Woolworths Group PLC
21 September 2005

Woolworths Group plc

Interim Results Announcement

For the 26 weeks ended 30 July 2005

Embargoed until 07.00 hrs 21 September 2005

Financial Performance (compiled under IFRS)

- First half loss from continuing operations (before tax, amortisation of joint venture exceptional items) increased by £3.0m to £35.9m
- Loss before taxation from continuing operations reduced to £14.5m (H1 2004 : £32.9m)
- Total loss after taxation including discontinued operations £41.2m (H1 2004: £24.3m)
- Group sales from continuing operations down 2.9% to £1,037.6m
- Like-for-like sales at Woolworths Mainchain down 4.0% in the first half
- Like-for-like sales at Woolworths Mainchain in the eight weeks since last market upda
- Woolworths Gross Margin in line with last year
- Entertainment Wholesale and Publishing sales up 15.5%
- 5.1% increase in interim dividend to 0.41p per share (H1 2004 : 0.39p)
- Net debt down £38.1m to £93.8m

Operational Highlights

- 10/10 programme progressing well, 25 stores re-fitted in the first half bringing the
- Supply chain enhanced following opening of new distribution centre in Bedford
- Continued rigorous cost control with further savings to come through in the second ha
- Christmas plan in place with improved offer and promotional platform
- 2entertain joint venture with BBC Worldwide progressing to plan

- Disposal of MVC removes loss making business from the Group

Trevor Bish-Jones, Chief Executive of Woolworths Group plc, commented:

'The tough trading conditions have had an impact on the performance of the retail chain. We have made good progress in our Entertainment Wholesale and Publishing business.

We have continued to work hard in the period to improve the underlying infrastructure of the business, reduce costs and maintain our gross margins. The roll out of our refurbishment programme is progressing well, rewarding our investment.

In the eight weeks since we last reported in July, our like-for-like sales have improved from -4.4% to -1.7%. We expect the environment to remain challenging and we are planning further cost savings, as well as improvements to the underlying value in our offer. As ever, our success is driven by how well we trade over the Christmas period, and in that, it's still all to play for.'

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1. OVERVIEW OF FINANCIAL PERFORMANCE

The first six months of the financial year have seen a tough retail environment and this has been reflected in the Retail trading performance. Trading in our Entertainment Wholesale and Publishing division has progressed well.

The first half loss from continuing operations (before tax, amortisation of joint venture intangible assets (£1.5 million) and exceptional items) increased compared with last year from £32.9 million to £35.9 million.

Total Group sales from continuing operations decreased by 2.9 per cent to £1,037.6 million driven by the performance of the former Woolworths big W stores, where sales decreased by 45.9 per cent, due to the sale and cut down programme and by Woolworths Mainchain, where like-for-like sales (including in-store ordering and online) were down 4.0 per cent in the first half. Third party sales at Entertainment UK increased by 19.1 per cent driven by new customers and development of new product sectors.

The Woolworths gross margin was in line with last year and good cost control disciplines continue, with cost saving initiatives being put in place from early in the year.

Net debt at the half-year was £93.8 million, a reduction of £38.1 million compared with last year.

We continued the 10/10-investment programme with 25 stores being refurbished in the period alongside the restructuring of our out-of-town business, Woolworths big W, which is now trading as Woolworths. Seven sites have been disposed of for approximately £40 million. We also disposed of MVC, a loss-making chain of entertainment stores, for £5.5 million.

The abortive approach from Apax Partners at the beginning of the year did cause a distraction within the business as well as substantial costs. The £1.2 million of costs have been expensed as an exceptional item in the first half.

Continuing Operations	26 weeks to 30 July 2005 £m	26 week 31 July 2
Group sales	1,037.6	1,0
Loss before tax, amortisation of Joint Venture intangible assets and exceptional items	(35.9)	(3
Loss before tax	(14.5)	(3
Interim dividend pence per share	0.41	

*2004 has been restated to adjust for the impact of IFRS.

2. OPERATING REVIEW

Retail

The first half operating loss from the continuing retail businesses (Woolworths Mainchain, Woolworths Out-of-town, internet and in-store ordering) was £38.1 million. MVC is now a discontinued business with a loss before tax and exceptionals of £5.6 million compared to a loss last year of £3.7 million.

Woolworths Mainchain

Sales performance during the first half across our major product categories was mixed. The strongest performance over the past six months has been in the Toy and Electrical markets, which have been stimulated by new ranges of character merchandise and competitive pricing on new technology products. Weaker performance came from Entertainment, with a poor release schedule, and in Home and Clothing which were influenced by the slow housing market and unseasonal weather.

We have continued to invest in the Woolworths business via the 10/10-refit program and the results continue to meet our investment criteria. In the first half, 25 stores were refitted bringing the total number refitted to 83. As a group, these 83 stores show year one sales growth compared with the Mainchain of 5 per cent with an increase of 20 basis points in the gross margin. We have worked to reduce the costs associated with the refits and over the past three years these have reduced from £38 per square foot in 2002/3 to £28 per square foot in 2005/6. This considerably improves the return on investment. Early performance from stores refitted this year shows an 8 per cent uplift in sales compared with the Mainchain, with the gross margin percentage also ahead of the Mainchain by 100 basis points. This performance is encouraging although the investment case can only be assessed after the Christmas trading period.

In the second half we plan for a further 23 stores to be refitted which together with the two new stores opening in the year and the two opened last year will bring the total number of 10/10 stores to 110 by the year end. This represents 20 per cent of the Woolworths trading space and 25 per cent of Mainchain sales.

We have recycled suitable in-store fixtures released through the 10/10 program into a number of our smaller stores. Thus far we have upgraded 16 stores with the fixtures and a small program of capital works. These stores have achieved a sales uplift of approximately 5.0 per cent. By Christmas a further 10 stores will have been similarly enhanced.

Another major investment made during the period relates to our supply chain strategy. A new 460,000 square feet warehouse facility opened in Bedford and we have subsequently closed the 277,000 square feet site in Winsford, Cheshire. The Bedford location is important as it gives us a southern based distribution centre to reduce distribution costs, average journey times and mileage to stores. The capability and functionality of the site will be progressively enhanced over the next 18 months.

We have continued to invest in better technology and in our IT systems to increase operational effectiveness. Having completed the roll out of the Kingstore till system, tangible benefits are now being delivered through reduced shrinkage and lower staff costs from more effective deployment.

Following a trial period, we have begun the roll out of security gates into stores. By Christmas we expect that 485 stores will have the gates installed with the shrinkage benefits to flow through next year.

The introduction of an enhanced in-store ordering capability in tandem with an ever-increasing online offer has exciting potential. With over 800 stores, customers can order at home or alternatively in store with the convenience of delivery to either store or home. It will take time to evolve full capability, but customer response to the current offer has been positive. By Christmas, our offer will be almost twice the size of last year, with over 6,000 products available to order, alongside over 242,000 Entertainment titles.

In the current retail environment it remains as important as ever that we aggressively control our variable costs. To this end, at the start of the financial year we undertook full reviews across the business which have yielded half-year gross savings of £9.3 million. Material savings are being derived from:

- recruitment freezes and a small redundancy program in Head Office sites
- restructuring of management grades in larger stores
- a deferred pay award to retail and Head Office staff
- reductions in marketing budgets
- renegotiation of major support service contracts

We have targeted additional cost savings in the second half.

Woolworths Out-of-Town

As previously stated, our objective with the former big W stores has been to maximise shareholder value via either outright disposal or conversion into a large Woolworths store format with surplus space sublet, returned to landlords or voided. This process has now largely been completed, generating a £24.1 million exceptional credit in the period.

At the half-year, including two new stores, 19 sites were trading as Woolworths (one site has since been disposed of). These represent our latest thinking on the design of an out-of-town Woolworths proposition and given that customers are increasingly shopping in out-of-town locations, we will continue to evolve the offer to identify a clear investment case.

MVC - (Discontinued Operation)

At the end of the half-year period, the sale of MVC was completed. This removed from the Group a loss making business that faced many strategic challenges. Trading during the period was impacted by the disruption caused by the sale process and the closure in April 2005 of the worst loss making stores.

Following completion of the sale, the Group received a cash payment of £5.5 million. The pre-tax loss including the exceptional cost of the transaction was £33.9 million and we expect an overall positive cash impact in the full year, including further working capital reductions at Entertainment UK.

ENTERTAINMENT WHOLESALE AND PUBLISHING

Entertainment UK

Third party sales at EUK increased by 19.1 per cent. The sales growth was due to a combination of factors including the impact of new customers, continued expansion into new sectors such as books, improved competency in core areas such as games, and the comparative strength of some key accounts relative to the market.

Profitability moved ahead of last year as a rigorous approach was taken to cost control. Unit handling costs were well controlled and further streamlining of central functions has been achieved.

2entertain

Following the creation of the 2entertain joint venture in September 2004, the business had a successful Christmas trading period. It has since been focussed on the smooth integration of the two video businesses and creating a powerful release schedule for the key second half trading period. The separate businesses have now relocated into a single site and the integration of IT platforms is virtually complete.

New product flow in the first half has been strong with 188 new video and 117 new music titles released, the most successful of which have been Red Dwarf Series 6; Dr Who: The New Series Volumes 1 - 3; Rock Profile and Motorcycle Diaries.

3. BORROWINGS AND CAPITAL EXPENDITURE

Net debt at the half-year reduced by £38.1 million to £93.8 million. Capital investment in the first half was £22.3 million. This compares to £33.4 million last year and reflects the completion of the Kingstore roll out in 2004.

4. DIVIDEND

The interim dividend is increased by 5.1 per cent to 0.41 pence per share reflecting our confidence in the future and the continued cash generation. This will be paid on 9 December 2005 to shareholders on the register at the close of business on 30 September 2005.

The Board's intent is to continue to reward shareholders with a progressive increase in the level of dividend.

5. OUTLOOK

As ever, given the nature of our core markets, the key determinant of our success is driven by how well we trade over the Christmas period. Our expectation is that consumer confidence will remain low and that customers will need to be encouraged to spend. As a consequence, we have considerably improved the underlying value in our offer. We believe this approach, together with the significant cost saving initiatives put in place, will maximise sales and profitability over the key period ahead.

Effect of International Financial Reporting Standards

The Group is required to adopt International Financial Reporting Standards (IFRS) rather than UK Generally Accepted Accounting Practice (UKGAAP) as its primary accounting basis for the year ending 28 January 2006. These interim statements are therefore produced under IFRS. The adoption of IFRS has required

the Group to restate its results for the year to 29 January 2005 and an announcement explaining these changes was made on 5 July 2005, copies of which are available from our website
www.woolworthsgroupplc.com
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The key areas of change are:

- recognition of all employee benefit related obligations, principally pensions and share based payments;
- recognition of lease incentives received over the entire term of the lease rather than up to the first market rent review;
- goodwill is no longer amortised, but is partly replaced by amortisation arising on intangible assets following the reclassification of intangible assets from goodwill;
- Financial instruments have to be included at market values;
- discontinued activities are excluded from the headline results but then included in the income statement as a single item;
- joint ventures are accounted for by proportionately consolidating the Group's share of the joint venture income, expenditure, assets and liabilities rather than as net items;
- gain arising on the formation of the music and video publishing joint venture (2entertain Limited) now included within the income statement and adjusted by re-crediting of the amortisation of goodwill on acquisitions;
- recognition of deferred tax liabilities on temporary differences

To aid understanding of the effect of these changes and to aid comparability with the Group's historic performance, the tables below show a reconciliation between the income statement and balance sheets under IFRS and how they would have been under the UKGAAP which was used to produce the Group's results for the year ended 29 January 2005.

	Profit before tax and
£m	1st half 2005/06
Under UK GAAP	(39.5)
Discontinued operations	5.6
Under UK GAAP - Continuing Operations	(33.9)
Pensions	(1.3)
Share based payments	(0.8)
Lease incentives	(0.6)
Holiday pay accrual	0.7
Forex	-
Under IFRS	(35.9)
Amortisation of joint venture intangible asset	(1.5)
Under IFRS - Profit before tax & exceptional items	(37.4)

	Net A
£m	As at July 2005
Under UK GAAP	421.4
Pensions	(62.6)
Lease incentives	(13.9)
Goodwill amortisation	3.0

Intangible amortisation	(2.5)
Dividend	-
Share options	0.2
Holiday pay accrual	(0.6)
Forex	2.5
Tax	(21.6)
Under IFRS	325.9

Group Income Statement

For the 26 weeks ending 30 July 2005 and 31 July 2004

				26 we 30 Jul
	Note	Before exceptional items £m	Exceptional items £m	
Continuing operations				
Revenue	3	1,037.6	-	1
Cost of goods sold		(767.2)	5.8	(
Gross profit		270.4	5.8	
Selling and marketing costs		(251.4)	-	(
Administrative expenses		(61.3)	17.1	
Other operating income		8.0	-	
Group operating loss		(34.3)	22.9	
Finance income		2.7	-	
Finance costs		(5.8)	-	
Loss before taxation	3	(37.4)	22.9	
Taxation	6	11.3	(8.8)	

Loss for the period from continuing operations after taxation		(26.1)	14.1
Discontinued operations			
Loss after taxation for the period from discontinued operations	5	(3.6)	(25.6)
Loss for the period		(29.7)	(11.5)
Attributable to:			
Equity holders of the company		(29.7)	(11.5)
Minority interest		-	-
		(29.7)	(11.5)
Earnings/(loss) per share (pence) - Basic and diluted	7		
Earnings/(loss) per share (pence) from continuing operations - Basic and diluted	7		

The prior period has been restated to reflect MVC Entertainment Limited as a discontinued operation.

There were no exceptional items for the period ended 31 July 2004.

Group Statement of Recognised Income and Expense

For the 26 weeks ending 30 July 2005 and 31 July 2004

			26 wee
			30 July
	Before exceptional items	Exceptional items	

	Note	£m	£m	
Loss for the period		(29.7)	(11.5)	(
Cashflow hedges:				
- Net fair value gains net of tax		3.5	-	
- Transfer to stock		0.7	-	
Actuarial gain on defined benefit scheme		6.5	-	
Total loss recognised in the period		(19.0)	(11.5)	(

Group Income Statement

For the 52 weeks ending 29 January 2005

	Note	Before exceptional items £m	Exceptio it
Continuing operations			
Revenue	3	2,772.2	
Cost of goods sold		(2,028.0)	(17
Gross profit		744.2	(17
Selling and marketing costs		(550.0)	
Administrative expenses		(133.1)	(43
Other operating income		16.1	
Operating profit		77.2	(57
Finance costs		(13.5)	
Finance income		3.3	
Profit before taxation	3	67.0	(57
Taxation	6	(22.6)	1
Profit for period from continuing operations after taxation		44.4	(43

Discontinued operations			
Loss after taxation for the period from discontinued operations	5	(0.6)	
Profit for the period		43.8	(43
Attributable to:			
Equity holders of the company		43.6	(43
Minority interest		0.2	
		43.8	(43
	7		
Earnings/(loss) per share (pence)			
Basic			
Diluted			
Earnings/(loss) per share (pence) from continuing operations			
	7		
Basic			
Diluted			

The income statement has been restated to reflect MVC Entertainment Limited as a discontinued operation.

Group Statement of Recognised Income and Expense

For the 52 weeks to 29 January 2005

	Note	Before exceptional items £m	Exceptio it
Profit for the period		43.8	(43
Actuarial loss on defined benefit scheme		(0.4)	
Total gains/(loss) recognised in the period		43.4	(43

Group Balance Sheet

At 30 July 2005, 31 July 2004 and 29 January 2005

	At 30 July 2005 £m	3
Assets		
Non-current assets		
Goodwill	31.8	
Intangible fixed assets	65.2	
Property, plant and equipment	278.3	
Investments - associates	0.2	
Deferred income tax assets	26.7	
	402.2	
Current assets		
Stocks	406.1	
Trade and other receivables	186.5	
Derivative financial instruments	4.2	
Cash and cash equivalents	57.9	
	654.7	

Total assets	1,056.9
Equity	
Share capital	182.3
Share premium	9.5
Fair value and other reserves	29.9
Retained earnings	104.2
	325.9
Minority interests	-
Total equity	325.9
Liabilities	
Non-current liabilities	
Borrowings	99.8
Deferred income tax liabilities	29.8
Retirement benefit obligations	89.3
Provisions for other liabilities and charges	26.7
	245.6
Current liabilities	
Borrowings	51.9
Trade and other payables	417.4
Current income tax liabilities	5.7
Provisions for other liabilities and charges	10.4
	485.4
Total liabilities	731.0
Total equity and liabilities	1,056.9

Group Cash Flow Statement

For the 26 weeks ending 30 July 2005 and 31 July 2004, and the 52 weeks ending 29 January 2005

	Note	26 weeks to 30 July 2005 £m	26 wee 31 July
Cash flows from operating activities			
Cash (utilised in)/generated from operations	9	(171.1)	(1
Finance cost paid		(5.8)	
Taxation paid		(2.4)	(
Net cash (utilised in)/generated from operating activities		(179.3)	(1
Cash flows from investing activities			
Purchase of intangible assets		(3.9)	
Purchase of property, plant and equipment		(18.4)	(
Costs associated with the formation of joint venture		-	
Cash forgone with sale of subsidiary		(0.2)	
Finance income received		3.4	
Net cash used in investing activities		(19.1)	(
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		7.3	
Proceeds from short term loan		-	
Repayment of borrowings		-	
Sale/(purchase) of treasury shares		0.2	
Dividends paid to Company's shareholders		(18.3)	(
Net cash (used in)/generated from financing activities		(10.8)	

Net (decrease)/increase in cash and bank overdrafts	(209.2)	(1
Cash and bank overdrafts at beginning of the period	215.2	
Cash and bank overdrafts at end of the period	6.0	(
Cash and bank overdrafts consist of:		
Cash and cash equivalents	57.9	
Bank overdrafts	(51.9)	(
Cash and bank overdrafts at end of the period	6.0	(
Net debt reconciliation		
Cash and cash equivalents	57.9	
Borrowings - current	(51.9)	(
Borrowings - non-current	(99.8)	(
Net (debt)/cash	(93.8)	(1

Group Statement of Changes in Equity

For the 26 weeks ending 30 July 2005 and 31 July 2004, and the 52 weeks ending 29 January 2005

	Share Capital £m	Share Premium £m	Other Reserves £m	Attributab to equi holders of t compa Retain earnin
Balance at 1 February 2004	176.6	1.2	27.2	176
(Loss)/profit for the period	-	-	-	(24.
Issue of shares	0.5	0.6	-	

Employee share option scheme	-	-	-	0
Employee benefits	-	-	-	2
Purchase of own shares	-	-	-	(0.
Dividend	-	-	-	(16.
Balance at 31 July 2004	177.1	1.8	27.2	138
Profit for the period	-	-	-	24
Issue of shares	2.3	3.4	-	
Transfer to joint venture on formation	-	-	-	
Employee share option scheme	-	-	-	0
Employee benefits	-	-	-	(3.
Sale of own shares	-	-	-	0
Dividend	-	-	-	(5.
Transfer between reserves	-	-	(0.1)	0
Balance at 29 January 2005	179.4	5.2	27.1	156
Adoption of IAS 32 and IAS 39	-	-	(1.4)	
Balance at 30 January 2005	179.4	5.2	25.7	156
Loss for the period	-	-	-	(41.
Issue of shares	2.9	4.3	-	
Cash flow hedges:				
- Fair value gains in the period	-	-	3.5	
- Transfer to stock	-	-	0.7	
Employee share option scheme	-	-	-	0
Employee benefits	-	-	-	6
Sale of own shares	-	-	-	0
Dividend	-	-	-	(18.
Balance at 30 July 2005	182.3	9.5	29.9	104

Notes to the Accounts

1. Basis of preparation

The financial information presented in this document has been prepared in accordance with the accounting policies the Group expects to be applicable at 28 January 2006 and the interpretations of those standards are set out below. These interim financial statements have been prepared in accordance with those IFRS and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements. The IFRS standards and IFRIC interpretations that will be applicable at 28 January 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. These figures may therefore require amendment to change the basis of accounting or presentation of certain financial information, before their inclusion in the IFRS financial statements for the year ending 28 January 2006, which will be the Group's first full set of IFRS financial statements.

The policies set out below have been consistently applied to all the periods presented except for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to apply IAS 32 and IAS 39 from 30 January 2005. The policies applied to financial instruments are disclosed separately below.

The financial statements of the Company and its subsidiaries have been prepared under the historical cost convention, except in respect of certain financial instruments and certain land and buildings that are included in the financial statements at valuation.

The comparative figures for the year ended 29 January 2005 do not constitute statutory accounts for the purposes of s240 of the Companies Act 1985. A copy of the statutory accounts for the year ended 29 January 2005, prepared under UK GAAP, has been delivered to the Registrar of Companies and contained an unqualified auditors' report in accordance with s235 of the Companies Act 1985.

2. Key accounting policies

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets acquired, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities are measured initially at their fair values. The excess of the cost of acquisition over the fair values of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20-50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associate's post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves.

Joint ventures

Joint ventures are jointly controlled entities in which the Group has an interest.

The Group's interests in joint ventures are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Groups financial statements.

Revenue recognition

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

Net interest income is recognised on a time-apportioned basis.

Dividend income is recognised when the right to receive payment is established.

Foreign currencies

Foreign currency transactions are translated into sterling using the exchange rates prevailing, at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied.

Dividend payment policy

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group share of the net identifiable assets of the acquired subsidiary/ joint venture at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Acquired licences and copyrights are stated at cost less amortisation. Acquired licences and copyrights are amortised over the period of the underlying legal agreement, which do not exceed 20 years. Production rights are amortised over 10 years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost/revaluation less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of

tangible fixed assets is provided where it is necessary to reflect a reduction from book value to estimated residual value to the Group over the estimated useful life of the asset.

Depreciation of property, plant and equipment is calculated by the straight-line method and the annual rates applicable to the principle categories are:

Freeholds	- 2 per cent
Long leaseholds	- 5 per cent

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

The Group has adopted a policy of not revaluing freehold properties and previously revalued freehold properties are included at their valuation less accumulated depreciation.

The assets' carrying value and useful lives are reviewed, and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Disposal of land and buildings

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

Operating leases

Operating lease payments are charged to the income statement on a straight line basis over the life of the lease.

Finance leases

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

Lease incentives

Lease incentives are credited to the income statement on a straight line basis over the life of the lease.

Exceptional items

Items that are both material in size and unusual and infrequent in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance.

Stocks

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

Rebates receivable from suppliers

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

Pensions

All employees are entitled to join the Woolworths Group Pension Scheme ('WGPS') after completion of one years service. The WGPS is a defined benefit pension scheme. The Company also facilitates a Stakeholder pension arrangement for employees and makes contributions to a defined contribution pension scheme (the Woolworths Group Retirement Trust) which was closed to new entrants in June 2003 and currently has fewer than 70 active members.

The liability recognised in the balance sheet in respect of the WGPS is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Share based payments

The Company no longer grants share options under its Executive Share Option Schemes. Instead, Share Awards are made to senior management which will vest dependant on performance targets being met. The ShareSave Plan, which is open to all UK employees, continues to operate. The fair value of all share based payments is recognised as an employee benefits expense with a corresponding increase in the income statement reserve over the vesting period. The proceeds received on the exercise of share options net of any directly attributable transaction costs are credited to the share capital and a share premium when the options are exercised.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits at call with banks, other liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts where there is no right of set off are shown within borrowings in current liabilities on the balance sheet.

Share capital

Ordinary shares are shown as equity.

Where any Group company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

ESOP

The Group's Employee Share Ownership Plan ('ESOP') is a separately administered trust. Liabilities of the ESOP are guaranteed by the Company and the assets of the ESOP mainly comprise shares in the Company.

Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Interim measurement note

Current income tax expense is recognised in these interim consolidated financial statements based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

Costs that are incurred unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Deferred taxation

Provision is made for deferred taxation using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Derivative financial instruments
From 1 February 2004 to 29 January 2005

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

Derivative financial instruments are accounted for using hedge accounting to the extent that they are held to hedge a financial asset or liability.

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

Gains or losses on financial instruments accounted for on a fair value basis are reflected in the income statement as they arise.

From 30 January 2005 onwards

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through the income statement, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Fair Value Estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Transition to IFRS

The Group's financial statements for the year to 28 January 2006 will be the first annual financial statements that comply with IFRS. The Group has applied IFRS 1 in preparing these consolidated interim financial statements. Woolworths Group transition date is 1 February 2004. The Group's IFRS adoption date is 30 January 2005.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

a) Exemption from restatement of comparatives for IAS 32 and IAS 39

The Group elected to apply this exemption. It applies previous UK GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2005 comparative information and adjustments required for the differences between UK GAAP and IAS 32 and 39.

b) Share based payment transaction exemption

The Group has not elected to apply this exemption. Accordingly it has applied IFRS 2 to all transactions since the Group's demerger in August 2001.

c) Business combinations

Woolworths Group has applied the business combinations exemptions in IFRS 1. It has not restated business combinations that took place before transition date.

The following reconciliations provide quantification of the effect of the transition to IFRS.

1) Net income reconciliation for 26 weeks ended 31 July 2004

2) Net income reconciliation for 52 weeks ended 29 January 2005

3) Equity reconciliation at 1 February 2004

4) Equity reconciliation at 31 July 2004

5) Equity reconciliation at 29 January 2005

6) Equity reconciliation at 30 January 2005

Summary of the impact on the income statement

	26 weeks t 31 July 200 £
(Loss)/profit for the period per UK GAAP	(23.0
Taxation	
Amortisation of intangible assets	
Holiday pay	0.
Pensions	(0.7
Foreign exchange	(1.3
Goodwill amortisation	1.
Lease incentives	(0.6
Share based payments	(0.8
Joint venture acquisition gain adjustment	
(Loss)/profit for the period	(24.3

Summary of the impact on equity

	At 1 February 2004 £m	At 31 Jul 200 £
Total equity - per UK GAAP	457.3	429.
Dividend reversal	16.1	5.
Pension liability	(66.1)	(64.0
Share -based payments	1.0	1.
Lease incentives	(13.7)	(14.3

Holiday pay	(1.2)	(0.6
Impact of adopting IAS 12 'taxation'	(12.2)	(12.2
Goodwill amortisation	-	1.
Amortisation on intangible assets	-	
Foreign exchange	-	(1.3
	381.2	345.
Impact of adopting IAS 32 and 39 on 30 January 2005		
Total equity as at 30 January 2005		

3. Segmental Analysis

The Group's business is divided into Retail, and Entertainment Wholesale and Publishing segments. Woolworths, Streets Online and Flogistics are included within the Retail segment with Entertainment UK, VCI and 2entertain making up the Entertainment Wholesale and Publishing. MVC Entertainment Limited was disposed of on 30 July 2005 and is now shown as a discontinued operation.

Turnover

Turnover arises in the UK only and represents retail, wholesale distribution and publishing sales and other services. Turnover excludes value added tax (VAT). The analysis of turnover by destination is not materially different to the analysis of turnover by origin.

	26 weeks to 30 July 2005	26 weeks 31 July 20
Continuing operations	£m	
Turnover by origin		
Group	781.6	829

Joint venture	-	9
Retail	781.6	839
Group	438.9	462
Joint venture	20.8	
Entertainment Wholesale and Publishing	459.7	462
Intergroup	(203.7)	(232.
Group turnover	1,037.6	1,068

	26 weeks to 30 July 2005	26 weeks 31 July 20
Continuing operations	£m	
(Loss)/profit before interest and taxation		
Group	(38.1)	(31.
Joint venture	-	
Retail	(38.1)	(31.
Group	4.8	7
Joint venture	4.3	
Entertainment Wholesale and Publishing	9.1	7
Common costs	(5.3)	(4.
Total operating (loss)/profit	(34.3)	(28.
Finance income	2.7	1
Finance costs	(5.8)	(6.
(Loss)/profit before tax and exceptional items	(37.4)	(32.

4. Exceptional items

	26 weeks to 30 July 2005 £m	26 weeks to 31 July 2004 £m
Operating exceptional items are analysed as follows:		
Continuing operations		
Reorganisation of big W	24.1	-
Unrealised gain arising on formation of joint venture	-	-
Cost associated with aborted Apax approach	(1.2)	-
	22.9	-
Discontinued operations		
Disposal of the MVC business	(28.3)	-
	(28.3)	-
	(5.4)	-

Last year the Group announced its intention to dispose of, vacate or cut-down a number of Woolworths big W stores. The reorganisation of big W exceptional item includes net income from disposals of leases and the reconfiguration of the out-of-town estate of £20.9 million (2005: £37.4 million cost), stock disposals and store clearance £5.8 million income (2005: £17.3 million cost) and other selling and administration costs of £2.6 million (2004: £6 million).

The Group concluded the sale of MVC Entertainment Limited to a group of retail investors on 30 July 2005 for a consideration of £5.5 million. The pre-tax exceptional item relating to this discontinued operation is £28.3 million which consists of £25.6 million of loss on disposal of the business (after deducting the £5.5 million proceeds), including provision for stock losses and £2.7 million of costs associated with the redundancy costs and closure of MVC stores before completion of the disposal.

The tax effect of these operating exceptional items in aggregate is a £6.1 million charge (2005: £14.4 million credit).

The cash effect of the operating exceptional items is a £23.7 million inflow in the period (2005: £3.1 million outflow).

5. Discontinued operations

	26 weeks to 30 July 2005 £m	26 weeks to 31 July 2004 £m
Revenue	41.4	51.4
Trading loss from discontinued operations	(5.6)	(3.7)
Taxation	2.0	1.0
Post-tax trading loss from discontinued operations	(3.6)	(2.7)
Exceptional item, analysed as:		
Loss on disposal	(25.6)	-
Costs associated with store closures	(2.7)	-
Taxation	2.7	-
Total exceptional items	(25.6)	-
Total loss on discontinued operations	(29.2)	(2.7)

6. Income Tax Expense

	26 weeks to 30 July 2005 £m	26 weeks to 31 July 2004 £m
Analysis of (charge)/credit in period		
Current tax		
- Continuing operations	-	-
- Discontinued operations	-	-
	-	-
Deferred tax		
- Continuing operations	2.5	11.3
- Discontinued operations	4.7	1.0
Total taxation	7.2	12.3

The effective tax rate for the interim period is 35 per cent before exceptional items (2004: 33.5 per cent) representing the best estimate of the effective rate for the full financial year.

The Group has a deferred tax asset of £7.2 million (26 weeks to 31 July 2004: £12.0 million) recognised on the losses incurred in the year to date. Due to the seasonality of the business, the Directors believe that this will reverse by the year-end.

7. Earnings/(loss) per Share

	26 weeks to 30 July 2005 £m	26 weeks 31 July 2

Total (loss)/profit attributable to equity holders of the company	(41.2)	(24
Effect of exceptional items	5.4	
Tax impact arising on exceptional items	6.1	
Adjusted loss	(29.7)	(24
(Loss)/profit for the period from continuing operations	(12.0)	(21
Effect of exceptional items	(22.9)	
Tax impact arising on exceptional items	8.8	
Adjusted (loss)/profit	(26.1)	(21
Loss for the period from discontinuing operations	(29.2)	(2
Effect of exceptional items	28.3	
Tax impact arising on exceptional items	(2.7)	
Adjusted loss	(3.6)	(2
Weighted average number of ordinary shares in issue (millions)	1,443.1	1,40
Diluted weighted average number of shares (millions)		
	Pence per share	Pence per sh
All operations		
Basic earnings per share	(2.9)	(1
Basic adjusted earnings per share	(2.1)	(1
Diluted earnings per share		
Diluted adjusted earnings per share		
Continuing operations		
Basic earnings per share	(0.8)	(1
Basic adjusted earnings per share	(1.8)	(1
Diluted earnings per share		
Diluted adjusted earnings per share		
Discontinuing operations		
Basic earnings per share	(2.0)	(0
Basic adjusted earnings per share	(0.3)	(0

Diluted earnings per share
Diluted adjusted earnings per share

Adjusted earnings per share exclude the effect of exceptional items.

For the two periods above where losses are reported, diluted earnings per share are equal to the basic earnings per share.

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential shares - share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

8. Dividends

The interim dividend of 0.41 pence (2004: 0.39 pence) per share will be paid on 9 December 2005 to members registered at the close of business on 30 September 2005.

9. Cash (Utilised in)/ Generated from Operations

	26 weeks to 30 July 2005 £m	26 week 31 July
(Loss)/profit for the period	(41.2)	(2
Adjustments for:		
- Tax	(7.2)	(1
- Depreciation, amortisation and impairments	27.6	
- Exceptional loss on disposal of subsidiary	25.6	
- Gain on formation of joint venture	-	
- Loss on sale of property, plant and equipment	2.6	
- Share based payments	0.8	
- Finance income	(2.7)	(
- Finance cost	6.1	
Changes in working capital (excluding the effect of acquisition and exchange differences on consolidation)		
- Stocks	(59.1)	(3
- Trade and other recevables	(0.5)	
- Trade and other payables	(123.1)	(9
Cash (utilised in)/generated from operating activities	(171.1)	(12

10. Contingent Liabilities

On the formation of 2entertain, Woolworths Group guaranteed, for a period of three years to September 2007, the minimum level of profits from certain pre-existing VCI contracts. In any one year the maximum impact of the guarantee on the Group profits is £3.9 million. Based on results to date no material exposure exists, however the future exposure, if any, from this guarantee is uncertain.