regime in exchange for a commitment to hold the relevant shares for at least 2 years. The tax credit cannot be set off against corporate income tax but may be used for a period of five years to offset the French equalization tax (*précompte*), due in the case of subsequent redistribution of the dividends to shareholders.

Other shareholders

Shareholders subject to a tax regime other than the tax regimes described above should seek advice in light of their particular circumstances if they receive dividends from Woolworths Group.

Subsequent disposal of Woolworths Group Shares

French tax residents holding shares as part of their private assets

Pursuant to the provisions of Article 150-0A of the French general tax code, capital gains realised on the disposal of shares are subject to tax at the current rate of 26 per cent. if the amount of corporate securities sold in the relevant tax year exceeds the applicable threshold per household (currently fixed at FRF 50,000). This tax is composed of the following elements:

- 16 per cent. personal income tax;
- 7.5 per cent. CSG;
- 0.5 per cent. CRDS; and
- 2 per cent. *Prélèvement Social*.

Shareholders who receive their Woolworths Group Shares pursuant to the Demerger should be treated as having acquired such shares for a nil value for the purposes of capital gains taxation. As a result, any gain resulting from a subsequent disposal of such Woolworths Group Shares should be equal to the sale price less any transaction costs and should be subject to tax as indicated above. The French tax authorities have indicated on an informal basis that they would be willing to approve such tax treatment. A formal decision from the French tax authorities is expected shortly.

Pursuant to the provisions of Article 150-0D of the French general tax code, losses may only be set off against gains of the same nature realised in the year in which the losses arise or against gains arising in the five years that follow provided the FRF 50,000 threshold under Article 150-0A is met in that year. Capital gains and losses that relate to shares which are subject to the tax regime described above, including company rights, bonds and options or shares in *OPCVM*, are considered to be of the same nature.

French tax resident legal entities subject to corporate income tax

Capital gains realised on French shares and on portfolio securities are subject to corporate income taxation at the current rate of $33\frac{1}{3}$ per cent. plus a 6 per cent. surtax (reduced to 3 per cent. as from 1 January 2002 and likely to be eliminated as from 1 January 2003) and, if applicable, a 3.3 per cent. social security tax on profits.

However, pursuant to the provisions of Article 219 a ter of the French general tax code, if shares are held in a long-term equity investment account (*titres de participation*) or a special sub-account for over two years prior to their sale or disposal, the net gain realised on the sale or disposal of such shares will be taxed at a reduced rate (currently 19 per cent.) plus a 6 per cent. surtax (reduced to 3 per cent. as from 1 January 2002 and likely to be withdrawn as from 1 January 2003) and, if applicable, a 3.3 per cent. social security tax, provided that the conditions for funding and maintaining a special long-term capital gains reserve are met. French tax resident legal entities are required to provide evidence of the nature of their investments in order to benefit from the reduced rate of taxation. If the shares qualify for the parent/subsidiary regime under Articles 145 and 216 of the French general tax code or if the cost price of the shares is at least equal to FRF 150 million and all the conditions necessary to benefit from the parent/subsidiary regime (other than the 5 per cent. shareholding condition) are satisfied, this constitutes evidence of the long-term nature of the holding of such shares. Long term capital losses realised on the sale or disposal of the shares may be set against capital gains of the same nature in the relevant tax year and may be carried forward for up to 10 financial years.

Shareholders who receive Woolworths Group Shares pursuant to the Demerger should determine their capital gain when disposing of such Woolworths Group Shares by reference to the tax basis set out in article 115-2 of the French tax code. The French tax authorities have indicated on an informal basis that they would be willing to approve such tax treatment. A formal decision from the French tax authorities is expected shortly.

Other shareholders

Shareholders who are subject to a tax regime other than the regimes described above, notably non-residents and taxpayers whose share dealings exceed mere portfolio management, should seek specific advice from their own tax advisor.

10 Reorganisation

During July 2001, Kingfisher effected a number of share transfers (the "Share Transfers") to ensure that following completion of the Share Transfers, ownership of group companies will be split between the Kingfisher Group and the Group, as agreed between them.

Pursuant to the Share Transfers, the Kingfisher Group transferred its interests in the share capital of Streets Online, VCI, GM Group Limited ("GMGL") (two unclassified shares only), Halcyon GM Limited, Woolworth Holdings Limited and Woolco Limited to the Group. (The agreements for the transfer of the shares of Streets Online and VCI are described in paragraph 14.8 of this Part 5.) The Group also transferred its interest in the share capital of E-Kingfisher Limited and a class of shares in B&Q plc to Kingfisher. Relief from *ad valorem* stamp duty has been or will be applied for in respect of each Share Transfer pursuant to section 42 of the Finance Act 1930 (as amended). For each Share Transfer, the transferor has granted the transferee power of attorney over the relevant shares, pending receipt of adjudication granting such relief, or the payment of the relevant amount of stamp duty, which would then permit the transferee of the relevant Share Transfer to be entered in the relevant share register as the holder of the relevant shares.

Furthermore, Kingfisher and the Company have agreed, pursuant to the Demerger Agreement more particularly described in paragraph 14.2 of this Part 5, to procure that:

(i) shortly prior to Demerger, GMGL declare a dividend *in specie* on its issued shares and satisfy such dividend by the assignment by GMGL to Sandelcroft of an equivalent amount, being part of the total existing debt of approximately £2.6 billion owed by Kingfisher to GMGL as at the date of this document. The exact amount of the dividend to be declared shall be calculated so as to ensure that the amount resulting from the implementation of sub-paragraph (v) of this summary shall not exceed £200 million;

(ii) immediately upon receipt by Sandelcroft of the dividend described in (i) above, Sandelcroft declare a dividend *in specie* of the same amount on its issued shares, and satisfy such dividend by the assignment by Sandelcroft to Kingfisher of the debt owed by Kingfisher which was assigned to it by GMGL pursuant to (i) above;

(iii) upon the assignment of such amount by Sandelcroft to Kingfisher, that part of the total debt of approximately £2.6 billion owed by Kingfisher to GMGL be therefore extinguished;

(iv) conditionally on Demerger becoming unconditional, and with immediate effect therefrom, all inter-company balances owing to or from Kingfisher by or to any member of the Group be novated so as to become obligations of the Company to Kingfisher or, as appropriate, debts due to the Company from Kingfisher;

(v) immediately following step (iv) above, written demands for all outstanding inter-company indebtedness becoming automatically effective, the resulting amounts owing by Kingfisher to the Company and from the Company to Kingfisher as at 4 August 2001 shall be set off the one against the other and shall result in an amount owed by the Company to Kingfisher of £200 million, made up entirely of amounts previously advanced by Kingfisher to Woolworths for its working capital purposes;

(vi) GMGL will draw £100 million under the Facility Agreement described in paragraph 14.7(a) of this Part and lend that amount to the Company, and the Company will draw £100 million from the Bridge Facility Agreement described in paragraph 14.7(b) of this Part, and then the Company shall pay the aggregate of £200 million to Kingfisher in satisfaction of the outstanding indebtedness owed by it to Kingfisher following the operation of sub-paragraph (v) above;

(vii) to the extent that, following the steps outlined in the previous sub-paragraphs of this paragraph 10, amounts are still outstanding between the Company and Kingfisher as a result of movements on inter-company balances since 4 August 2001, the final amount of the same shall be determined between the parties and settled by the relevant debtor for value on the Monday falling not later than one week after Admission.

Save as described above, and save for amounts owing pursuant to transactions entered into between the Kingfisher Group and the Group in the ordinary course of business, following Admission the Kingfisher Group will not owe any amount to the Group and the Group will not owe any amount to Kingfisher.

11 Substantial shareholdings

On the basis of the interests in Kingfisher Ordinary Shares notified to Kingfisher in accordance with Kingfisher's Articles of Association and the Act as at 30 July 2001 (the latest practicable date prior to the date of this document) and the Directors' estimate of the issued share capital of the Company following Admission (on the basis referred to in paragraph 3.5 above and assuming the Demerger becomes effective), so far as the Directors are aware no person other than those listed below will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company immediately after Admission:

Shareholders	Number of Woolworths Group Shares	Per cent. of issued share capital
M&G Investment Management Ltd	52,108,750	3.62
Prudential Corporation plc	51,095,122	3.55
CGNU plc and certain of its subsidiaries	49,521,170	3.44

So far as is known by the Directors, there is no person who could directly or indirectly, jointly or severally exercise control over the Company immediately after Admission.

12 Principal Subsidiary Undertakings

Upon the Demerger becoming effective, the Company will be the ultimate holding company of the Group and hold (directly or indirectly) the share capital in the principal subsidiaries listed below:

Name	Registered office	Percentage of equity share capital owned	Business description
Sandelcroft Limited	Woolworth House 242/246 Marylebone Road London NW1 6JL	100	Holding Company
GM Group Limited	Woolworth House 242/246 Marylebone Road London NW1 6JL	100	Holding Company
Woolworths plc	Woolworth House 242/246 Marylebone Road London NW1 6JL	100	Trading Company
Woolworths Entertainment Group Limited	Woolworth House 242/246 Marylebone Road London NW1 6JL	100	Holding Company
MVC Entertainment Limited	Congress House Lyon Road Harrow Middlesex HA1 2EN	100	Trading Company
Entertainment UK Limited	243 Blyth Road Hayes Middlesex UB3 1DN	100	Trading Company
Streets Online Limited	9 Overline House Station Way Crawley West Sussex RH10 1JA	91.4	Trading Company
VCI plc	76 Dean Street London W1V 5HA	100	Holding Company

13 Principal establishments

The following are the principal establishments of the Group:

Location	Size (sq. ft.)	Tenure	Annual Rental (£)	Duration
Woolworth House, 242, 244, 246 & 246A Marylebone Road London NW1 (Head Office)	120,000	Leasehold	3,000,000	67 years from 25.03.1959
				25 years from 25.03.2001
Castleton (Distribution Centre)	418,795	Leasehold	842,000	25 years from 25.03.2001
Swindon (Distribution Centre)	573,175	Leasehold	2,000,000	25 years from 29.09.1990
Rugby Valley Park (Distribution Centre)	305,000	Leasehold	1,582,309	25 years from 18.09.1998
Blyth Road, Hayes (Distribution Centre)	119,657	Leasehold	1,030,000	25 years from 24.06.1990
Greenford (Distribution Centre)	317,676	Leasehold	1,711,462	15 years from 25.12.1999
Dean Street, London (VCI Head Office)	9,494	Freehold	—	

14 Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into (i) by any member of the Group within the two years immediately preceding the date of this document and are, or may be material to the Group or (ii) have been entered into by the Group at any time and contain obligations or entitlements which are, or may be, material to the Group:

14.1 Introduction Agreement

Pursuant to an agreement made between the Company, Kingfisher and UBS Warburg dated 31 July 2001, the Company has agreed to appoint UBS Warburg as sponsor to the Company in connection with the application for admission to the Official List, and the application for admission to trading on the London Stock Exchange's market for listed securities, of the entire issued share capital of the Company. The Introduction Agreement contains (i) certain warranties by the Company as to the accuracy of the information contained in the Listing Particulars and in relation to other matters relating to the Group and its business; (ii) an indemnity from the Company in favour of UBS Warburg; and (iii) certain undertakings from the Company relating, amongst other things, to consultation with, and the provision of information to, UBS Warburg in its capacity as sponsor. Under the Introduction Agreement, Kingfisher gives warranties to UBS Warburg, in relation to the contents of the Circular, and certain other warranties regarding the business of the Group and the Demerger. Kingfisher also gives an indemnity in favour of UBS Warburg in the same terms as the Company. Kingfisher's liability under those warranties, which are also given by the Company and under its indemnity (broadly so far as loss relates to a breach of such warranties), will cease on Admission. The Introduction Agreement also sets out certain circumstances in which it will or may be terminated. No fees or expenses are payable by the Company pursuant to the Introduction Agreement, other than listing and admission fees payable to the UK Listing Authority and the London Stock Exchange.

14.2 Demerger Agreement

The Demerger Agreement was entered into on 31 July 2001 between Kingfisher and the Company to effect the Demerger and govern the relationship between the Kingfisher Group and the Company following Demerger. The Demerger Agreement is conditional on the passing of the Demerger Resolution and on Admission.

The Demerger Agreement sets out how cross group guarantees (if any) will be dealt with following the Demerger. Where relevant, the beneficiary of such a guarantee must try to obtain the guarantor's release from the guarantor's obligations thereunder, and during the interim period indemnify the guarantor against all amounts paid by it under the guarantee and ensure the guarantor's exposure under the guarantee is not increased.

Kingfisher has agreed to indemnify the Company for certain costs it may incur. Among these are indemnities to cover any cost incurred by the Woolworths Group in relation to any payment or obligation due under any ordinary course incentive arrangement which, broadly, is referable to any period prior to Demerger or any loyalty or incentive arrangement referable to Demerger (to the extent the same has not lapsed); to indemnify the Company against any payment obligations, not arising from the failure of a Company in the Woolworths Group, on the part of the landlord assumed pursuant to an agreement made between Woolworths and Superdrug in relation to certain commercial premises, to a maximum amount of £200,000 per store, or an aggregate maximum of £800,000; for all arrangement and placement fees payable in connection with the Facility Agreements and Engagement Letter described in paragraph 14.7 below; and in the event of termination of the Woolworth House lease within five years from Admission, to indemnify the Company for claims relating to dilapidations under the lease up to an aggregate amount of £8,000,000, such indemnity to exclude any claims relating to deterioration of the property after the date of Admission. The Demerger Agreement stipulates that the Company is not indemnified for certain one-off costs which will be incurred by it as part of the Demerger in the current financial year. These one-off costs relate to past service of certain employees of the Group as participants under various Kingfisher incentive plans.

Both the Kingfisher Group and the Woolworths Group will be permitted access to each other's records for a period of six years following the Demerger. In addition, the Company has agreed to provide Kingfisher such information as Kingfisher may reasonably require in order to prepare its half year and full year accounts for the year ending 2 February 2002.

Where one group member is a party to an agreement or arrangement but a member of the other group derives a benefit from that agreement or arrangement, that other group member will ensure that any relevant liabilities under that agreement or arrangement are fully discharged, and will indemnify the group member (who is party to the agreement or arrangement) for any losses incurred by it. Each group will broadly also be responsible for any liabilities associated with its business owned or operated (including employees employed by that business) following the Demerger, or any business, asset or liability which would have been owned or operated by it following Demerger had it not been disposed of prior to the Demerger, and will indemnify the other group for any losses it incurs in relation to liabilities for which it has not assumed responsibility.

Certain liabilities have been identified as not being entirely attributable to either group and will generally be shared on an equitable basis. These are, broadly, any liabilities incurred in relation to indemnities given to certain professionals in connection with work carried out as part of the Demerger and certain liabilities (if any) incurred in relation to the Reorganisation (described more fully in paragraph 10 of this Part 5).

Certain terms and restrictions apply in relation to claims made under the aforementioned indemnities, including: a duty to mitigate loss, restrictions on the ability to claim where loss arises from an unreasonable action or omission of a party following Demerger, and on the ability to claim for a loss where there is an allowance, reserve or provision for such loss in relevant accounting statements of the claiming group. No indemnity claim may be commenced by either party unless the aggregate of indemnity claims is for an amount in excess of £500,000 (in which case all such claims are recoverable, and not just the excess).

Reasonable endeavours are to be used to ensure that contracts in the name of one group member whereby a member of the other group is deriving the benefit of that contract must be novated to the relevant member of the other group, pending which the contracting party shall hold the benefit of that contract on trust for the relevant member of the other group.

Provision is made in the Demerger Agreement to ensure that where one group holds assets which should have been transferred to the other group (prior to the Demerger), the present holder will take certain reasonable steps to ensure such assets are transferred to the other group. If the assets are reflected in the financial information of the present holder produced in connection with the Demerger, they are transferred to the other group at book value, otherwise they are transferred at no cost.

The parties have covenanted for a period ending 31 December 2001 not to employ, solicit or entice away certain employees engaged in skilled or managerial work employed by the other party's group. Trade mark licences are also included, allowing Kingfisher and the Group to continue to use each other's trade marks for limited periods following Demerger.

Both groups have agreed to keep certain information on the other group confidential, subject to certain exemptions (for instance if disclosure is required by law).

Provision has also been made in the Demerger Agreement for the repayment of indebtedness to Kingfisher by the Woolworths Group, as summarised in the description of the Reorganisation contained in paragraph 10 of this Part 5.

The Demerger Agreement provides for the allocation, between Kingfisher and the Woolworths Group, of certain tax costs, including those arising in respect of or in consequence of the Reorganisation and the Demerger. Arrangements have also been agreed in relation to (among other matters) the surrender of United Kingdom group relief and advance corporation tax between companies which were members of the same group prior to the Demerger. The Demerger Agreement also provides for taxation compliance in relation to certain administrative requirements.

14.3 Transitional Services Agreement

An agreement was entered into on 31 July 2001 between Kingfisher and the Company in relation to the terms and conditions upon which the Kingfisher Group will provide various services to the Group after Demerger. The Transitional Services Agreement is conditional on the passing of the Resolutions and on Admission.

Under the terms of the agreement, Kingfisher and the Company agree to provide each other with, or procure the provision to the other of, certain services, which will be provided on commercial terms and on an arm's length basis. The services, which are set out in more detail in the agreement, include the continued provision by Kingfisher to the Group of a small number of Kingfisher employees on secondment, various head office and miscellaneous support services, international logistics services, continued participation in the Kingfisher Group Discount Scheme and software, administrative support, medical insurance, group benefits, pension, share option and payroll services.

Under the agreement, Kingfisher has the right to terminate with immediate effect in the event of the acquisition by a third party of a controlling interest (broadly, control of over 50 per cent. of the voting share capital) in Woolworths Group, or in the event of the acquisition by any person of all or a substantial part of the business of Sandelcroft and its subsidiary undertakings from time to time.

The Company agrees for itself and each member of the Group that neither it nor any member of the Group will make any claim against Kingfisher or any member of the Kingfisher Group or any of its or their respective directors, officers or employees for losses suffered in connection with the services or otherwise under the agreement, except in respect of reasonably foreseeable losses arising directly out of the fraud, wilful default, gross negligence or bad faith of any member of the Kingfisher Group or any of their respective, directors, officers or employees.

14.4 Pensions Deed of Division

A deed of division was entered into on 30 July 2001 between Kingfisher, the Company and the trustee of the Kingfisher Pension Scheme (KPS) and the Kingfisher Retirement Trust (KRT). The deed governs the Group's participation in KPS and KRT after Demerger, the establishment of new pension schemes by the Group, and the making of transfers from KPS and KRT to the new schemes.

In respect of KPS, the deed provides for the Group to continue to participate until 31 March 2002 on an arm's length basis. The Group must pay contributions at the rate of 12.6 per cent. of pensionable salary, or at such higher rate as may be required from employers generally. The Group must set up a new pension scheme as from 1 April 2002, the terms of which are similar to the terms of KPS in all material respects. Group employees must be given the chance to transfer their accrued rights from KPS to the new scheme and there will be a transfer of assets representing those accrued rights from KPS to the new scheme. The transfer amount will be calculated on a past service reserve basis using assumptions set out in the deed. Kingfisher will be liable to pay the transfer amount if and to the extent that the amount exceeds the share of fund which the trustee is able to pay under the terms of KPS.

In respect of KRT, the deed provides for the Group to continue to participate until 31 March 2002 on an arm's length basis. The Group must then set up a new pension scheme, the terms of which are similar to the terms of KRT in all material respects. Group employees must be given the chance to transfer their accumulated funds from KRT to the new scheme.

14.5 Superdrug/Woolworths Supply Agreement

An agreement was entered into on 20 July 2001 between Superdrug and Woolworths in relation to the supply of various products by Superdrug to Woolworths, operating under its Woolworths, Big W and Woolworths General Store brand names in a specified list of stores.

The products are defined as comprising either Superdrug own label or third party branded health and beauty products. Superdrug will also provide certain limited services in relation to the supply of the products. If the Company wishes to sell the products in any stores other then those set out in the agreement, it may only do so with Superdrug's prior written consent.

The term of the agreement is 18 months, subject to a review to be carried out prior to January 2002.

In general, Superdrug will not be liable for any direct or consequential loss or loss of profits suffered or incurred by Woolworths arising from negligence or breach by Superdrug in connection with its obligations under the Supply Agreement, except for loss or liability arising from death or personal injury due to the negligence of Superdrug or its agents.

14.6 Kingfisher Asia Limited/Woolworths Agreement

An agreement was entered into on 31 July 2001 between Kingfisher Asia Limited ("KAL") and Woolworths in relation to the terms and conditions upon which KAL will provide product sourcing, procurement and shipping services and any provisional services as agreed by the parties from time to time to the Group after the Demerger. The agreement is conditional upon completion of the Demerger.

Woolworths will pay certain charges to KAL, calculated in accordance with a budget agreed between the parties for each successive contract period (generally 12 months), such budget to be based upon a minimum value of products to be sourced, procured or shipped of £100,000,000 per contract period, reduced accordingly in the event of a shorter contract period.

Broadly, Woolworths has agreed not to make claims against KAL or any member of the Kingfisher Group for losses which they may incur in connection with their obligations under the agreement, except for losses arising out of the fraud, wilful default, or gross negligence of KAL or any member of the Kingfisher Group.

Woolworths has also agreed that the aggregate liability of KAL or any member of the Kingfisher Group in respect of all claims arising from the gross negligence of KAL or any member of the Kingfisher Group during any contract period shall not exceed the total amount of the charges to be paid by Woolworths to KAL during such contract period.

Woolworths will indemnify KAL in relation to the payment of any statutory, long service or enhanced redundancy payments, or any payment in lieu of notice by KAL to any of the employees of KAL whose employment is terminated by KAL by reason of redundancy on or following the termination of the agreement by KAL upon a breach by, or the insolvency of, Woolworths or by Woolworths for any reason other than a breach by, or the insolvency of, KAL.

The current term of the agreement will expire in January 2003, with provision made for automatic renewal of the agreement unless there is an earlier termination of it by either party giving nine months' notice. Woolworths will be entitled to terminate the agreement if a third party acquires a controlling interest in KAL.

14.7 Facility Agreements

(a) Facility Agreement

An agreement (the "Facility Agreement") was entered into on 31 July 2001 between (1) the Company, (2) GMGL (as "Original Borrower"), (3) Sandelcroft, the Company, GMGL, Woolworths, Entertainment UK and MVC (as "Original Guarantors"), (4) Barclays Capital (the investment banking division of Barclays Bank PLC) ("Barclays Capital"), HSBC Investment Bank plc and The Royal Bank of Scotland plc (as "Arrangers"), (5) Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc (as "Original Lenders") and (6) HSBC Investment Bank plc (as "Facility Agent") relating to a £250,000,000 syndicated multicurrency revolving credit facility (the "Facility") for general corporate purposes and working capital requirements.

The Facility consists of (1) a three year committed multicurrency cash advances facility for £166,666,665 ("Tranche A"), and (2) a 364 day committed multicurrency cash advances facility for £83,333,335 with a 6 month term out option ("Tranche B"). The Facility allows other subsidiaries of the Company to accede to its terms (together with the Original Borrower defined as the "Borrowers").

Each material subsidiary in the Group (calculated as a company whose gross assets or profits exceeds 7.5 per cent. of the gross assets or profits of the Group) together with strategic holding companies and certain other companies are the Original Guarantors. A subsidiary of the Company that becomes a material subsidiary will also be obliged to accede as a guarantor (together with the Original Guarantors, the "Guarantors"). In addition, VCI is obliged to become a Guarantor within 30 days of the date of the Demerger. Further, the gross assets and profits of the Guarantors must together amount to 85 per cent. of the gross assets and profits of the Group. Each Guarantor will guarantee the obligations of each Borrower under the Facility Agreement.

Interest is payable on advances at the rate which is the aggregate of (i) LIBOR, (ii) mandatory costs, and (iii) the applicable margin, which, for the first 12 months will be 1.5 per cent. The margin may be adjusted upwards or downwards in accordance with the ratio of the Company's earnings before interest, tax depreciation, amortisation and rents to consolidated finance charges, subject to a minimum margin of 1.00 per cent. and a maximum of 1.50 per cent. The margin shall also be increased by 1.00 per cent. if the Company loses (or does not obtain) its published investment grade rating.

The Facility Agreement contains certain representations and warranties by the Company, the Borrower and the Guarantors, some of which are to be repeated on the date of Demerger and some of which are to be repeated on utilisation of the Facility and at certain other times. Certain covenants are also given in respect of the future conduct of the business including (i) financial covenants as to (a) the ratio of earnings before interest, tax depreciation, amortisation and rents to consolidated finance charges, (b) earnings before interest, tax, depreciation and amortisation to consolidated net debt, and (c) maintenance of a certain level of consolidated tangible net worth, (ii) restrictions on disposals, (iii) restrictions on acquisitions, (iv) restrictions on the incurrence of other indebtedness, (v) restrictions on the creation of security over assets, (vi) restrictions on capital expenditure, and (vii) a requirement to maintain drawings under Tranche A of the Facility to below £25,000,000 for a period of 15 consecutive days in a 12 month period.

The Facility will terminate if the Circular has not been circulated by 31 August 2001 or if the Demerger has not taken place within three months of its circulation or if it is announced that the Demerger will not occur.

The Facility Agreement includes certain mandatory prepayment events, including (i) illegality, (ii) a change of control of the Company, (iii) disposal of material assets, (iv) in respect of Tranche B only, an equity or capital markets issues (other than the capital markets issue contemplated to refinance outstanding borrowings under the Bridge Facility Agreement referred to below).

The Facility Agreement provides that certain events will be considered to be events of default, upon the occurrence of which the Facility may be cancelled and amounts drawn under it declared immediately due and payable. These events include (i) default in any payment under the Facility Agreement, (ii) breach of certain material covenants, including the financial covenants, the restriction on disposals, the restriction on acquisitions, the restriction on the incurrence of other indebtedness, the restriction on the creation of security over assets and the restriction on capital expenditure, (iii) breach of any other obligation which (if capable of remedy) is not remedied within 14 days, (iv) cross default in relation to other financial indebtedness of the Group, subject to a threshold of £2,500,000, (v) insolvency related events in relation to the Company, a Borrower or a Guarantor, and (vi) a material adverse change, being an event or series of events which is reasonably likely to have a material adverse effect on the ability of the Borrowers or the Guarantors to perform their payment or financial covenants obligations under the Facility or on the validity or enforceability of the Facility Agreement or any document related to the Facility Agreement.

The Arrangers intend to syndicate the Facility Agreement to a group of lenders. The Arrangers and the Company have agreed the terms of engagement in relation to the syndication.

(b) Bridge Facility Agreement and the Engagement Letter (relating to the capital markets instrument)

An agreement (the "Bridge Facility Agreement") was entered into on 31 July 2001 between (1) the Company, (2) Sandelcroft, the Company, GMGL, Woolworths, Entertainment UK and MVC (as "Original Guarantors"), (3) Barclays Capital and The Royal Bank of Scotland plc (as "Arrangers"), (4) Barclays Bank PLC and The Royal Bank of Scotland plc (as "Original Lenders") and (5) Barclays Bank PLC (as "Facility Agent") relating to a £100,000,000 term loan facility (the "Facility").

The Facility is substantially based on the terms of the Facility Agreement described in paragraph 14.7(a) above. The final maturity date is 30 April 2003.

The guarantors under the Bridge Facility Agreement are the same as and tested on the same basis as those under the Facility Agreement.

The Bridge Facility is a bridge to a five year capital markets instrument. Interest is payable on advances at the rate which is the aggregate of (i) LIBOR, (ii) mandatory costs, and (iii) the applicable margin. The margin will be the greater of (i) 1.5 per cent., and (ii) the margin payable under the Facility Agreement. In addition, if there are still outstanding borrowings under the Bridge Facility on 1 May 2002 the margin will increase by 0.50 per cent. and by a further 0.50 per cent. for each quarter thereafter during which borrowings are still so outstanding.

As stated above, the Bridge Facility is on substantially the same terms as the Facility Agreement, including substantially similar representations and warranties, undertakings and events of default (with some non-material consequential amendments). In addition, the Company will use all reasonable efforts and will procure that the Guarantors under the Bridge Facility use all reasonable efforts to repay all outstanding borrowings under the Bridge Facility by the issue of a capital markets instrument. At any time after 31 October 2001 the Company will be obliged to accept such capital markets instrument (the "Must Take Clause") if, inter alia, the interest rate payable under such instrument is no higher than 10 per cent. per annum (subject to the paragraph below) and the terms and conditions are substantially in accordance with an engagement letter which has been entered into on 31 July 2001 in relation to the capital markets instrument between Barclays Capital, The Royal Bank of Scotland plc and the Company (the "Engagement Letter").

The Engagement Letter contains a broad description of the terms and conditions of the proposed capital markets instrument. The Company has not decided whether it wishes to move to quarterly financial reporting. If it decides not to do so then the rate of interest that relates to the Must Take Clause would rise from 10 per cent. to 10.5 per cent.

The Company is obliged to deliver an offering circular in respect of the capital markets instrument in a form to be mutually agreed between the parties (such form to be standard for the market it is intended to be used for (and which is likely to include an offering of securities in the United States of America)) by 30 September 2001.

The Company may terminate the engagement of the arrangers of the capital markets instrument 90 days after the date of the delivery of the offering circular in respect of such instrument.

An indicative term sheet has been produced in respect of the capital markets instrument and is appended to the Engagement Letter. However the precise terms are still to be agreed. It has been acknowledged that although the terms may differ slightly from those set out in the Facility Agreement, when taken as a whole however, they will not be substantially different.

One of the covenants of the capital markets instrument will be a limitation on restricted payments such as (i) dividends, (ii) the repurchase of shares, (iii) the refinancing of subordinated indebtedness and (iv) making restricted investments, subject to a basket equal to 50 per cent. of cumulative consolidated net income less 100 per cent. of net losses (the general basket). Notwithstanding this clause, it has been acknowledged that the Company will be able to declare dividends or make capital distributions on its ordinary shares in an amount which is deemed reasonable in the sole discretion of the board of directors of the Company, provided however that such dividends or distributions thereby reduce the general basket available for other restricted payments. Other restricted payments may be made up to an amount of £30,000,000, provided again that such payments reduce the general basket available.

The terms of the capital markets instrument will also include standard events of default relating to (i) failure to pay any principal amount due, (ii) failure to pay interest (with a 15 day grace period), (iii) failure to observe covenants or obligations (with a 30 day cure period), (iv) cross acceleration to other indebtedness in excess of £2,500,000, (v) insolvency events relating to the Company, and (vi) other standard events of default. The Company will also be expected to make standard representations and warranties in relation to the capital markets instrument.

If the Bridge Facility is not refinanced by the capital markets instrument, the Arrangers of the Bridge Facility intend to syndicate the Bridge Facility Agreement to a group of lenders. The Arrangers and the Company have agreed the terms of engagement in relation to such syndication.

14.8 Transfers of VCI and Streets Online

Two share purchase agreements were entered into and completed on 26 July 2001 between Kingfisher and Woolworths Entertainment Group Limited (Woolworths Entertainment) relating to the sale by Kingfisher to Woolworths Entertainment of (i) the entire issued share capital of VCI plc for a total consideration of £48,496,223.10, and (ii) shares representing Kingfisher's entire holding of approximately 91.4 per cent. of the issued share capital of Streets Online Limited for a total consideration of £29,380,105.50. Under each of the agreements, the consideration payable by Woolworths Entertainment to Kingfisher in respect these acquisitions has been left outstanding on intercompany account. These amounts are included in those which will, upon Demerger, be offset against amounts owing by Kingfisher to the Group, as summarised in the description of the Reorganisation in paragraph 10 of this Part 5.

14.9 Intra-group transfer of Superdrug

On 18 July 2001, GMGL and Kingfisher completed a sale and purchase agreement for the sale by GMGL to Kingfisher of all its rights and interest in, together with all its obligations and liabilities in respect of, 35,509,100 ordinary shares of £0.10 each in Superdrug Stores Limited. The consideration payable by Kingfisher to GMGL for such shares was £257,586,000, such sum being left outstanding on intercompany account. That outstanding amount is included in those which will, on Demerger, be offset against amounts owing by Kingfisher to the Group, as summarised in the description of the Reorganisation in paragraph 10 of this Part 5.

15 Working Capital

The Company is of the opinion that, taking into account existing bank and other facilities, the Group has sufficient working capital for its present requirements, being at least the next twelve months from the date of this document.

16 Litigation

No member of the Group is or has been engaged in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) involving members of the Group which may have or have had, during the 12 months preceding the date of this document, a significant effect on the financial position of the Group.

17 General

17.1 Except as disclosed in paragraph 13 of Part 1 of this document, there has been no significant change in the financial or trading position of the Group since 3 February 2001 and there has been no significant change in the financial or trading position of the Company since 3 February 2001, the date to which the accountants' reports contained within Part 3 of this document were made up.

17.2 The auditors of the Company are PricewaterhouseCoopers, Chartered Accountants, whose address is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers have audited the consolidated financial statements for Kingfisher for the year ended 3 February 2001.

17.3 The Company's bankers are Barclays Bank PLC of 5 The North Colonnade, Canary Wharf, London E14 4BB; HSBC Bank plc of 27-32 Poultry, London EC2P 2BX and The Royal Bank of Scotland plc of 135 Bishopsgate, London EC2M 3UR.

17.4 (a) UBS Warburg, Credit Suisse First Boston and Société Générale have each given and have not withdrawn their written consent to the inclusion in this document of their names and references to them in the form and context in which they appear.

(b) PricewaterhouseCoopers have given and have not withdrawn their written consent to the inclusion in this document of their letter and reports and the references to their letter and name and their reports in the form and respective contexts in which they appear and have authorised the contents of their letter and reports for the purposes of section 152(1)(e) of the Financial Services Act 1986.

(c) Verdict has given and not withdrawn its written consent to the inclusion in this document of the references to their category forecasting analysis and their name in the form and context in which they appear.

17.5 The total costs and expenses of, and incidental to, the Admission payable by the Company are estimated to be approximately £92,287.

18 Documents available for inspection

Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS until 15 August 2001:

(a) the current Memorandum and Articles of Association of the Company and the Memorandum and Articles of the Company which will be in force upon Admission;

(b) the audited consolidated accounts of Kingfisher for the three years ended 3 February 2001;

(c) the accountants' reports of PricewaterhouseCoopers reproduced in Part 3 of this document, the statements of adjustments in relation thereto and the letter and report of PricewaterhouseCoopers in respect of pro forma financial information reproduced in Part 4 of this document;

(d) the Directors' service contracts and letters of appointment referred to in paragraph 6 of Part 5 of this document;

(e) the material contracts referred to in paragraph 14 of Part 5 of this document;

(f) the consent letters referred to in paragraph 17.4 of Part 5 of this document;

(g) the Circular;

(h) the rules and trust deeds relating to the Woolworths Group Employee Share Incentive Schemes; and

(i) this document.

Dated 1 August 2001

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"Admission"	admission of the Woolworths Group Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's Market for Listed Securities
"Audit Committee"	the audit committee established by the Company and consisting of non-executive Directors
"Big W"	the Woolworths retail format more particularly described in paragraph 5.2 of Part 1 of this document
"Circular"	the Circular to Kingfisher Shareholders dated 1 August 2001 relating to the Demerger
"Combined Code"	the principles of good governance and code of best practice prepared by the Committee on Corporate Governance
"Companies Act" or "Act"	the Companies Act 1985 (as amended)
"Company"	Woolworths Group plc
"Company Articles"	the Articles of Association of the Company, a summary of which is set out in paragraph 4 of Part 5 of this document
"Credit Suisse First Boston"	Credit Suisse First Boston (Europe) Limited
"CREST"	a relevant system (as defined in the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)) in respect of which CRESTCo Limited is the operator (as defined in the CREST Regulations)
"Demerger"	the demerger of Kingfisher's general merchandise business out of the Kingfisher Group as described in paragraphs 1 and 2 of Part 2 of this document
"Demerger Agreement"	the agreement dated 31 July 2001 between Kingfisher and the Company relating to the Demerger, described in more detail in paragraph 14 of Part 5 of this document
"Demerger Dividend"	the dividend equal to the book value of Kingfisher's interest in Sandelcroft to be put to Kingfisher Shareholders at the EGM for their approval, as described in paragraphs 1 and 2 of Part 2 of this document
"Demerger Record Time"	6.00 a.m. on Tuesday, 28 August 2001
"Demerger Resolution"	the resolution numbered 1 set out in the notice of EGM accompanying the Circular
"Depositary"	The Bank of New York, in its capacity as depositary of the Kingfisher ADRs
"Directors" or the "Board"	the directors of the Company from time to time
"EUK" or "Entertainment UK"	Entertainment UK Limited
"Euroclear France"	Euroclear France S.A., subsidiary of Euroclear Bank S.A./N.V., as operator of the Euroclear System in France
"Euronext Paris"	Euronext Paris S.A.
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of Kingfisher convened for 10.30 a.m. on Friday, 24 August 2001, notice of which accompanies the Circular
"Group" or "Woolworths Group"	(a) in relation to the period prior to the Demerger becoming effective, the general merchandising business proposed to be transferred to the Company pursuant to the Demerger (b) in relation to the period after the Demerger becoming effective, the Company and its subsidiaries and associated undertakings
"Introduction"	the introduction of the Woolworths Group Shares to Listing
"Kingfisher"	Kingfisher plc
"Kingfisher ADR Holders"	holders of Kingfisher ADRs
"Kingfisher ADRs"	American Depositary Receipts of Kingfisher, each representing one Kingfisher Ordinary Share

"Kingfisher Group"	Kingfisher and its subsidiaries and associated undertakings (a) in relation to the period prior to the Demerger becoming effective, the Kingfisher Group, excluding, where the context requires, the general merchandise business comprising Sandelcroft and its subsidiary undertakings following the Reorganisation (b) in relation to the period after the Demerger becomes effective, Kingfisher and its subsidiary undertakings
"Kingfisher Ordinary Shares"	the ordinary shares of 12.5 pence each in the capital of Kingfisher
"Kingfisher's Registrars"	Computershare Investor Services PLC
"Kingfisher Share Register"	the register of members of Kingfisher
"Kingfisher Shareholder"	a holder for the time being of Kingfisher Ordinary Shares
"Listing"	the listing of the Woolworths Group Shares on the Official List
"Listing Particulars"	this document
"Listing Rules"	the listing rules of the UK Listing Authority
"London Stock Exchange"	London Stock Exchange plc
"MVC"	MVC Entertainment Limited
"Nominations Committee"	the nominations committee established by the Company consisting of non-executive Directors
"Official List"	the Official List of the UK Listing Authority
"Registrar"	Computershare Investor Services PLC
"Remuneration Committee"	the remuneration committee established by the Company and consisting of non-executive Directors
"Reorganisation"	the reorganisation of Kingfisher's general merchandise business as described in paragraph 10 of Part 5 of this document
"Resolutions"	the resolutions to be proposed at the Extraordinary General Meeting, notice of which accompanies the Circular
"Sandelcroft"	Sandelcroft Limited
"SEC"	the United States Securities and Exchange Commission
"Shareholder"	a holder for the time being of Woolworths Group Shares
"Share Register"	the register of members of the Company
"Streets Online"	Streets Online Limited
"Superdrug"	Superdrug Stores plc, and, where the context requires, its subsidiaries and associated undertakings
"UBS Warburg"	UBS Warburg Ltd., a subsidiary of UBS AG
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority as the competent authority for listing in the UK under Part IV of the Financial Services Act 1986
"US Exchange Act"	the United States Securities Exchange Act of 1934, as amended
"US Person"	a US person, as defined in Regulation S under the US Securities Act
"US Securities Act"	the United States Securities Act of 1933, as amended
"US", "USA" or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"Verdict"	Verdict Research Limited
"VCI"	VCI plc and, where the context requires, its subsidiaries and associated undertakings

"Woolworths"	Woolworths plc and, where the context requires, its subsidiaries and associated undertakings
"Woolworths General Store"	the Woolworths retail format more particularly described in paragraph 5.2 of Part 1 of this document
"Woolworths Mainchain"	The Woolworths business more particularly described in paragraph 5.1 of Part 1 of this document
"Woolworths Group Employee Share Incentive Schemes"	the Woolworths Group Executive Share Option Scheme, the Woolworths Group Incentive Plan, the Woolworths Group Sharesave Scheme, the Woolworths Group All-Employee Share Scheme, the Woolworths Group Employee Benefit Trust and the Woolworths Group Qualifying Employee Share Ownership Trust
"Woolworths Group Shares"	the ordinary shares of 12.5 pence each in the capital of the Company