

IFRS Interim Results

25 weeks to 24 July 2005

17 November 2005

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Overview

- UK GAAP trading update of 20 October remains unchanged
- Operating profit before “exceptionals” unchanged at £50.7m
- Conversion to IFRS gives no operational impact
- £8.4m increase in pre-tax loss half year 2005-06
- £104.1m decrease in pre-tax profit full year 2004-05
- Net debt decreased by £19.1m
- Key impacts:
 - treatment and calculation of goodwill
 - retiring of the Safeway brand
- IFRS has no cash impact

Context

- Numbers presented on 20 October re-stated to IFRS
- Reported numbers since 1 February 2004 re-stated to IFRS
- KPMG have reviewed all the IFRS adjustments
- Option to show comparative data for financial instruments under UK GAAP taken (IAS 39)
- All other IFRSs and IASs applied
- Quoted UK GAAP is as applied at the time of the last published annual report (30 January 2005)

Applicable IFRS standards

Operational

- Leased building and land classification (IAS 17)
- Impairment of assets (IAS 36)
- Presentation (IAS 1)

Non-operational

- Share-based payments (IFRS 2)
- Pensions (IAS 19)
- Goodwill and business acquisitions (IFRS 3)
- Financial Instruments (IAS32/39)
- Taxation (IAS 12 and SIC 21)
- Dividends (IAS 10)

Key IFRS 1 First-time adoption options

- IFRS 3 Business combinations
 - Not applicable as no material business combinations before date of adoption (2 February 2004)
- IAS 19 Pensions
 - All cumulative actuarial gains and losses recognised at date of adoption
- IAS 39 Financial Instruments
 - Implementation deferred until 31 January 2005
Comparative figures under UK GAAP
- IFRS 2 Share-based payments
 - Recommended approach of only valuing post November 2002 share-based payment awards taken

Highlights UK GAAP to IFRS

		Half year 2005/06 £m	Half year 2004/05 £m	Full year 2004/05 £m
Operating profit, pre-exceptionals	<i>IFRS</i>	50.7	172.9	395.4
	<i>UK GAAP</i>	50.7	168.9	380.3
Exceptional costs	<i>IFRS</i>	118.8	61.8	139.2
	<i>UK GAAP</i>	118.8	21.8	99.2
(Loss)/profit before taxation	<i>IFRS</i>	(82.1)	80.1	193.0
	<i>UK GAAP</i>	(73.7)	121.6	297.1
Net debt at 24 July 2005	<i>IFRS</i>	1,101.0	1,599.5	1,160.9
	<i>UK GAAP</i>	1,120.1	1,609.7	1,171.1
Operating cash flow	<i>IFRS</i>	326.6	332.4	442.9
	<i>UK GAAP</i>	326.6	332.4	442.9



Pre-tax profit bridge

	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)



Share-based payments (IFRS 2) - Policy

UK GAAP

- Nil charge for Executive Share Option Schemes (ESOP) based on options granted at market
- Save As You Earn (SAYE) excluded from UK accounting
- Long Term Incentive Plans (LTIP's) charged on payment

IFRS

- Annual charge based on fair value of options granted, spread over the vesting period
- Fair value determined using Stochastic Model
- LTIP fair value charge creates provision to cover payment
- Similar accounting policy for ESOP and SAYE

Pre-tax profit bridge

	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(1.2)	(1.2)	(2.8)

Pension (IAS 19) - Policy

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UK GAAP

- Accounting based on actuarial valuations using FRS 17
- Deficit on the balance sheet
- Actuarial gains and losses are recognised immediately in the statement of recognised gains and losses

IFRS

- Materially similar to FRS 17
- Small exceptions with the accruing of death in service costs and use of bid vs mid-market values
- Actuarial gains and losses are recognised immediately in the statement of recognised income and expense

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Pre-tax profit bridge

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	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(1.2)	(1.2)	(2.8)
Long leasehold land	0.5	0.4	0.9

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Building leases (IAS 17) - Policy

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UK GAAP

- Land and building leases classified as operating leases
- Long leasehold land premiums recognised in tangible assets
- Long leasehold land written off over life of the building

IFRS

- Buildings can be classified as finance leases (no impact on WMS)
- Long leasehold land premiums are operating leases
- Long leasehold land premiums are re-classified as prepayments and written off over life of lease

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Pre-tax profit bridge

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	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(1.2)	(1.2)	(2.8)
Long leasehold land	0.5	0.4	0.9
Impairment provision	0.0	0.0	0.0

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Impairment provision (IAS 36) - Policy

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UK GAAP

- Trading history did not give risk of impairment
- UK GAAP not so prescriptive to the level of impairment provision

IFRS

- Impairment test has to be performed if there are indications
- Standard defines retail outlet as level to perform impairment test or level that goodwill is managed
- Impairment is to the higher of value in use or disposal value
- Impairment of asset reverses when performance improves

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Pre-tax profit bridge

	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(1.2)	(1.2)	(2.8)
Long leasehold land	0.5	0.4	0.9
Impairment provision	0.0	0.0	0.0
Intangible retirement	-	(40.0)	(40.0)
Reverse goodwill amortisation	(8.3)	0.0	(58.2)

Business combinations (IFRS 3) - Policy

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UK GAAP

- No intangibles recognised on acquisition
- Goodwill (including negative goodwill) amortised over useful life
- Hindsight period to adjust fair values is 2 years

IFRS

- Intangibles separately identifiable included in fair value
- Intangibles written off over their useful life or retired in accordance with IAS 38 *Intangible Assets*
- Other fair value adjustments the same as UK GAAP
- Hindsight period to adjust fair values is 1 year
- Goodwill tested annually for impairment

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Pre-tax profit bridge

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	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(1.2)	(1.2)	(2.8)
Long leasehold land	0.5	0.4	0.9
Impairment provision	0.0	0.0	0.0
Intangible retirement	-	(40.0)	(40.0)
Reverse goodwill amortisation	(8.3)	0.0	(58.2)
Financial derivatives not hedged	3.9	-	-

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Financial instruments (IAS32/39) - Policy

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UK GAAP

- Hedging derivatives are off-balance sheet and accounted for on settlement
- Loans and bonds are recorded at amortised cost
- Preference shares are equity

IFRS

- All hedging derivatives are on balance sheet at fair value
- Current derivatives have not qualified for hedging
- Effective “IAS hedges” gains and losses posted to SORIE
- Ineffective hedges gains and losses affect income statement
- Treatment of loans and bonds are unchanged
- Preference shares are debt

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Pre-tax profit bridge

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	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
(Loss)/profit before tax UK GAAP	(73.7)	121.6	297.1
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(1.2)	(1.2)	(2.8)
Long leasehold land	0.5	0.4	0.9
Impairment provision	0.0	0.0	0.0
Intangible retirement	-	(40.0)	(40.0)
Reverse goodwill amortisation	(8.3)	0.0	(58.2)
Financial derivatives not hedged	3.9	-	-
Other	(0.7)	(0.5)	(1.4)
(Loss)/profit before tax IFRS	(82.1)	80.1	193.0

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Other impacts

- Long service awards
 - Legacy Safeway long service awards that have already materially unwound
- Investment properties
 - Certain properties are deemed to be investment properties. Reclassified from tangible assets to investment properties. Impact £82.8m at 25 July 2004. No impact to profit as the cost option adopted
- Joint venture profit
 - JV profit after taxation is disclosed in Group's profit before taxation. This is a disclosure impact
- Disposal groups
 - Non-current assets held for sale are not depreciated. Lower depreciation charge and equally lower profit on sale
- Disclosure
 - New format discloses certain items at different levels e.g. profit on sale of fixed assets now included in Operating Profit

Operating profit bridge

	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
Operating profit before exceptionals UK GAAP	50.7	168.9	380.3
Profit on sale of fixed assets under UK GAAP	2.5	4.3	17.9
Share-based payments	(2.6)	(0.2)	(2.6)
Pensions	(0.4)	(0.5)	(1.1)
Long leasehold land	0.5	0.4	0.9
(Loss)/profit before tax IFRS	50.7	172.9	395.4

Impact on profit guidance

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- Minimal impact as profit guidance was before goodwill amortisation

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Goodwill bridge

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	£m
Negative goodwill under UK GAAP 30th January 2005	(262.9)
Pensions	21.4
Deferred taxation	413.9
Reverse amortisation to 30th January 2005	(58.2)
Hindsight adjustments	(43.8)
Property fair value uplifts re sales and closures	(32.2)
Property fair value write downs re sales and closures	75.7
Financial instruments fair value	(10.7)
Positive goodwill under IFRS 24 July 2005	103.2

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Taxation (IAS 12) - Policy

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UK GAAP

- Full provision for timing differences – excludes deferred tax on revaluations and rolled-over capital gains

IFRS

- Full provision made for temporary differences between taxation and accounting treatment
- Property fair value uplift deferred tax is as if the properties are sold not held for continuing use (i.e. capital gains)
SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets

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Net asset bridge

	Half year 2005-06 £m	Half year 2004-05 £m	Full year 2004-05 £m
Net assets under UK GAAP	3,989.7	4,054.1	4,017.5
Share-based payments	(0.2)	2.3	2.1
Pensions	(20.4)	(20.4)	(22.4)
Leases	7.9	7.0	7.4
Business combinations	(88.6)	(22.3)	(80.3)
Financial instruments	6.2	-	-
Dividend	16.6	16.6	82.0
Other	(0.4)	(0.4)	(0.4)
Net assets under IFRS	3,910.8	4,036.9	4,005.9



Dividends (IAS 10) - Policy

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UK GAAP

- Dividends recognised when proposed

IFRS

- Proposed dividends are not a liability under IFRS
- Dividends are recognised when authorised which is:
 - At an Annual General Meeting
 - On payment

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Income statement (unaudited)

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	25 weeks ended 24 July 2005	25 weeks ended 25 July 2004	Year ended 30 January 2005
	£m	£m	£m
Sales including VAT	6,339.0	6,025.1	13,029.1
Total turnover	5,913.9	5,663.2	12,283.7
Less share of BP Joint Venture	(66.4)	(78.9)	(180.0)
Group turnover	5,847.5	5,584.3	12,103.7
Operating profit before Safeway integration	50.7	172.9	395.4
Safeway integration costs	(118.8)	(61.8)	(139.2)
	(68.1)	111.1	256.2
Share of post-tax BP joint venture profit	2.2	0.9	2.2
Finance income	10.5	7.3	21.1
Finance costs	(26.7)	(39.2)	(86.5)
(Loss) / profit before taxation	(82.1)	80.1	193.0
Tax credit / (charge)	14.9	(55.5)	(88.0)
(Loss) / profit for financial period	(67.2)	24.6	105.0
Earnings per share:			
Basic	(2.54)p	1.02p	4.17p
Diluted	(2.54)p	1.01p	4.15p

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Full balance sheet (unaudited)

	24 July 2005	25 July 2004	30 January 2005
	£m	£m	£m
Non-current assets			
Intangible assets	103.2	103.2	103.2
Property, plant and equipment	6,139.1	6,796.3	5,699.6
Investment properties	82.8	84.9	83.8
Other non-current assets:			
Investment in BP Joint Venture	-	76.2	78.4
Long lease land premium	231.4	232.8	232.1
Non-current assets classified as held for sale	387.2	272.0	725.7
	6,943.7	7,565.4	6,922.8
Current assets			
Inventories	440.0	410.6	424.6
Trade and other receivables	221.9	116.6	222.6
Derivative financial instruments	43.8	37.8	37.0
Cash and cash equivalents	134.6	478.3	93.5
	840.3	1,043.3	777.7
Current liabilities			
Bank overdrafts	(15.7)	(89.9)	(122.1)
Other financial liabilities	(252.3)	(1,003.2)	(152.6)
Trade and other payables	(1,705.3)	(1,551.6)	(1,435.0)
Current tax liabilities	-	(20.1)	(0.5)
	(1,973.3)	(2,664.8)	(1,710.2)
Non-current liabilities			
Financial liabilities	(1,011.4)	(1,022.5)	(1,016.7)
Retirement benefit obligation	(324.4)	(266.1)	(408.1)
Deferred tax liabilities	(508.9)	(555.8)	(501.6)
Provisions	(55.2)	(62.6)	(58.0)
	(1,899.9)	(1,907.0)	(1,984.4)
Net assets	3,910.8	4,036.9	4,005.9
Shareholders' equity			
Ordinary shares	265.9	265.6	265.8
Share premium	20.6	16.8	20.1
Merger reserve	2,578.3	2,578.3	2,578.3
Retained earnings	1,046.0	1,176.2	1,141.7
Total equity	3,910.8	4,036.9	4,005.9



Cash flow (unaudited)

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	25 weeks ended 24 July 2005	25 weeks ended 25 July 2004	Year ended 30 January 2005
	£m	£m	£m
Cash generated from operations	326.6	332.4	442.9
Taxation paid	(4.3)	(90.2)	(171.5)
Net cash inflow from operating activities	322.3	242.2	271.4
Cash flows from investing activities			
Interest received	8.7	7.3	21.1
Subsidiary undertakings and businesses acquired	-	(820.4)	(831.4)
Purchase of property, plant and equipment	(338.2)	(212.8)	(428.3)
Subsidiary undertakings and businesses disposed	49.1	-	-
Proceeds of sale of property, plant and equipment	109.8	209.9	903.0
Net cash outflow from investing activities	(170.6)	(816.0)	(335.6)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital	0.5	0.4	8.9
Sale of own shares	-	0.9	12.0
New borrowings	100.0	1,000.0	1,000.0
Interest paid	(20.0)	(22.8)	(96.9)
Finance lease principal repayments	(1.5)	(1.6)	(3.4)
Repayment of bonds and loan notes	(2.0)	(150.1)	(1,003.9)
Equity dividends paid	(81.2)	(71.2)	(87.7)
Net cash used in financing activities	(4.2)	755.6	(171.0)
Net increase in cash and cash equivalents	147.5	181.8	(235.2)
Opening cash and cash equivalents	(28.6)	206.6	206.6
Closing cash and cash equivalents	118.9	388.4	(28.6)

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SORIE & Net debt

Statement of recognised income and expense (unaudited)

	25 weeks ended 24 July 2005	25 weeks ended 25 July 2004	Year ended 30 January 2005
	£m	£m	£m
Actuarial gain on defined benefit pension schemes	70.4	62.7	(80.5)
Tax on items recognised directly in equity	(21.1)	(19.0)	24.0
Net gain recognised directly in equity	49.3	43.7	(56.5)
(Loss) / profit for the period	(67.2)	24.6	105.0
Total recognised income and expense for the period	(17.9)	68.3	48.5

Analysis of net debt (unaudited)

Net increase / (decrease) in cash and cash equivalents	147.5	181.8	(235.2)
Cash outflow from the repayment of loans	3.5	151.7	1,007.3
Cash inflow from the receipt of loans	(100.0)	(1,000.0)	(1,000.0)
Other non-cash movements	8.9	11.6	11.6
Loans and finance leases acquired with subsidiary	-	(1,149.8)	(1,149.8)
Movement in net debt in the period	59.9	(1,804.7)	(1,366.1)
Opening net debt	(1,160.9)	205.2	205.2
Closing net debt	(1,101.0)	(1,599.5)	(1,160.9)

