Supporting Documents

1.

Fundamentals for Woolworths Group Plc

Quote | Charts | Trades | News | **Fundamentals**

FUNDAMENTALS

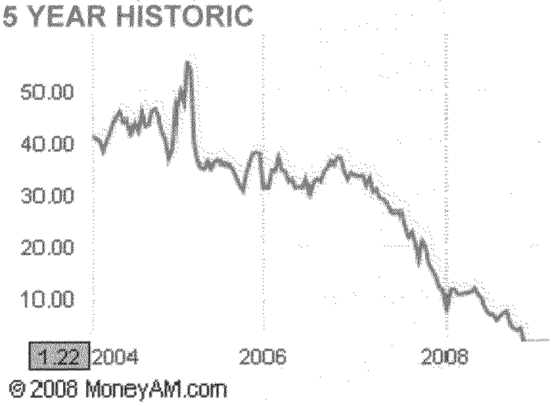
Quote for: WLW Go Enter part of EPIC code or company name

WOOLWORTHS ORD 12.5P	**(WLW)**	**0.00**	0.00	0.00%

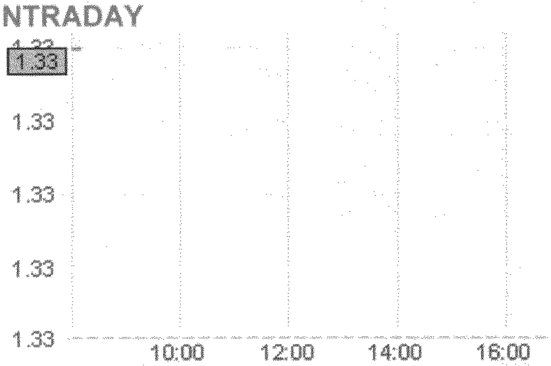
Bid	Offer	High	Low	Open	Close	Vol (Total)	Trade Price	Trade Vol	Trade Time
1.22	1.30	0.00	0.00	0.00	1.22	0	1.33	456,888	17:14

Profile | Financials | Broker Forecast | Dividends

5 YEAR HISTORIC



INTRADAY



WOOLWORTHS GROUP PLC COMPANY SUMMARY

Company Name	Woolworths Group Plc
Last Update of Data	25/11/08
Share Price (p) as of 25/11/08	1.00
Shares in Issue (Current) (m)	1,458.99
Market Cap (Current) (£m)	17.65
P/E Ratio (x)	23.50
Earnings per Share - Last 12 months (p)	0.50
PEG (Historical Growth) (f)	-0.92
Dividend Yield (%)	49.59
ROCE (%)	5.17
Beta (f)	

WOOLWORTHS GROUP PLC COMPANY BACKGROUND

Sector - GICS	Industrial
Activities	Retail accounted for 58% of fiscal 2008 revenues and Entertainment Wholesale and Publishing, 42%
Products	Consumer Durables
Index	LON
Number of Employees	29,312
Latest Interim Date	02/08/08
Latest Fiscal Year End Date	02/02/08

LATEST RESULTS

	Final	**Interim**
Period End Date	02/02/08	02/08/08
Pretax Income (£m)	11.70	-99.70
EPS (p)	3.5	-4.7

KEY RATIOS

	02/02/08	03/02/07	28/01/06	29/01/05
P/E Ratio	23.5	37.5	12.31	
PEG (Historical Growth}	-6.09	50	5.24	
ROCE	5.17	6.07	4.24	2.49
Turnover per Share	2.046	1.889	1.82	2.031
Operating Margin	0.25	0.49	0.38	0.07
Return on Assets	1.93	2.21	1.52	1.29
EV/BIT	7.70	19.53	4.11	43.21
Gearing (Long Term Liab)	34.04	29.31	24.76	17.66
P/BV Ratio	0.54	1.55	1.48	1.27
P/Cash Flow Ratio	2.72	9.66	4.03	7.47
Quick Ratio	0.56	0.45	0.63	0.64

CONTACT DETAILS

Company Name	Woolworths Group Plc
Building	Woolworth House
Street	242 Marylebone Road
Town	London
County	
Post/Zip Code	NW1 6JL
Country	United Kingdom
Telephone	+44 20 7262 1222
Fax	+44 20 7706 5416
Website	http://www.woolworthsgroupplc.com

ADVISORS

Auditor	PriceWaterhouseCoopers
Investor Relations - Name	Bernadette Power
Investor Relations -	Woolworth House, 242 Marylebone Road, London

Address	
Investor Relations - Phone / Fax	+44 20 7262 1222
Registrar - Name	Computershare Investor Services PLC
Registrar - Address	PO Box 1075, The Pavillions, Bridgewater Road, Bristol, BS99 3ZZ, United Kingdom

BOARD MEMBERSHIP

Richard North	Non Executive Chairman
Stephen Johnson	Chief Executive Officer

Source:

MoneyAM Corporate Solutions . (2008, February 2). *Fundamentals for Woolworths Group Plc*. Retrieved January 11, 2009, from Telegraph.co.uk: http://shares.telegraph.co.uk/fundamentals/?epic=WLW

2.

Britain: Woolworths and MFI go bust

By Robert Stevens
1st December 2008

In the past week, two of Britain's most well established retail chains have gone bust. On the evening of November 26 it was announced that Woolworths, which has operated in the UK for almost 100 years, had gone into administration with debts of £385 million.

Woolworths employs 30,000 staff at its 815 UK stores. Its shares had fallen by 90 percent in a year, and were valued at just 1.22 pence each when trading was suspended, valuing the company at just £17.8 million.

Woolworth's stores will remain open until after the Christmas holiday period, after which they will close with most of the workforce laid off. Some staff at its head office are to lose their jobs in the next few days. The company employs 25,000 staff in its shops and a further 5,000 in its distribution business. Woolworths also has a pension fund deficit of £100 million, meaning that up to 20,000 pensioners could be robbed of their pensions.

The same evening, just 40 minutes later, it was announced that MFI, Britain's biggest discount furniture retailer, had also gone into administration for the second time in two months. MFI employs about 1,000 staff, and 26 of its 111 stores are to be closed immediately with the loss of 260 jobs.

The first Woolworths store opened in Liverpool in 1909 by F.W. Woolworth, one of the original American five-and-dime stores that is now Foot Locker. It too focused on supplying cheap retail goods, taking advantage of new developments in mass production. All goods were initially priced at sixpence in its stores.

It became such a British High Street institution that by the mid-1920s local authorities throughout Britain were writing to the company asking for a store to be opened in their town or city. At its high point in the mid-1920s a new Woolworths store opened in Britain every 17 days.

The administration of the company includes its shops and EUK, a DVD distribution arm. A joint venture with the BBC called 2Entertain that sells DVDs such as *Dr. Who* and the *Blue Planet,* and its Bertram book wholesale business are still operational and have not entered into administration. Woolworths had been involved in talks to sell its stake in 2Entertain for a reported £100 million.

The Woolworths board has appointed Deloitte as its administrators. They have in turn hired Hilco, a firm specialising in restructuring collapsed companies, to assist in running the stores up until Christmas.

Banks pull plug

There had been much media speculation that Woolworths was in dire financial trouble and was attempting to cobble together a deal that would allow it to continue trading. One source close to Woolworths said recently that it was "heading for catastrophe".

With this knowledge of an impending crisis and the possible collapse of the firm, suppliers to Woolworths had been demanding their payments in cash for this year's Christmas stock.

Another factor in the collapse of Woolworths is that it did not own its stores but leased them. In August 2001 the decision was taken to "demerge" the retailer from Kingfisher, its previous owner. This involved the sale-and-leaseback deal for 182 Woolworths' stores in return for £614 million of cash, which was paid back to Kingfisher shareholders. Over the past decade Woolworths' rent liabilities increased from £70 million to £160 million.

Tony Shiret, an analyst at Credit Suisse, said this week that Woolworths' lease-adjusted debt was the highest in the retail sector and "they didn't really have enough cash flow to cover debt repayments".

Hilco was in talks to buy Woolworths in the week before it collapsed and a deal was almost in place. It was negotiating to buy the companies stores for the sum of £1 and to take on about £300 million of the group's £385 million debt. As part of its proposed takeover it was understood that the Hilco would have immediately closed hundreds of Woolworth's stores.

Hilco is renowned for only becoming involved in firms on the brink of collapse. In an article published November 20, "Bloodbath on the High Street", the *Guardian* quoted a commentator saying, "You don't get into bed with a group like Hilco unless things are pretty tight".

Woolworth's collapsed despite a last minute personal attempt to salvage it by the government led by Peter Mandelson, the Business Secretary. On November 25, Baroness Vadera, a Minister at the Department of Business, participated in crisis talks with the company and its main financial creditors Burdale and GMAC.

GMAC and Bank of Ireland-owned Burdale led an eight-strong consortium of lenders owed £385 million by Woolworths. GMAC and Burdale were each owed around £70 million. Other creditors included Bank of America, Barclays, GE, Wachovia and KBC. GE was owed £50 million by Woolworths. According to one report in *Retail Week*, such was the scale of the crisis that Mandelson's office was forced to contact Barclays Bank boss John Varley, as the bank had allegedly threatened not to process Woolworths' payroll that week.

In the final hours before the collapse, BBC Worldwide agreed in principle to pay more than £100 million to Woolworths for its 40 percent stake in 2Entertain. Such has been the rapid decline of Woolworths that the agreed amount for 2Entertain was about half the valuation made last year. However the deal BBC Worldwide negotiated required that the board of Woolworths find a year's secured funding for EUK, which distributes DVDs and other products to supermarkets. This funding was reliant on the proposed takeover by the Hilco group.

Following talks with Burdale and GMAC and Deloitte, no agreement could be reached on such a funding deal and the banks pulled the plug on Woolworths. As the creditors with the most legal priority, the banks calculated that they stood more chance of getting their money back by Woolworths going into administration. The decision to appoint administrators was immediately made by the directors.

Following the collapse of Woolworths, its directors face legal action from the company's leading shareholder, Ardeshir Naghshineh, who owns 10 percent of the company.

MFI went into administration citing "severe cash flow pressure". In September the Chief executive of the firm, Gary Favell, led a management buyout. As a result of the buyout 81 of its 191 stores were closed. The company began to collapse when landlords MFI rented stores from, refused to give them three months rent-free to give them time to resolve their financial crisis.

According to reports suppliers had lodged complaints about not being paid by MFI in recent weeks and a number of delivery firms had stopped taking orders until they were paid.

Financial crisis deepens

Over 100,000 retail jobs have already been lost in Britain over the past decade and this is set to accelerate.

Woolworths and MFI are only the most iconic names to have collapsed. Already this year more than 30 retailers, including the discount bookseller The Works and the sofa specialist ScS, have gone into administration.

There is growing speculation that other large retail operations will also collapse.

DSG International, the owner of Currys and PC World, has reported a half-year loss of £29.8 million. The Kingfisher group announced that sales at its B&Q home improvement chain were down nearly nine percent.

Last week it was reported that a number of large retail chain stores had had some of their credit insurance removed. These included Woolworths, Debenhams, Currys, Focus, Poundstretcher, Ideal World and TJ Hughes. Without credit, insurance companies have to pay supplies for goods upfront and in cash. Such is the scale of the cash-flow crisis affecting the retail sector that some of the largest retail companies in Britain have been forced to have sales of stock in the lead-up to Christmas. Normally such High Street names use the run up to the Christmas holidays to sell stock at normal or premium prices and then use the "January Sales" to sell remaining stock.

This year leading High Street retailer Marks & Spencer's had its first pre-Christmas clearance for four years. One financial analyst said it was "a clear sign that sales are well behind budget" and advised investors to sell their shares in the company. The previous day shares in the firm fell to their lowest level in more than eight years.

The department store retailer Bhs offered 20 percent off everything during a pre-Christmas sale and then offered 50 percent off further lines. Debenhams is to run a 25 percent off three-day sale.

Last week John Lewis department stores reported that sales were down 14 percent on 2007 levels. Its online sales have also declined for the first time since it began in 2001.

Brian Roberts, a research director at Planet Retail, commented, "Christmas is simply going to be the final throw of the dice for many retailers.... There is going to be plenty more blood shed in the first quarter of next year".

A November 27 article in the *Independent* warned, "Insolvency practitioners expect an avalanche of high street retailers to go bust shortly after Christmas".

Krishan Rama of the British Retail Consortium said, "What we are witnessing is the survival of the fittest. Already this year we've seen more than a dozen major retailers go under, and next year the conditions are going to be worse, so we would expect even more companies to fail."

Source:

Stevens, R. (2008, December 1). *Britain: Woolworths and MFI go bust*. Retrieved January 13, 2009, from World Socialist Website: http://www.wsws.org/articles/2008/dec2008/ukre-d01.shtml

Woolworths Survey

This is a survey which I conducted within my College. A selection of students and staff were asked to complete the survey. A total of 50 people participated.

Q1. Are you disappointed Woolworths has closed?

Yes	84%
No	16%

Q2. Where would you buy your DVDs/CDs/Video Games?

Asda	26%
Woolworths	8%
Amazon	34%
Other Supermarket	14%
Other Online	18%

Q3. Where would you buy your confectionary?

Asda	30%
Woolworths	24%
Amazon	0%
Other Supermarket	46%
Other Online	0%

Q4. Where would you buy your stationary?

Asda	16%
Woolworths	10%
Amazon	12%
Other Supermarket	22%
Other Online	20%

Q5. Where would you buy you children's clothes/games?

(Parents only)

Asda	40%
Woolworths	8%
Amazon	0%
Other Supermarket	48%
Other Online	4%

Q6. What do you think the purpose of Woolworths was?

Convenience Store	8%
Clothes	2%
Food	2%
DVDs/CDs	10%
Games	6%
Unsure	52%
Other	20%

Q7. How often did you visit Woolworths?

Once a Week	2%
Once a Month	4%
Once a Year	68%
Less than once a Year	26%

4.

Woolworth's 2008 Annual Report and Accounts

GROUP CASH FLOW STATEMENT

for the 52 weeks ending 2 February 2008 and 53 weeks ending 3 February 2007

	Note	**52 weeks to 2 February 2008 £m**	53 weeks to 3 February 2007 £m
Cash flows from operating activities			
Cash generated from/(utilised in) operations	31	**61.7**	(39.6)
Interest paid		**(25.1)**	(12.6)
Interest received		**3.4**	2.5
Income tax received/(paid)		**0.1**	(13.4)
Net cash generated from/(utilised in) operating activities		**40.1**	(63.1)
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		**–**	(63.0)
Purchase of intangible assets		**(10.3)**	(7.3)
Purchase of property, plant and equipment		**(32.4)**	(69.1)
Proceeds from sale of property, plant and equipment		**11.8**	–
Disposal costs on sale of property, plant and equipment		**(0.2)**	–
Purchase of minority		**–**	(2.8)
Purchase of short-term investments		**(4.5)**	–
Net cash used in investing activities		**(35.6)**	(142.2)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		**–**	0.7
Repayment of Senior Notes		**–**	(97.8)
Repayment of bank borrowings		**(116.1)**	–
Proceeds from bank borrowings		**158.9**	109.7
Debt issue costs paid		**(8.2)**	–
Finance lease principal repayments		**(1.3)**	(1.2)
Net transactions in own shares held by Trust		**–**	(0.1)
Dividends paid to Company's shareholders	8	**(25.7)**	(25.6)
Net cash generated from/(utilised in) financing activities		**7.6**	(14.3)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**12.1**	(219.6)
Cash, cash equivalents and bank overdrafts at beginning of the year		**27.1**	246.7
Cash, cash equivalents and bank overdrafts at end of the year	32	**39.2**	27.1
Cash, cash equivalents and bank overdrafts consist of:			
Cash	18	**39.2**	28.4
Bank overdrafts	20	**–**	(1.3)
Cash, cash equivalents and bank overdrafts at end of the year	32	**39.2**	27.1

GROUP BALANCE SHEET

at 2 February 2008 and 3 February 2007

	Note	2 February 2008 £m	3 February 2007 £m
Assets			
Non-current assets			
Goodwill	10	**60.9**	60.7
Other intangible assets	11	**79.1**	84.0
Property, plant and equipment	12	**298.4**	311.7
Fixed asset investments	13	**0.2**	0.2
Deferred income tax assets	24	**–**	1.0
		438.6	457.6
Current assets			
Inventories	15	**391.0**	377.1
Trade and other receivables	16	**444.5**	303.5
Derivative financial instruments	17	**2.8**	–
Current asset investments	19	**4.5**	–
Cash and cash equivalents	18	**39.2**	28.4
		882.0	709.0
Current liabilities			
Borrowings	20	**(126.8)**	(129.8)
Derivative financial instruments	17	**(18.2)**	(27.5)
Trade and other payables	21	**(633.1)**	(490.4)
Current income tax liabilities	22	**(5.6)**	(1.4)
Provisions for other liabilities and charges	23	**(9.5)**	(8.5)
Deferred income tax liabilities	24	**(7.4)**	–
		(800.6)	(657.6)
Net current assets		**81.4**	51.4
Non-current liabilities			
Borrowings	20	**(36.1)**	(1.9)
Trade and other payables	21	**(78.2)**	(72.4)
Retirement benefit obligations	25	**(66.9)**	(84.0)
Provisions for other liabilities and charges	23	**(23.2)**	(33.1)
		(204.4)	(191.4)
Net assets		**315.6**	317.6
Shareholders' equity			
Ordinary shares	26	**182.4**	182.4
Share premium	27	**9.7**	9.7
Other reserves	28	**26.0**	22.0
Retained earnings	29	**97.5**	103.5
Total equity	30	**315.6**	317.6

The notes on pages 45 to 81 form an integral part of these financial statements.

The financial statements on pages 42 to 81 were approved by the Board of Directors on 2 April 2008 and were signed on its behalf by:

Stephen East
Finance Director

Richard North
Chairman

Directors' Report

Business Review

Risk Factors

Any business undertaking will involve risk. Many risk factors are common to any business, no matter what sector it operates in. The Group's approach to Financial Risk Management is set out in the Notes to the Group Accounts.

The Directors consider that certain key risks and uncertainties however are more germane to Woolworths Group and the markets in which its various businesses operate. As part of the Business Review, an assessment of such factors is set out below:

1. **Competition**
The Group operates in highly competitive markets. In particular, in recent years the retail landscape has seen significant changes and trends in retail and consumer behaviour and spending which are challenging for Woolworths Retail. The Group has faced and expects to face increased competition from existing UK general and specialist retailers, food retailers that have expanded and are further expanding into general merchandising, foreign retailers entering the UK market and newly formed competitors.

   Further, the growth of internet retailing and out-of-town shopping has required and will require the Group to adopt and invest in new strategies to remain competitive.

   The Directors believe that where Woolworths offers customers product innovation, exclusivity and value-for-money, it can continue to combat these pressures. However, actions taken by competitors as well as action taken by the Group to maintain its competitiveness and its reputation for value, have placed and will continue to place pressure on the Group's merchandise pricing, margins and profitability, which have had in the past and could have in the future, an adverse effect on the Group's business and financial condition.

2. **Growth of the Digital Entertainment Market**
A key driver of footfall and sales within Woolworths stores and the core stock-in-trade for Entertainment UK, Bertrams | THE and 2 entertain is physical entertainment media ie CD's, DVD's, Books and Games.

   In recent years, technological advances and changing consumer preferences have given rise to new markets providing delivery of music, films, games and books to portable players and to the home via digital delivery, bypassing the purchase of traditional physical media platforms. This trend may result in decreased demand for such products in stores. Decreased sales of home entertainment products at retail or wholesale level may have an adverse effect on the Group's business and financial condition.

   The Directors believe that digital entertainment also offers opportunities for the Group and it has developed strategies to participate, including in Woolworths, a multichannel retail offer and investment in digital rights and online delivery technology within Entertainment Wholesale and Publishing.

   However, the growth of digital markets and the increasing uptake of Broadband access will continue to place pressure on the Group's participation in traditional entertainment retail and distribution channels.

3. **Seasonality**
The Group's business is highly seasonal. Historically, the Group's most important trading period in terms of sales, profitability and cash flow has been the Christmas season. Lower than expected performance in this period may have an adverse impact on results for the full-year which may also result in excess inventory, especially in seasonal merchandise that is difficult to liquidate.

   To a lesser extent a lower than expected turnover over the Easter period may also have an adverse effect on the Group's business and financial condition.

4. **Damage to Reputation or Brands**
The Woolworths name is a key asset of the business and maintaining the reputation of the brand is key to the success of the Group. The many separate product lines of general merchandise handled by the Group means the supply chain is complex and is subject to increasingly stringent laws and regulations governing issues of health and safety, packaging and labelling, pollution and other environmental factors.

   The Group has a Quality Assurance team and legal and regulatory control processes both in-house and externally to advise and take action on existing and emerging risk management issues. However, these systems cannot guarantee compliance or fully protect against quality, regulatory, safety and environmental risk in the supply chain. The Group is therefore potentially vulnerable to an event or circumstances adversely affecting the supply chain or merchandise which gives rise to liability claims and/or reputational damage. Substantial erosion in the value of the Woolworths name could have an adverse effect on the Group's business and financial condition.

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

The Treasury Policy sets out a framework through which the Group's forecasted foreign currency transactions are hedged.

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

The Group will keep under review the opportunity to hedge its interest exposure following the increase in its debt profile during the year.

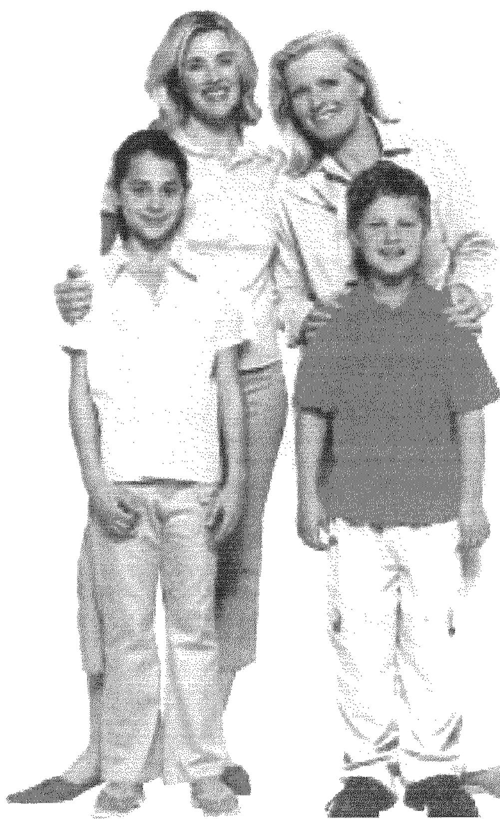
To date, the interest payable on drawings from the Group's facilities has been at floating rates driven by the variation in amounts borrowed during the period. Interest receivable on investments has also been at floating rates for short maturities, given the seasonality of the Group's cash flows.

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

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

Stephen East

Stephen East
Finance Director
2 April 2008



Entertainment Wholesale and Publishing

Entertainment Wholesale (EUK / Bertrams / THE)

This was a pivotal year for the longer term development of the Entertainment Wholesale business. Having made two acquisitions in the prior year and won two new major accounts, there was a significant operational challenge for the business to integrate the acquisitions, cease supply of CD's, DVD's and computer games to Tesco and commence trading with the new customers.

During the year, key activities undertaken by the Entertainment Wholesale division include:

- The integration of Bertrams following its acquisition in January 2007
- Securing clearance from the Competition Commission following its investigation into the Bertrams acquisition
- The commencement of supply to Zavvi (formerly Virgin Megastores)
- The commencement of supply to Asda
- The closure of one warehouse and physical relocation of supply to other EUK sites
- Cessation of supply of CD's, DVD's and computer games to Tesco

Against this dynamic background, the business delivered sales growth of 36.6 per cent, taking total third party sales to £1,176.6 million. An important part of our development strategy was to increase exposure to both the books and computer games markets. This is important in the longer term as both markets are inherently attractive in terms of size and growth prospects. They also have less immediate threat from digital formats when compared to the music and DVD markets which historically have made up the bulk of EUK's sales.

We have also sought to diversify the customer base in a progressive manner. We are now pleased to service a broad spectrum of customers who supply the consumer through a variety of traditional and non traditional channels.

As a consequence of this considerable change programme, EUK, THE and Bertrams incurred additional costs, some of which were exceptional and others that resulted from the inefficiency associated with change. These costs held back profitability but by their nature will not reoccur in the coming year and accordingly we expect to make progress in 2008/9.

Having traded through its peak season, the enlarged business is now well placed going forward. Without the distraction of business integration, we will be able to focus on developing our customers' businesses, enhancing and differentiating our service proposition and driving efficiency across our operations.

Retail stock
(£m)

2008	**288.7**
2007	290.6

EUK unit handling cost
(pence per unit handling cost)

		% change YOY
2007/08	**24.7**	**+9.4**
2006/07	22.6	-9.3

2 entertain DVD rankings
(Source British Video Association)

TV Genre	Ranked 1st
Interactive Genre	Ranked 1st
Sports and Fitness Genre	Ranked 3rd
Special Interest Genre	Ranked 2nd

Retail margin
(basis points improvement)

2007/08	**50**	**40**	**40**	**20**	**105**	**101**
2006/07	50	40	40	20	105	
2005/06	50	40	40	20		
2004/05	50	40	40			
2003/04	50	40				
2002/03	50					

Retail shrinkage
(£m)

2007/08	**36.9**
2006/07	36.5
2005/06	36.3
2004/05	42.2
2003/04	41.8
2002/03	47.7
2001/02	53.2

Retail like-for-like sales

-3.2%

Directors' Report

Business Review

Chief Executive's Report (cont'd)

it now is clear that Worthit! products are relevant in seasonal as well as everyday ranges. The Worthit! Christmas products such as trees, decorations and cards all sold out early in the season. During the year 1,417 Worthit! lines were launched and we continue to refine and develop the product and its sourcing. In 2008, a new range of approximately 2,200 products branded "Woolworths" will be launched to provide the logical "sell up" alternative to Worthit! This is designed to increase sales, drive up basket spend and improve overall margins.

Multichannel

Following initial rapid growth and the establishment of a multichannel sales base in 2007/8 we chose to move away from electricals restricting headline sales growth to 5.2 per cent. We traded toward higher margin categories and reduced unit despatch costs by utilising the Woolworths distribution network instead of couriers. Feedback on the Big Red Book catalogues continues to be very positive with customers enjoying its manageable and focused Kids based offer. This channel of business provides significant opportunity for the future, both in terms of sales growth and a step change in profitability as fulfilment is further integrated into the Woolworths network over the next two to three years.

Evolving the supply chain

We continued to make progress in enhancing our supply chain capability, in terms of both the warehouse and transportation network, as well as increasing the sophistication of the IT systems that drive replenishment. Over the Christmas trading period, inventory levels were kept very tight to ensure sell through of seasonal ranges and thereby reduce exposure to unplanned mark down. As at the end of the first week of the January sales, inventory in Woolworths was some £61 million lower than the prior year and was of a superior quality.

Improving stock control was a contributory factor in enhancing margin, alongside increased direct supply of product from the Far East, where shipments grew by 12 per cent. The lower cost prices achieved from greater use of direct supply allowed us to improve our price competitiveness.

Overall margin increased by 101 basis points.

We believe that significant opportunity remains to enhance the profitability of the business through a combination of increased direct sourcing, greater efficiency in the distribution network and still further sophistication of the IT systems that handle replenishment. The business is targetting a further 40 basis point improvement in margin and a reduction of £8 million in costs in the coming year.

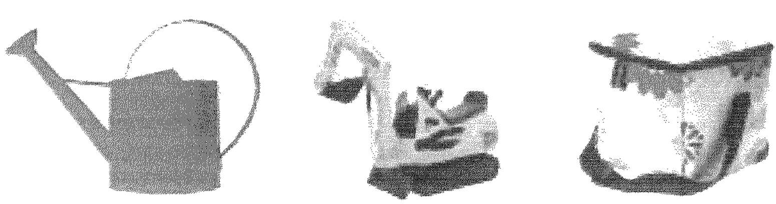
Capital Expenditure and Store Portfolio Management

During the year some £33.3 million of capital expenditure was invested including the acquisition of four store freeholds, repairs, renewals and enhancements to the physical estate, opening five new stores and refurbishing 10 older stores. Trading from the newly opened stores has been encouraging. A programme of low cost refurbishments in 77 stores has provided good levels of return.

Given the size and nature of the property portfolio, it is appropriate that it is actively managed and we have achieved property profits from a number of transactions including disposals, sublets, store cut downs or store swaps with other retailers.

Retail Summary

The prime objective for the year was to enhance profitability. This was achieved as we continued to improve cost performance, worked hard to deliver profitable sales and continued to focus on enhancing both the service and product offer for our customers. We now have a base on which to build for the coming years.



At a category level, the strongest area of the business was computer games. Demand for new formats such as Nintendo Wii, Nintendo DS and Sony PS3 continued to outstrip supply. We anticipate that this growth will continue and will more than counter the decline in the traditional music market as was the case in 2007/8. DVD's and Books both held up well in the year and we anticipate that this will continue in the medium term.

In our Toy business, sales were held back as spend was diverted to computer games, particularly when there was availability of Nintendo Wii and DS, which appeal to the core Toy market age group. Younger age toy categories such as pre-school were less susceptible and were our most buoyant Toy categories.

Another area of product success was the continued progress of our Ladybird clothing ranges, where total unit sales surpassed the prior year and market share continued to grow, albeit in a market experiencing price deflation.

Our Confectionery business also experienced price deflationary pressure. This was particularly so in the gift market, where products tend to be used by the supermarkets to drive value price perception. Against this backdrop, we continued to seek to differentiate the Woolworths offer and were selective with our price investment. In everyday Confectionery ranges, the launch of a full range of Woolworths Worthit! sweets has provided a point of difference from the competition and enhanced our value positioning, driving incremental volumes.

Across the entire business, the introduction of the entry price Worthit! range has been very well received by customers. Indeed, to an extent we have been victims of our own success. Rates of sale have been higher than anticipated and maintaining availability in what is typically long lead time product has sometimes been a challenge. In its peak week, Worthit! products accounted for 7.9 per cent of total sales and 11.6 per cent of total transactions. Following Christmas trading,

Transport

	2008	2007
Vehicle kilometres (millions)	**25.9**	27.2
Fuel consumption (million litres)	**7.7**	8.0

Vehicle mileage has reduced by 4.8 per cent year-on-year, with a corresponding reduction in fuel consumption of 3.8 per cent. This has been achieved via a new routing and scheduling system for deliveries from Distribution Centres to Stores, improved flexibility in Store delivery windows and increased use of double deck trailers.

Service centre

	2008	2007
Calls received (000's)	**826**	846
Service level	**93%**	90%

The Woolworths Customer Support department handles customer enquiries and complaints for all stores and also our websites, along with orders and queries relating to our Big Red Book catalogues. The number of contacts decreased in 07/08, due to the use of pro-active SMS messaging, whilst the level of service increased by 3.3 per cent year-on-year.

Self-audit

Compliance points score (out of 100)

	2008	2007
Compliance score	**77.1**	77.4

The store self-audit is a scheme to check that our stores are compliant with Company procedures and also external factors such as trading standards and health and safety issues. Store standards are broadly consistent year-on-year, with a slight decline in average store score of 0.4 per cent.

Mystery shopper

Service standards (out of 100)

	2008	2007
Mystery shopper score (Xmas cycle)	**76.6**	76.4

All stores receive regular visits from "mystery shoppers". This allows us to gain a true reflection of how our stores are performing and to benchmark our service standards. The Christmas cycle is a key review to ensure that stores are ready for the busy Christmas trading period. This shows a slight improvement year-on-year, demonstrating continued advancement of customer service.

Directors' Report
Business Review

Chief Executive's Report

"Overall, across the Group we believe we enter 2008/9 with the businesses strengthened relative to the prior year and well set up for the challenge ahead."

In the 52 weeks ended 2 February 2008, total Group revenue from continuing operations was £2,969.6 million. This represents an 8.5 per cent increase over the prior year. Each of our businesses made significant progress during the year and overall the strategic positioning of the Group has been strengthened. At a sales level, this was particularly evident in our Entertainment Wholesale distribution business, where third party sales increased by 36.6 per cent over the prior year, as new customers and acquisitions were integrated into the business. 2 entertain, our music and video publishing joint venture with BBC Worldwide, increased its third party sales by 21.2 per cent, particularly helped by developing international sales. Sales at Woolworths fell 3.2 per cent like-for-like, reflecting our key focus of not chasing unprofitable sales and returning the Retail business to profit. This goal was achieved and was a key driver in delivering improved year-on-year Group profits.

Adjusted profit (which is before tax, exceptional items, adjustment for fixed rental uplifts and amortisation of certain intangible assets) was £28.3 million, an increase of 29.8 per cent over the prior year. This increase was delivered despite a challenging external environment and in the midst of extensive internal change in our businesses.

Retail

The key focus of the year at Woolworths was to return the business to profitability and establish a profit base on which to build. The adjusted profit was £3.4 million compared with a loss of £12.9 million in the prior year. This turnaround came thanks to further enhancement of gross margins, rigorous control of costs, the full year benefit of asset relifing, continued exploitation of the property portfolio and active management away from loss-making sales.

Total like-for-like sales declined by 3.2 per cent largely for the following reasons:

Firstly, and most materially, just over half of the decline in like-for-like sales was due to the decision not to chase unprofitable sales, particularly of electrical and computing products. These markets are highly competitive, with the internet allowing easy price comparisons. As a consequence, gross margins are low. Add to this the high servicing costs of delivery, technical support and customer returns, and the overall net profitability can be negligible or often negative.

Secondly, Woolworths has historically been a leading beneficiary of shopping voucher redemptions bought via savings clubs. Following the bad publicity attached to the failure of Farepak in 2006, sales of vouchers fell dramatically. We believe that this reduced like-for-like sales by 1.1 per cent.

Thirdly, the decision was taken not to advertise on TV during the Christmas trading period to the same extent as prior years. While this may well have held back sales, the overall impact on Woolworths' profit and loss account was positive.