



Fresh choice for you
Annual report and
financial statements 2008

Financial summary

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£13bn

Group turnover

2007: £12.5bn **+6%**
on 52 week basis

14.4p

Underlying
earnings per share

2007: 8.3p **+73%**

+4.6%

Like-for-like sales
(ex-fuel)

2007: **+5.2%**

£543m

Net debt

2007: £772m **-30%**

£612m

Profit before tax

2007: £369m **+66%**

4.8p

Total dividend

2007: 4.0p **+20%**

Operating review

- >> range expanded and revitalised,
- >> store refresh programme on track to complete by July 2008,
- >> significant increase in customer numbers in the final quarter,
- >> eight new stores opened,
- >> grocery distribution facility opened in Swindon.

Balance sheet strategy

- >> progressive dividend growth,
- >> surplus capital of £1bn to be returned to shareholders.

Chairman's statement

Sir Kenneth Morrison CBE



In my last statement as Chairman of Morrisons it gives me particular pleasure to be reporting record earnings and to see that more customers than ever before are experiencing the freshness, quality and value that Morrisons has to offer.

Sir Ken Morrison, Chairman



The past year saw further steady progress for Morrisons, with a solid sales performance and strong profit and cash generation.

Profit before tax was £612m compared with £369m last year. This included £32m of property gains, compared with £38m last year. Underlying earnings per share (EPS) increased by 73% to 14.4p, whilst basic EPS increased by 123% due to an abnormally low tax charge. The Board is recommending a final dividend of 4.125p per share, to bring the total for the year to 4.8p – an increase of 20%.

Cash generation was strong – net debt fell from £772m to £543m despite opening eight new stores, beginning a phase of additional investment in our Optimisation Plan and contributing an additional £100m to our pensions schemes. From its peak in 2004 of £1.6bn, net debt has reduced by over £1.0bn through a combination of profit recovery actions, tight capital controls and divestment of property that did not fit our operating model. Following the negotiation of new term debt facilities of £1.1bn in September 2007, the Group had available headroom of £1.3bn at the year end, with zero net finance cost in the year and gearing of 12.4%.

As previously reported, David Hutchinson retired from the Board in June 2007 on the grounds of ill health, after 21 years' service. I am very sorry to report that David passed away in February 2008, after a retirement that was cruelly short. My thoughts, and those of everyone in the Company, are with his widow Diane, and his family.

On behalf of the Directors, I would like to thank all our staff for another year of exceptionally hard work, and I was delighted for them that their efforts were rewarded as the year progressed with some healthy sales momentum. Our profit improvement in the year will provide a profit share pool for staff of £30m, a long standing benefit on top of the very popular staff discount that was launched in the year.

Our staff and customers responded strongly to our charitable activities in the year, and we were pleased to raise over £1.1m for Asthma UK, our chosen Charity of the Year, as well as £0.3m in one day for Children in Need. In the coming year, our colleagues have chosen to support 'Protecting Generations for Generations', an innovative partnership between Help the Aged and Childline.

The year under review saw the rise of inflationary cost pressures in a number of basic commodities such as dairy products and wheat. We fought hard to avoid passing these higher costs onto consumers, and we will continue to strive to operate at low cost in order to ensure maximum value for our customers.

Chairman's statement continued

The Competition Commission inquiry into the Grocery sector will announce its final conclusions in April 2008, some two years after it began. It has stated, as we all knew, that supermarket retailing in the UK is highly competitive. We see nothing in the provisional findings that would cause us to change the way we do business – whether providing value and choice to customers, dealing fairly with suppliers or seeking out new sites. We are encouraged that a competition test, as proposed, would afford opportunities for us in areas of the country where we are under-represented. The Office of Fair Trading (OFT) inquiry into dairy pricing activities in the early part of the millennium resulted in fines being levied on a number of companies, including Safeway for a period prior to it coming into our ownership. The OFT has alleged that Morrisons, too, was involved, a claim that we deny strongly.

This is my last statement to shareholders as Chairman. I have been with the business now for some 55 years and must say that the experience has been both demanding and fulfilling, but nonetheless it has always been enjoyable. I am prepared for a situation where I will have more time to look around and I intend to develop new interests in a number of fields. I will keep in touch with the progress of the Company and no doubt maintain contact with a number of what will be my former colleagues.

It seems a long time since I was demobilised from the army in 1952 and started to learn about how to run a retail grocery business. I believe that over the years I have learned one or two things, and would set out what I consider to be the important aspects for my successor. I think it is important to assume a leading position and to never forget the business principles that we might be a large company and fairly sophisticated but we do carry out a simple task – we buy things and sell them. Our task is to ensure that we always please the customer with the quality of what we offer for sale and that at all times, we ensure outstanding value for money. This can only be achieved by strict control of all costs and remaining in touch with all aspects of what is a fascinating industry. The ownership of freehold property and the willingness to invest and re-invest in fixed assets has always kept the Company in good heart. This can, of course, be achieved whilst also maintaining a prudent balance sheet.

Any success I have achieved in my career has always been due to the presence and help of numerous team members who possessed great ability, dedication and skill. I would like to take this opportunity to thank everyone I have been fortunate enough to work with over the years and at the same time wish the Company every success in the future.

I think the present economic climate provides a wonderful opportunity for the Company to continue to prosper as long as it remains true to its founding principles. It has been great fun, and I am delighted that I enjoyed the confidence of shareholders, staff and customers alike. I have never forgotten that retailers are always on duty as we are in a dynamic business, seven days a week, 52 weeks a year.

I am sure the new management team headed by our recently appointed Non-Executive Chairman, Sir Ian Gibson CBE, will spare no effort in further extending your Company's run of success. Thank you sincerely.

A tribute to Sir Ken Morrison

Chairman's statement continued

On 13 March 2008, Sir Ken Morrison retired as Chairman of the Group. Sir Ian Gibson succeeded him as Non-Executive Chairman.

Sir Ken has accepted the position of Honorary President. In this ambassadorial role, he will continue the strong relationship with employees, communities and shoppers which has characterised his long and distinguished career.

55 years with Morrisons

-
- 1952** Sir Ken joins Morrisons
-
- 1958** First town centre shop opened
-
- 1961** Victoria – first supermarket opened
-
- 1967** Morrisons floated on the Northern Stock Exchange
-
- 1978** Morrisons moves out of Yorkshire with acquisition of Whelan Discount Stores
-
- 2000** Sir Ken awarded a Knighthood for services to retailing
-
- 2001** Morrisons joined the FTSE 100
-
- 2004** Morrisons acquired Safeway
-
- 2008** Sir Ken retires as Chairman
-

The Board pays tribute to Sir Ken

We are proud to pay tribute to Sir Ken Morrison on his retirement from the Company after 55 years of inspirational and dedicated leadership. During this time he has transformed Morrisons from a small, family business into the UK's fourth largest food retailer and a top five food producer, with 375 stores and 117,000 colleagues, serving over nine million customers a week.

An intuitive retailer, Sir Ken's passion and flair were evident from his early years, when during school holidays he could always be found working in the family's market stalls and small shops. This hands-on approach has characterised his career, throughout which he has never been happier than when out on the shop floor, taking a personal interest in ensuring customers' needs are met. Sir Ken has always had customers as his focus; not as a business technique, but as a lifelong part of his character, forming his view of what Morrisons should be.

Through bold and innovative leadership Sir Ken has created and built the business, from establishing the first out of town self-service supermarket in Bradford, through to expansion nationwide with the acquisition and integration of Safeway, which involved the biggest store conversion programme in UK retail history. He has given Morrisons a leading edge with creative in-store features like Market Street and a unique vertically integrated structure, together with a competitive offer renowned for always delivering great value for money. Sir Ken's determination to avoid cost and waste throughout his career has underpinned the commitment to that goal.

Sir Ken has won the loyalty and admiration of employees throughout the business with his down-to-earth nature and belief in teamwork; and his pride in the achievements of those around him has never been more apparent than in his desire to attend each and every one of the Group's 25-year service celebrations. Suppliers also hold Sir Ken in high regard and having always shown great empathy, he has nurtured many mutually beneficial, long-standing relationships that have seen both businesses grow together.

Under Sir Ken's stewardship, Morrisons has received wide recognition from the business world, winning many awards. His personal contribution has also been deservedly recognised on many occasions. Having received a number of industry accolades, he was awarded the CBE in 1990 and honoured with a Knighthood in 2000 for his services to retailing.

Sir Ken is a consummate retailer and his achievements are remarkable. His wholehearted devotion and strength of purpose over five decades have taken Morrisons from modest beginnings, to national household name. A creator and builder with great passion and flair, his contribution to retailing has been invaluable and we owe him a great debt of gratitude for his life's work. We are privileged to have known and worked with Sir Ken and those following in his footsteps will cherish his legacy of success.

We wish Sir Ken a well-earned and long and happy retirement.

Chief Executive's business review

Marc Bolland



This has been a strong year for Morrisons, with growing customer numbers. We have always delivered good availability and service. Now we are also recognised for our great fresh food. Customer numbers have grown by an extra half million per week and we are well on track to becoming the 'food specialist for everyone'.

Marc Bolland, Chief Executive



Strategy

Our three year strategy, as laid out in our 2007 Annual report, is to position the business as the UK's 'food specialist for everyone'. This builds on our historic strengths, now applied to a much bigger business following the Safeway acquisition. As a food specialist, we are differentiating ourselves from our larger competitors, all of whom are seeking to expand their non-food credentials. We are emphasising our deep understanding of food, through being closer to source than other retailers, through our unique manufacturing and packing facilities, through the amount of food preparation undertaken in our stores and through the employment of more specialist butchers, fishmongers and bakers than our competitors. We are also emphasising that our offer is for everyone, compared with our smaller, more expensive and exclusive competitors. Our great food is also always great value.

Our strategy builds on our strengths, and is in tune with our customers' increasing focus on the health, provenance, quality and freshness of the food that they buy. In order to deliver it fully, we outlined last year the building blocks that needed to be put in place, and our plans to do this by 2010. The operating review of the year highlights our progress towards these goals.

We believe that the strategy has delivered strongly improved profit margins for our shareholders, whilst also positioning the Group for long term growth.

The Group is securely financed and has a strong balance sheet. We are confident that our planned investment requirements over the next two years can be met from existing facilities.

Our balance sheet strategy is based on a number of principles:

- >> operational control of our retail stores is fundamental to us,
- >> we are a prudent organisation and we structure our finances accordingly,
- >> we wish to maintain a strong investment grade balance sheet,
- >> our defined benefit pension schemes' assets and liabilities are effectively part of our balance sheet, and should be managed as such.

Based on these principles and a review of our future operating plans, the Board has concluded that surplus capital of £1bn should be returned to shareholders during 2008 and 2009, with £500m of that delivered in the first 12 months of the programme. Our current intention is to achieve this through a share buyback programme, and we will review progress at the end of the first year of operation. Additionally, we will target progressive dividend growth in the coming two years, over and above earnings growth, in order to bring dividend cover to a level in line with the rest of our sector. Funding for these enhanced returns to shareholders will come from existing cash resources and committed facilities available to the Group.

'Food specialist for everyone' market positioning

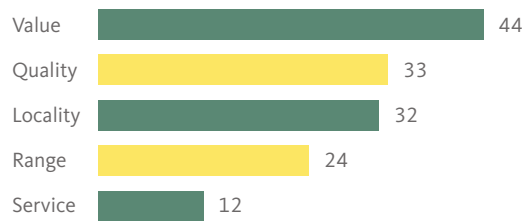
One of the conclusions of the strategic review of the business performed last year, was that customers who knew us liked what we had to offer. They understood the quality and freshness of the offer that is centred on the skills and service in the heart of a Morrisons store, Market Street. The Market Street concept gives a focus to delivering quality food and a high level of customer service.

This, combined with our own packaging and production facilities, helps us to deliver affordable prices. This is why customers who know us, like us.

Market research (see graph) shows that the top two reasons why customers are attracted to the 'big four' supermarkets are for value and quality. Another finding from our research was that consumers who were not our customers knew us for our value offering but were surprised to learn of our in-store expertise and food quality.

In order to become the 'food specialist for everyone', we need to establish these credentials firmly, and our new advertising campaign launched in the summer of 2007, aims to achieve this through the message 'Fresh Choice for You'.

Most important factors for deciding where to shop %



Source: Target Group Index 12 months to March 2007



Who are Morrisons?



We are a Bradford based food retailer with 375 stores across Britain, with our own supply chain and manufacturing sites. Our customers buy in one year:

36 million

Bunches of flowers

50,000

Tonnes of fresh chicken

21,000

Tonnes of fresh beef

8,000

Tonnes of fresh lamb

1 million

Butternut squashes

215,000

Tonnes of potatoes

640

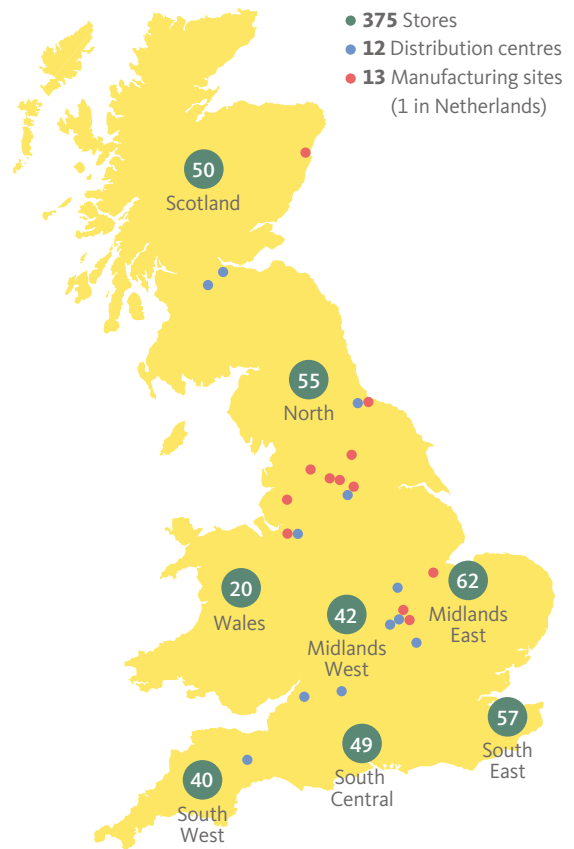
Tonnes of olives

115 million +

Ready meals

115 million

Tins of baked beans



We are one of the UK's largest food retailers
 – 4th by sales
 – 2nd by market capitalisation

117,000

Average number of our employees during the year

10 million

Number of customers currently visiting our stores per week

£13bn

Total annual turnover

11 million

Amount of our retail space (sq. feet)

25,000

Number of people preparing food that we sell



We deal directly with many of our suppliers

The arable farmers who supply us tell us they appreciate the way we buy the whole crop from their fields, rather than some companies who will only buy part. Our livestock farmers are happy too, that we buy whole animals and not just certain cuts.

We also supply ourselves from three bakeries, three abattoirs, and seven packhouses and food production sites. This makes us a Top 5 food producer in the UK.

We deliver to store with our own fleet

We own and manage our own distribution network, moving over 16 million cases of product to stores every week. By owning and operating a very modern fleet, we are able to manage the freshness and quality of the produce and we also have industry-leading turnarounds between order and delivery, being an average of 12 hours. We operate from 12 distribution centres, with over 700 tractor units and 1,800 trailers, covering up to 156 million kilometres per annum in collecting products from our supplier base and delivering to our stores.



We have more people in-store preparing food than any other retailer

Each of our stores has Market Street where you find trained professionals delivering quality product and service. We employ 1,500 butchers, 2,000 bakers, 800 fishmongers. Each butcher has the skill to prepare over 150 different cuts of meat and the bakers know how to bake more than 90 different varieties of bread.

Our customers tell us they love the feel of being in a market in our stores

In research, the areas which clearly stand out about Morrisons offer are the fresh fish, meat and bread areas combined with our approach to great value and great deals through our promotional programme. In addition, we pride ourselves on having industry-leading availability so that customers can get the things they want when they visit our stores. In addition, customers appreciate our specialist customer service which, along with availability, has attracted a Grocer Gold award.



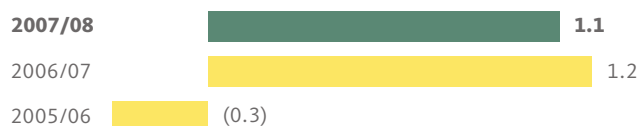
Our key measures

Financial objectives

Our financial objectives are:

- >> sales growth that exceeds the market,
- >> earnings that meet the expectations of our shareholders.

Like-for-like sales (ex-fuel) % growth in excess of market



Adjusted normalised basic earnings per share (pence)



Source: Nielson like-for-like sales growth measurement for 52 weeks to our year end.

Key performance indicators

Our monthly reporting to the Board includes measures that are considered essential to monitoring the performance and development of the Group. These measures have been introduced as new targets for Morrisons to become the food specialist for everyone. A selection of those are shown below and opposite.

Financial KPIs

Measure	2008	2007	2006
Like-for-like sales (ex-fuel)	4.6%	5.2%	2.4%
Underlying earnings per share	14.4p	8.3p	1.7p
Dividend cover	3.0	2.1	0.5
Net debt	£543m	£772m	£1,148m
Capital expenditure	£410m	£269m	£655m
Profit before tax and property income	£580m	£331m	£54m
52 week Grocery market share	12.1%	11.9%	12.5%
Total shareholder value (Morrisons)	204.2	202.8	125.1
Total shareholder value (FTSE 100)	200.7	203.0	180.2

Customer KPIs

We have tracked elements of our customer perception using Hall & Partners brand tracker, to track the effects of our advertising and whether it is working for us. We do not intend to spend our investors' money just for the sake of it, we want to spend it right. Over time, a balance of measures, internal and external, will be developed around the brand values of Fresh, Value and Service.

Change in customer perception from May 2007 to January 2008:

Fresh +13%

Value +5%

Service +18%

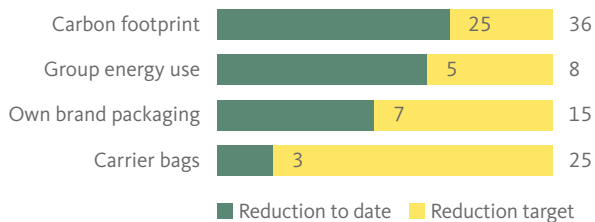
Corporate Social Responsibility KPIs

The CSR agenda is an important topic and it gives us a licence to operate. The environmental programme that we have previously outlined has set three year targets, against which we are making good progress.

Environment

Good progress being made towards our CSR targets:

Reduction targets %



Society

Each year our customers and employees choose a national charity, and through fund raising events aim to raise more than £1m for that charity.

2007/08 Asthma UK

£1.1m

2006/07 Breast Cancer Research

£1.6m

Commitments met

The following commitments have been met during the year:

Business

>> Support British farming through making our meat supplies exclusively British (see page 19).

Society

>> All fresh fish counters certified under the Marine Stewardship Council (see page 19).

>> All own brand tissue paper products certified by the Forest Stewardship Council.

Employee KPIs

Success at Morrisons relies on 117,000 colleagues delivering great service to our customers each and every day.

Employee satisfaction

In 2007, the first colleague attitude survey involving 9,300 employees was conducted. The results were used to help develop Core Employee Values. These are to be rolled out during 2008.

Employee stability



Definitions

Like-for-like sales (ex-fuel)

Store based sales compared with the previous year, excluding the impact of new store openings or store disposals. Also excluded is the impact of major refurbishments and extensions.

Dividend cover

Underlying profit after tax from continuing operations attributable to equity shareholders divided by total value of dividends declared during the year.

Employee stability

Employee stability is a % of leavers against the total number of employees. Employees who have been with the Group for less than 12 months are excluded to remove seasonal and short-term impacts.

Total shareholder value

Total shareholder value is the value of £100 invested in Morrisons shares on 2 Feb 2003 compared to FTSE 100. The increase in value includes any dividend paid. This is measured over the past five years.

Carbon footprint

Carbon footprint is calculated using UK Government Waste Strategy Report Guidelines, as recommended by Defra. The calculations are created in partnership with the Carbon Trust and audited by Enviro Consulting.

Profit before tax and property income

Profit before tax less profit on disposal of property disclose in the income statement line Profits arising on property transactions.

Net debt see Accounting policies page 55.

Normalised earnings per share see note 7(c) page 63.

Our stores

MARKET STREET



We pride ourselves on providing our customers with fresh food just the way they like it.

That's why we have Market Street, where our customers will find fresh food prepared by our expertly trained staff.

At the heart of Market Street is the fresh produce section. Traditional greengrocer methods combined with the chill-chain from lorry to shelf, ensure that fresh produce, in the best condition, is available all day. The greengrocer knows how to handle each product; bananas are hung and melons are in shies to prevent bruising. Many vegetables, such as broccoli stems, are trimmed so our customers only pay for what they want. Our staff are on-hand to give advice and help with selecting ripe produce.

OVEN BAKED

From succulent roast chickens and chicken portions to tasty spare ribs and sausages, everything is cooked in-store and served hot from the oven. Our customers know when our tempting range of pies are ready because we'll ring a bell.



THE DELICATESSEN

A huge range of British and Continental delicacies is available at our deli counter, from cooked meats to olives and cheese, including locally sourced varieties of cheese in certain stores. If our customers fancy something new, or are looking for something special, they can just ask our friendly deli staff. They will be happy to give them a taste before they buy.

Fresh to go...

Our staff make sandwiches, salads and pizzas fresh in-store everyday, using ingredients from in-store. There are up to 24 varieties of salads to choose – from simple potato salad to the more exotic oriental style noodle salad. The pizza toppings are carefully prepared by hand using the freshest in-store ingredients.



Whilst other supermarkets have removed food preparation from their stores to reduce costs, and traditional tradesmen, such as butchers and greengrocers, are disappearing from the High Street, Morrisons Market Street has more people in-store preparing more food than any other retailer. Our supply chain and our own manufacturing sites ensure that the food and produce is offered at competitive prices.

Market Street, a unique retail experience, is central to Morrisons food offer, and sets us apart from other supermarkets. All our fresh food, much of it prepared in-store, is stocked and sold in Market Street. Market Street is centred around our fresh produce section and contains a number of different areas,

each of which has its own sense of personality – ‘shops within a shop’. Each area is staffed with employees who know their trade, giving the feel and service of a traditional market. There is a butcher, a fishmonger, a baker and cake shop where we make fresh cakes. There is an area selling pies and roasted meats fresh from the oven, and an area preparing freshly assembled salads and sandwiches, and freshly topped pizzas as well as a delicatessen full of meats and cheeses. Here every customer can receive advice and assistance about selecting the right food for the right occasion – be it the free range turkey, oven prepared at the Butchers’ counter for Christmas day, or the vegetables for a TV chef’s latest adventurous recipe.



THE CAKE SHOP

Packed full of freshly prepared cakes, doughnuts and all sorts of creamy, sticky delights, the Cake Shop is a must for people who have a sweet tooth. And because our cakes are filled in-store throughout the day, fresh, tasty treats are available all the time that will melt in the mouth.

YOUR FISHMONGER

When we sell any of our fish, it will be filleted and prepared by the people who do this best, the in-store fishmongers. They are on hand all day, every day to advise on the best buys, best choices and best ways to prepare it. They’ll even advise on how and where every fish was caught.



FAMILY BUTCHER

At our Family Butcher customers will find a friendly ‘real’ butcher, able to cut and prepare meat the way customers want it, when it is wanted – the traditional way. The variety of cuts we offer is larger than any other supermarket, so customers are spoiled for choice.



The Bakery

Nothing beats the aroma of freshly baked bread. And that’s exactly what our customers will experience as they approach the Bakery. Our bakers are busy baking bread in small batches throughout the day. This means that whenever a Morrisons loaf is purchased, it’ll have that just-baked freshness.



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Closer to source

At Morrisons we believe that being close to source is something which makes us different. This is especially important in an environment where many customers are asking questions such as ‘where does the food come from?’, ‘are the producers being treated properly?’ and ‘how can we cut down on the resources it takes to get it to me?’.

Our vertical integration had its roots in security of supply and a drive for value for money for our customers. The challenge frequently used at Morrisons was ‘why pay someone else for something you can do yourself just as well?’ In addition, there were occasions where long-standing relationships may have ended if Morrisons had not stepped in to take control of supplying ventures.

In time this became a core part of our strategy where 80% of our own label fresh food is produced from our own plants with product and livestock most likely sourced directly from producers and bought by Morrisons own buyers. In this way we control the quality and provenance and by ‘cutting out the middleman’ can deliver good value to customers.

Start with the source

We are likely to have more direct relationships with our producers than other retailers and we know exactly where the produce comes from. We have some unique practices. Our buyers deal directly with producers, other retailers may deal through wholesalers. We operate ‘whole crop purchasing’ which

means we take what the farmer produces and grade it and sort it ourselves, they are not left trying to offload some of their crop not taken up by other retailers. Our pricing policy allows us to price individual products so, for example, with broccoli we can sell sizes that are often rejected by other retailers. This means the producer can sell their whole crop to us and not just those that are often regarded as cosmetically preferable. We believe this offers producers a fairer deal.

When it comes to livestock, rather than buy finished packed cuts from a wholesaler we work directly with selected farmers and buy those animals which we believe will give us the best cuts of meat. Again, our buyers will have direct relationships with our producers in most cases. We source some (10-20%) of our cattle from auction as we believe this allows smaller farmers to supply us and it allows us flexibility of supply.

All of our produce and livestock comes from farms which hold a relevant quality qualification such as the Farm Assured or Assured Produce Scheme. In addition, we adhere to the Supermarkets Code of Conduct and have our own Buyer’s Charter when dealing with our suppliers.

From source, fresh to Morrisons

With fresh produce we will in most cases take directly from the field to our own produce plants where we wash, grade and pack the produce then transport it in reusable trays to our stores. This can give us a real advantage in the freshness of some of our produce; we can get carrots, for example, from the farm to the store within 24 hours.



From selection --->

Our own buyers deal directly with the producer to either select the livestock we believe is good enough quality or to purchase whole crops of produce which is fairer to the farmer and offers good value and good quality to our customers.

to the packhouse --->

We own our own production process for 80% of our fresh food ensuring that we control the freshness and the quality of what is supplied to our stores. This is true for the vast majority of produce and meat products as well as supplying our own pre-packed bread products from our own bakeries. By cutting out the need for any middlemen we also ensure great value.

We are the only retailer to buy the livestock directly then transport the animals to our own abattoirs. From there the meat is supplied to our stores in primals (large cuts) and then cut in-store by our trained butchers. Otherwise the meat will go to our own meat processing plants to become pies, burgers, sausages and sausage rolls. We are unique in this. It gives us both a control over our own quality and animal welfare as well as, we believe, a cost and value advantage.

Bread from scratch

Not only do we pack our own produce and process our own meat we also bake our own bread. We have three bakeries across the country producing 90 million loaves of bread in 2007/08. We do not rely on third-party bakers, we use our own recipes in our own facilities to bake 90% of Morrisons own label pre-packed bread. We source the flour from top quality mills, we don't grind that ourselves!

Delivered to store with our own fleet

Our own distribution network moves over 16 million cases of product to stores every week, delivering the freshest food daily in the most cost-effective manner. Our turnaround from order to supply in fresh foods is an average of 12 hours which we believe is the best in the industry; our distribution network works very closely with our own production facilities to achieve this.

We have 12 distribution centres, operated by ourselves and by specialist providers, for example, Wincanton and Exel. We have over 700 tractor units and around 1,800 trailers, covering up to 156 million kilometres per annum in delivering to our stores and collecting product from our supplier base. Our network has



delivered to --->

We own and operate a very modern fleet, ensuring freshness and cost control. We manage fresh produce very tightly and we also have industry-leading turnarounds between order and delivery.

undergone a major rationalisation programme in recent years, significantly reducing the number of road miles travelled. Additionally, we have led the way in the introduction of cleaner Euro 5 engines, with 58% of our fleet converted by the end of 2007 (versus the target date of 2009). When compared to the Euro 1 standard of around 15 years ago, these engines emit around 75% less nitrogen oxides and 94% fewer particles.

In-store, vertical integration continues

As you will see from our section on stores, we continue the philosophy of doing the best we can to ensure freshness, quality and value by doing things ourselves when we believe this is best. We fillet our fish, cut our meat, bake fresh bread from the raw ingredients (not 'baked off' frozen dough), finish off cakes, bake doughnuts and griddle pancakes.

Managing the chain ourselves leads to several benefits

We believe that to be the food specialist for everyone we need to provide fresh quality food at great value with great service. By being 'closer to source' i.e. dealing directly with producers and then managing the process ourselves means we manage the freshness and quality and are not reliant on others. It also helps us manage the value; we do not have to pay for a third-party's management, marketing and sales operation, as owning the supply chain means this is not required. In addition to all of this, we ensure that there is the minimum of transportation between sites. In many cases our plants and distribution centres are next to each other, or we can transport directly from plant to store therefore we aim to cut back upon 'food miles'.



all our stores.

The 'doing things ourselves' story continues where we make and prepare more products in-store than any other retailer with more fishmongers, butchers and bakers than anyone else. This enables us to deliver fresh product to our customers every day at great value, helping us to become the food specialist for everyone.

We are Morrisons

“

Our colleagues are vital to delivering our success – to be the food specialist for everyone demands a high level of service and knowledge in all our stores.

”

Success at Morrisons relies on 117,000 people delivering great service to our customers each and every day. That is why we pay so much attention to bringing the best out of our people. Over the last year, we have worked hard to deliver a common set of values which we are now using across our business. Our values set out what we can expect of each other and what our customers can expect of us.

To become the food specialist for everyone involves real commitment from all our employees and it means we have to tap into everybody's expertise across Morrisons from our factories to our food counters, from selecting fruit and vegetables to setting out eye-catching displays. To do this effectively requires real understanding of how to work together and specialist skills from across the business. We have established a core set of values which are at the heart of how we work and help us to pull together as one team.

Core values

A new Group Human Resources Director joined the Group in July 2007 and led the development of our employee communication programme and the Group's values. Working with senior employees, the results of Morrisons first climate survey were evaluated, and compared against our brand values. This led to a series of workshops involving more than 1,000 employees, the output of which is the six core values listed opposite which support our strategy of becoming the food specialist for everyone. The values have their roots in the culture established by Sir Ken Morrison and also reflect the views of customers and colleagues who work in the business today. Our values are being incorporated into every aspect of our business and feature heavily in our performance management, people development and communications process. Together, they will help sharpen our results focus and create a good place to work.

Our core values

Can do

getting things done

Our 'can do' attitude means we keep things simple and to the point, we thrive on a challenge, we get on with the job, we make things happen and we achieve great results.



One team

we work well together

We build trust and respect and share a common goal. It means we help each other out, we always keep our promises and we tell each other what's going on.



Fresh thinking

we're always looking for new and better ways of doing things
We listen to new ideas. We come up with suggestions and we are continuously improving.



Great selling and service

we love to sell and serve
We all have customers wherever we are in the business and we are all here to deliver great service.



Bringing the best out of our people

we're constantly learning and we're always looking to improve on where we are
We grow our own people, helping them progress their careers through the Company. We are enthusiastic and we give our very best every time.



Great shopkeeping

we set the standard in all areas of our business
We pay attention to detail, we take pride in what we do, we guarantee the quality of our products, we aim to waste nothing and we always watch the costs so Morrisons saves money and our customers get a great deal.



We are Morrisons continued



Leadership Academy

We have embedded our values into a new leadership model for the business. A partnership with Bradford Business School has been established to accelerate the development of leaders across the business and help take Morrisons performance to the next level. To support leaders in their development, we have launched a new on-line Leadership Academy. This is a hub for all Leadership Development information, providing access to learning whenever and wherever our leaders need support.

Performance

We have used our values to create a consistent way of focusing performance objectives across the business. All Senior Managers have been trained in the use of this new system which links our vision to the priorities of every Manager in the business.

Training

Delivering Morrisons great shopkeeping standards relies on the best training being delivered to all employees on a consistent basis. Last year, Morrisons delivered over 1.5 million training days. This rigorous approach to training builds real expertise at every level in our organisation whether on a food counter in Market Street or on the factory floor at our Farmers Boy operation. We believe our customers find it helpful to know that the people in Morrisons who prepare and serve their food really know what they are talking about. We are constantly upgrading our skills, most recently refreshing 3,500 employees' merchandising skills. Our track record of excellence in training is illustrated in our award winning People Development programmes. In 2007 Morrisons won the Retail Industry awards for best Store Manager in the UK and the Training Initiative of

the Year. This 'Switching on to Switching off' energy awareness initiative trained more than 100,000 colleagues in energy awareness and carbon reduction. This helped reduce the Group's carbon footprint by 24,734 tonnes and reduce the Group's energy use by 5%.

Employment policies

The Group's comprehensive employment policies cover recruitment, selection, retention, remuneration, education, development and equality. As reported previously, priority had been given to harmonisation of these policies throughout the Group. Focus this year has been on implementing the performance-based pay awards highlighted in the Remuneration report, the implementation of a new staff discount scheme, and on measures that will help to improve retention in general.

A key initiative to harmonise our payroll processes is on track for completion in 2008. Effective involvement and communications during the early stages of this project has ensured its effective delivery.

Employee benefits

In November 2007, a new staff discount scheme was introduced. Every employee qualifies for a 10% discount to a maximum of £650 in any one year. The response to this scheme proves that it is a very popular benefit, and gives employees and their families the opportunity to enjoy the quality of product on offer and at a discounted price.

Employee involvement

Creating a winning team relies on the involvement of everyone in the organisation. Morrisons encourages involvement at all levels

1.5 million

training days in 2007

3,500

managers' training refreshed in our Merchandising standards



through a mixture of consultative committees, forums and feedback groups. For example, in our manufacturing operation, we introduced a feedback process which gave all employees the opportunity to discuss their ideas resulting in significant productivity improvement on our bacon production line. We believe that encouraging all our employees helps to ensure that everyone is committed to delivering great service to our customers because they understand what is important. Great communication is part of living our values and means we work well together across our business. This commitment is reinforced through our Profit Share Scheme which ensures everyone feels a real part of the challenges and successes in the organisation.

Equal opportunities and disabilities

Equal opportunities are offered to all, regardless of race, colour, nationality, religion, sex, marital status, disability or age. All applicants and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and practices. All decisions are based on merit.

The Group gives full and fair consideration to applications for employment made by people with disabilities. The policy is to offer equal opportunity to all disabled applicants and employees who have a disability, or who become disabled during the course of their employment. This applies to recruitment, career development, promotion, training, pay and other employment policies and conditions. A full assessment of the individual's needs is undertaken and, where practical, modifications are made to the work environment or business practices in order to assist those with disabilities.

Growing our own people

Our success in developing and involving employees in building real commitment has produced a strong track record in creating our own talent at Morrisons. 98% of all our Store Managers are home grown which means they really know our business and the needs of our customers. It is a track record we intend to build on. Our involvement and development are also helping to reduce employee turnover and improve stability in the business.

Long service award

Morrisons performance depends on the hard work and dedication of 117,000 employees. Recognising this, we have always placed a high value on the huge commitment that our people make. Each year, in recognition of those employees who have reached 25 years' unbroken service with the Group, we hold special celebratory events. Many of our people begin their careers working in our stores, progressing to senior roles in the Group or simply staying with us because they like the working environment. The long service awards are our way of saying thank you.

1,000 employees consulted on developing our values

10% discount our employees receive every time they shop with us

Chairman's statement

Chief Executive's business review

Operating review

Financial review and risks

Governance

Consolidated financial statements

Company financial statements

Additional information

Taking good care

Corporate Social Responsibility (CSR) strategy

The CSR strategy is aligned with the Group's vision to be the food specialist for everyone and to deliver the brand values of freshness, service and value. It is structured around the three principal areas of environment, society and business. For each area, the relevant stakeholders have been identified and their requirements and needs are considered through engagement. Each issue is assessed in terms of material risk or business opportunity to decide the appropriate action consistent with the Group's responsibilities.

CSR governance

Championed by Chief Executive, Marc Bolland, turning CSR strategy into reality is governed by the CSR Project Team comprising Board Directors and senior operational directors. The CSR Project Team reports regularly to the Board and evaluates and identifies new initiatives, creates targets for operational management and monitors their progress. Each of the three principal areas has a cross-functional steering group chaired by a member of the CSR Project Team. Projects and activities agreed by the steering groups are supported by a number of working groups and delivered by operational management as part of day-to-day business as usual.

CSR report

The full CSR report is available online at www.morrisons.co.uk or by contacting the CSR Team (see inside back cover).

Environment

Taking good care
of the planet

Climate change, waste and sustainability

Our three main commitments are to:

- >> reduce the Group's carbon footprint cumulatively by 36% by 2010 (based on 2005 baseline),
- >> prevent waste, including halving the volume of waste to landfill and using 15% less own-brand packaging by 2010,
- >> source responsibly and sustainably, including by improving local, organic, Fairtrade and in-season ranges.



Recyclopedia

'Recyclopedia' is our own unique labelling scheme for own brand packaging, which helps to increase awareness of which packaging elements can be recycled and where. In November 2007, Recyclopedia won the award for 'Best Supermarket Recycling Initiative' at the prestigious National Recycling Awards.

The 'Recyclopedia' guide has three easy to recognise symbols:

- >> a big grin, for packaging which is 100% recyclable or home compostable,
- >> smiling, for items which are partly recyclable or not recyclable everywhere yet,
- >> not smiling yet, for packaging which is not recyclable yet but we are working on it.

Each symbol incorporates a 'speech bubble' giving information about the packaging components' recyclability and how to find out about local recycling facilities.

Society

Taking good care
of shoppers

Work, neighbours and living

Our three main commitments are to:

- >> be an employer of choice, bringing the best out in our people, enabling them to reach their potential and improving retention and satisfaction,
- >> be neighbourly, by giving to good causes and fundraising for our Charity of the Year,
- >> help encourage a better standard of living by consistently offering quality and value, improving our product ranges and providing useful information to customers.



Bakery apprentice programme

In 2007, our 'Bakery Apprentice Scheme' reached its tenth anniversary. This highly successful programme was specially designed by our in-house training team to provide employees with the craft skills required to become qualified bakers. This nine month, intensive course is one of the largest schemes of its type in the country. For up to eight months, rigorous training and development is conducted within a store bakery production area, where employees learn all aspects of the bakery trade. The scheme also includes four one week sessions of tuition at one of four leading Craft Bakery Colleges, where apprentices receive technical, theory and practical skills in a specialist environment. Upon completion students are awarded with a nationally accredited NVQ level 2 Bakery qualification.

Business

Taking good care
as we go about
our business

Sourcing, supply and engagement

Our three main commitments are:

- >> product stewardship through provenance and food authority to ensure the traceability and safety of food produced and sold,
- >> supply chain integrity through implementation of fair and ethical trading standards and being a decent and loyal customer to our suppliers,
- >> satisfaction for all stakeholders by engaging positively and delivering our promises to them.



100% British sourcing

Support for the British Farming industry is of particular importance to us as we are closer to source than any other retailer. We recognise that we share particular mutual commitments with the British Farming industry and we work hard to fulfil our stated commitment to 'build long term partnerships' with our suppliers.

In November 2007, we were the first of the top four supermarket chains to commit to selling 100% British fresh pork and lamb all year round, having met with key representatives of the industry and listened to their concerns during what had been a difficult time for the British farming industry. In March 2008, we reinforced our support by committing to selling only British fresh beef, whilst all of our fresh and frozen chicken has been 100% British for many years.

Taking good care continued

Environment

Carbon footprint reduction

Our carbon reduction strategy includes the implementation of more than 100 projects aimed at reducing our carbon emissions. During 2007, a total of 115,718 tonnes of carbon has been saved. Since the baseline of 2005 we have made a cumulative reduction of 374,190 tonnes of carbon, which is 70% of our target.

Preventing waste

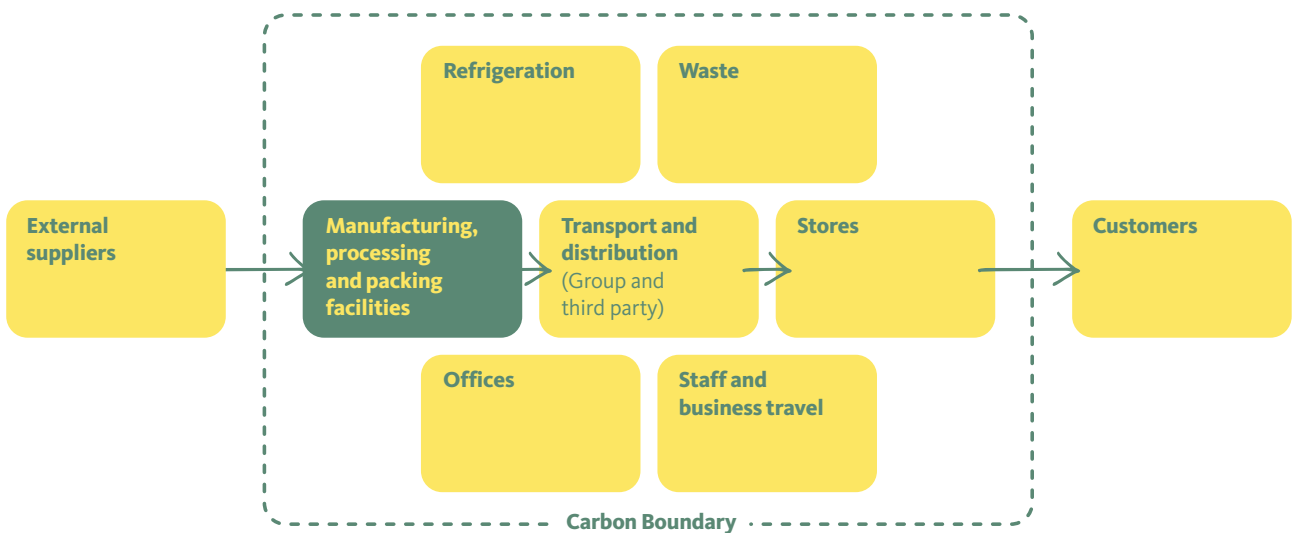
We have achieved 18% of our target to reduce volume of waste to landfill by 50% by 2010. A number of packaging initiatives, including the introduction of 'Prepared for You' packaging for foods freshly prepared in-store, have helped reduce own-brand packaging by 7%. Customer awareness about what can be recycled has been increased through our award-winning 'Recyclopedia' own-brand packaging labelling scheme (see case study on page 18). Our in-house active management of food waste delivers one of the lowest levels of waste in the food retail sector.

Sourcing responsibly

A range of targets including timber from recycled or certified sustainable sources, fish complying with our sustainable sourcing policy, own-brand eggs to be free range, increasing the range of Organic and Fairtrade products, and indicating the country of origin through labelling, have been met, exceeded or have made good progress.

What we include in our Carbon Footprint

A significant point of difference between our Carbon Footprint and that of our competitors is that emissions from our own supply chain of manufacturing, processing and packing facilities are included.



Society

Employer of choice

Our people remain at the heart of our vision and plans and we have worked with employees to clarify the important values for our Group. This is supported by the introduction of an online Leadership Academy for our senior managers and an ongoing communications and engagement strategy. We continue to invest significantly in training and development.

Be neighbourly

We have continued to support good causes with over £577,000 donated during the year. The £1m target set for our Charity of the Year 2007, Asthma UK, was exceeded with colleagues and customers raising £1.1m to help fund vital research projects.

Encourage a better standard of living

The good shopkeeping principles that underpin being food specialist for everyone have achieved further recognition with Customer Service and Availability 'Gold' awards from the Grocer trade magazine. Good progress has been made on labelling own-brand foods with Guideline Daily Amounts (GDAs). Targets were exceeded for increasing Eat Smart and Free From ranges, and good progress has been made in reducing salt and removing hydrogenated fats from our own-brand products.



Fresh sustainable fish

All the fish sold on our fresh fish counters has never been frozen and is sourced from 100% sustainable stocks and caught using the least environmentally harmful fishing methods. In 2007, all of our fresh fish counters were certified under the Marine Stewardship Council Chain of Custody traceability programme to sell products from certified fisheries. This certification ensures that all stages of the supply chain, from catch to counter, are certified.

Business

Product stewardship

The traceability of product and ingredients is paramount for food safety and quality. The successful implementation of a new data system has increased the efficiency and detail of product information that can be accessed easily. The targets set for food safety standards, assurance and responsible sourcing continue to be met. Targets are being extended to cover farm animal welfare policies, pesticide residues monitoring, and enhanced testing of imported products.

Supply chain integrity

In 2007, the Morrison's Ethical Trading Code was implemented with suppliers in Africa, Asia and South America and in 2008 we will be conducting an audit exercise. Long term relationships with suppliers continue to be developed, built on a foundation of continuing compliance with the 'Supermarkets Code of Practice' and the Morrison's Buyers' Charter.

Satisfaction for all stakeholders

Through active participation with specialist interest groups and forums ranging from government initiatives and charitable causes, to specialist CSR forums, we aim to address and meet the needs of key stakeholders.



Closer to source

Operating from two Soil Association registered farms, Acorn Dairy has supplied Morrison's since 2002 with fresh organic milk. Initially supplying our stores in the Darlington area, for the last three years the dairy has supplied our own label 'Jersey' milk nationally and now 'Definitely Yorkshire' milk to all of our stores in the North.

Operating review of the year



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Our programme to freshen-up our stores by rolling out a new look through the estate will be completed by July 2008.

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Market Street – York store, Foss Islands Retail Park

2007/08 was a strong year for Morrisons – we delivered good progress on our long term plans and continued the profit recovery momentum of the previous year. Our debt fell, despite investment for the future.

We opened eight new stores in the year, at Johnstone, Speke, Erskine, Wednesbury, Dundee, Llanelli, York, and Bristol (Hartcliffe). The store in Erskine was a replacement for another store in the town, and at 25,000 square feet was the smallest new Morrisons opened for many years. We are pleased with its initial performance and will be looking for more such sites. Additionally, we carried out a number of extensions of stores, with 13 extensions of retail space and 18 extensions of warehousing space to cope with the growing volumes passing through the stores. We ended the year with 375 stores and a total of 10,835,000 square feet of retail space, growth of 3.0% on the start of the year.

Turnover grew by 4.1% to £13.0bn, a 6.0% increase after adjusting for the effect of a 53-week year in 2006/07. We were pleased that this growth was broad-based, across all regions. Like-for-like store sales, the measure of growth in existing stores, increased by 4.6% with both customer numbers and average basket spend increasing.

	Like-for-like stores	Other	2007/08 Total	2006/07 Total
Sales of goods (£m)	11,065	173	11,238	10,841
Fuel (£m)	2,822	49	2,871	2,706
Total sales inc VAT (£m)	13,887	222	14,109	13,547
Turnover exc VAT (£m)	12,766	203	12,969	12,462
Sales per square foot (£)	20.31	14.11	20.18	19.34
Customer numbers (m)	475	7	482	479
Customer spend (£)	23.07	25.29	23.10	22.53

As in the previous year, the strongest sales growth was achieved in Scotland and the South of England, but it was pleasing also to see growth in the Group's traditional Northern heartland after two challenging years. Our health and beauty department, revamped in 146 stores in 2006/07, showed growth, but not as much as we had aimed for. We are trialling a new, revised format which we believe will yield more positive results. Our home and leisure department showed good growth, albeit this was from CDs and DVDs at low margin. New, broader ranges will be introduced in the coming year. We continued to see strong trends towards customers choosing higher quality, more healthy food – with sales of our Eat Smart range up 35%, the Best up 25% and Organics up 14%.

Our forecourts business is important in attracting traffic to our stores, and we ensure that our pricing is highly competitive. Average unleaded pump prices were 94.88p in the year, compared with 90.04p the previous year. Total litreage grew by 2.9%, a reflection of the traffic growth.

Operating review of the year continued

Summary income statement

	2008 £m	2007 £m	Change £m
Turnover	12,969	12,462	507
Gross profit	818	636	182
Other operating income	30	21	9
Administrative expenses	(268)	(272)	4
Property transactions	32	38	(6)
Operating profit	612	423	189
Finance income and costs	0	(54)	54
Taxation	(58)	(121)	63
Profit/(loss) for the period	554	248	306

With the continued delivery of the Group's Optimisation Plan, first announced in 2006, profit growth significantly outstripped turnover growth. Gross profit increased by 29%, from £636m to £818m, reflecting the benefit of many initiatives detailed further in this Operating review. Administrative expenses have remained flat compared to 2007. Advertising activity has been significantly increased to support the rebranding campaign in the second half of the year, and these additional costs were offset by efficiency savings elsewhere.

After the cost of products, our two biggest costs are store wages costs and distribution costs. In both areas, we continued to make strides to improve our efficiency. Store labour productivity increased by 6% year-on-year, following a 14% improvement in the previous year. The cost to deliver each case through our distribution network reduced by 9.4% year-on-year, with not only financial benefits but also significant environmental benefits in terms of 3.4 million fewer miles travelled.

We were pleased, in the year, to win a number of important industry awards, reflecting great achievements of our colleagues throughout the business. Foremost amongst these were the Grocer Gold Awards for Service and for Availability, the National Recycling Awards for Best Supermarket Recycling Initiative Scheme and the International Wine Challenge with 147 Gold Commendations.

Optimisation Plan progress

Last year, having achieved our initial targets for cost reduction and margin improvement, I outlined a detailed programme for the next stage of development for Morrisons, with the overall aim of becoming the 'food specialist for everyone'. I explained what we mean by this:

Food specialist We really understand food...
 ...we know where it comes from
 ...we pack it and make it in our factories
 ...we make it in our stores
 ...we employ craft skills in every store

For everyone Great food which is also great value
 Great food which is for every day,
 not just special days

We made good strides in the past year in building on our food specialist credentials. In many cases, this has been about showing more clearly to our customers the things that we already do. In some cases, too, we have needed to make improvements. Our meat is butchered the old fashioned way, in-store rather than in a factory, by highly trained butchers. Much of our bread is freshly baked overnight and throughout the day, from scratch using flour, yeast and water. Our award-winning fish bar is laid out fresh every day. Salads are chopped, sandwiches are made, pizzas prepared and cakes topped with cream. This local, fresh preparation, provides a real quality advantage, and was not necessarily being appreciated by all our customers. We introduced new packaging and labelling during the year which clearly shows the products that have been made in-store. And we are undertaking a programme to open up many of the areas of Market Street where food preparation takes place, so that customers can see at first hand what we do.

We previously had work to do to improve our product range. We made strides in the year, with an increase in range from 28,000 to 30,000 lines and the relaunch of over 8,000 lines in total. The work included the removal of all hydrogenated fats, and significant reductions in salt, from our own label ranges. We launched a new range of healthy food for children called 'Kids Smart', designed to be delicious, nutritious and healthy. The fresh fruit in the range, for example, is carefully selected smaller, sweeter varieties of apple and pear. Our programme to tailor each in-store range more closely to the local customer base continued – for example, we now stock a range of Polish products in over 100 stores, and we have successfully trialled local sourcing in a small number of stores. In our dialogue with our customers, we find that they strongly support British agriculture, and we are proud to reflect that sentiment by confirming that we will only stock fresh beef, pork and in-season lamb that is British. We are closer to source than any other major food retailer.

I outlined last year our plans to sharpen our image, with a programme to freshen-up our stores. The new look is rolling out through our estate, and by July 2008 the work will be complete. At this stage, all store exteriors and approximately 140 interiors have been completed. The programme covers the exterior and interior signage of the stores, our filling stations, our trucks and our Market Street counters. The total cost of the work will average less than £0.5m per store, reflecting the care that has been taken to ensure that the new design is cost effective. It has been well received by customers.

Being the food specialist for everyone means not just providing great products but also great value, and that has always been a strength of Morrisons. UK grocery retailing is one of the most competitive retail sectors in the world, and the battle for customers in 2007, as the economy tightened, was hard fought. Morrisons delivers value through having highly competitive base prices and offering a broad range of attractive promotions. These

Fresh choice for you advertising campaign

Background

Morrisons has always been associated with low prices and, particularly, great offers. What Morrisons hasn't shouted about is its high-quality food. This is a perception issue, and a perception issue that has been holding Morrisons back, not just in the former Safeway stores but also in the heartland.

The reality is that every day Morrisons makes and prepares more food fresh in-store than any other supermarket – meat cut fresh in-store every day, fish brought fresh into store having never been frozen, bread baked from scratch every day, sandwiches and cakes made fresh each day – there's a whole fresh food story that consumers are completely unaware of. The objective of the new advertising campaign was simple – get customers and non-customers to appreciate the strength and quality of Morrisons food offering.

The opportunity

Interest in the quality of food and where it comes from is now mass market. As a mass market retailer committed to fresh food, Morrisons has the opportunity to become the 'Food Specialist for Everyone', more 'mass market' than Waitrose, M&S and Sainsbury, more of a 'food specialist' than ASDA or Tesco.

The creative strategy

The new advertising campaign features well known but down to earth shoppers, Denise van Outen, Gabby Logan, Nick Hancock, Diarmuid Gavin, Alan Hansen and Lulu, demanding the freshest food when they go shopping – demands that Morrisons are able to fulfil through Market Street, with each Market Street expert preparing the food fresh and to order.

Results

The new campaign has been instantly successful. Customers have described it as 'a real eye-opener', perceptions of food quality are rising, and the commercial metrics are positive.



Operating review of the year continued



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Our manufacturing businesses will be an important part of delivering our food specialist credentials. Collectively, they rank as a Top 5 UK food producer.

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Rathbones bakery – Wakefield

Our bakeries deliver fresh bread to our stores every day.

are available all week, every week – never less than 1,000 promotions including 100 'buy one get one free'. The sector has also been increasing the number of 'big event' promotions, where eye-catching deals are used to attract customers into the stores – examples in the year were the launch of the final Harry Potter book and the DVD of Casino Royale – where supermarket prices were very significantly below those of high street competitors. Morrisons played its full part in this activity – but for us the best way to provide our customers with value is to offer superb quality products, unique to Morrisons, at great prices. We had real success in the year – we were first to market with Spring Lamb, a wonderful product, sourced from British farmers at fair market rates and offered to customers at a price over 20% below competitors' prices. A number of our Christmas products were rated very highly – our Christmas cake outscored similar products from competitors in taste tests, but at half the price of some. Griffith Park sparkling rose, at £4.99, beat off many champagnes costing over £20 at the Effervescents du Monde awards in France. It was exclusive to Morrisons. This is what being the food specialist for everyone is all about – showing to our customers that great food does not have to be expensive food.

In support of the changes taking place in-store, we launched an advertising campaign in the second half year designed to attract new customers to come and try us. It placed emphasis on our in-store food production and our food provenance knowledge, which we know appeals to customers. Well known, but down to earth, personalities were used in the campaign – Nick Hancock, Denise Van Outen, Diarmuid Gavin, Gaby Logan, Alan Hansen and Lulu – and fresh product featured strongly. We were pleased with the success of this campaign – it told customers things they did not know about Morrisons, and they liked what they heard. We welcomed many new customers into our stores towards the end of the year as a result and, very importantly, they kept coming back.

Our colleagues are vital to delivering our success – to be the food specialist for everyone demands a higher level of service and knowledge in our stores. We believe we are the largest employer of craft skills – butchers, bakers, fishmongers – in the country, and we have 25,000 people employed in producing the food that we sell.

Our 117,000 people are also our customers, and we were delighted to introduce a discount scheme for them for the first time, in November 2007. Given that the weekly food bill represents a significant part of household budgets, this is a key benefit for our staff. Our stability index, a measure of the proportion of our colleagues who have been with us for over one year, improved from 71.3% to 75.7% in the year. This is not yet high enough, and we will continue to implement initiatives to encourage our best staff to stay longer with us. We wish to invest in skills, and take our work where we can be more

Operating review of the year continued

efficient. Our trials of 'self scan' checkouts were successful in the year, and we intend to roll these out to over 200 stores.

I was pleased to complete our senior management team during the past year, with the appointment of new HR, Marketing, and Home and Leisure Directors. Additionally, upon the retirement of David Hutchinson as Production Director we chose not to replace this main Board position, instead creating two separate roles – Manufacturing Director and Distribution Director, both promoted from within. The senior team has come together well around our Optimisation Plan agenda, and I am pleased that we now have a stable and complete team driving the leadership agenda.

The importance to society of large corporations acting responsibly is growing, and Morrisons is determined to play its full part. In 2007 we published our first Corporate Social Responsibility report, which highlighted our activities in this area and set out some ambitious targets for reductions in carbon emissions, energy usage and wastage.

We made good progress in many areas in the past year – overall carbon emissions were down by 25% on 2005 – 70% of the way towards our target of a 36% reduction. This has been achieved by installing new refrigeration in our stores, with less leakage of coolant, by training our colleagues to be more aware of energy efficiency, resulting in a 5.0% reduction in the Group's energy usage, and by beginning to re-equip our vehicle fleet with more efficient engines. Customers are concerned to contribute to the environmental agenda, and improved recycling disciplines can help greatly. In addition to providing recycling facilities at most of our stores, we launched an information campaign called 'Recyclopedia' last year. It seeks to inform customers, through simple graphics, of the recycling options available for the packaging concerned. We were pleased that this initiative won a National Recycling award.

In outlining our Optimisation Plan last year, I highlighted a number of areas where our infrastructure required further investment, in distribution, manufacturing and in systems. In distribution, we successfully opened a new grocery depot in Swindon to serve stores in the South and West, relocating the activity from Tamworth. This saved 2.9 million miles of transportation and allowed us to sell the surplus depot. We have agreed terms for the development of a new regional distribution centre at Sittingbourne, in Kent, and expect this leasehold facility to open in 2010. In manufacturing, the development of our new abattoir in Spalding continued, and it will open fully in the second half of 2008 – by that stage all our fresh beef, pork and in-season lamb will not only be British but also will be processed through our own facilities.

We made progress in completing our chill chain through the manufacturing and distribution businesses, and all products that we wish to chill now arrive at the back door of our stores in chilled condition. In-store, we still have work to do to provide

more chilled space and this programme will continue through 2008 and 2009. Our progress here was slower than we would have wished. Our programme to replace all the major systems in the business got under way in 2007. The first stages involved hardware and software selection and the overall design of the new systems. Hewlett Packard were selected to provide our core hardware and Oracle the software. The first major systems implementation will be a new Group HR and payroll system, which will go live in late 2008 and will be one of the largest and most advanced payrolls in the UK. Thereafter, the programme of systems renewal will run throughout 2009 and 2010.

The overall investment requirements for the Optimisation Plan, outlined last year, are £450m over and above normal capital investment, and the programme will run to 2010. In 2007, only £68m of this was incurred as many of the programmes were in the enabling stages, but investment will accelerate in 2008. We have not changed our estimate of the overall costs.

Outlook

Household budgets are tight, with disposable incomes under pressure and global commodity price rises feeding through to the cost of basic foodstuffs and energy. At the same time, the period of cheap credit has come to an end.

This environment presents an opportunity for Morrisons. Whilst many of our programmes are designed to improve product quality or the overall shopping experience, the great value we offer our customers will be at the forefront of our activity in the year ahead.

We expect to open eight new stores in the coming year, and to extend a further 19 stores with an additional 100,000 square feet of selling space. We are well placed to achieve our target of increasing selling space by one million square feet over three years, and we expect to complete all our other, previously announced, investment programmes as planned.

We have made a promising start to our new financial year, in a market that we know will be particularly challenging. We are well on track towards our goal of being the 'food specialist for everyone'.

In early 2008, Morrisons launched a new format magazine available free in-store for all its customers. This quarterly magazine is packed full of health tips, inspiring food ideas and recipes, and loads of information about what is on offer in-store. This brief extract from the first edition is about the Experts that operate in Market Street.



Everything at the deli is freshly cut and weighed in front of the customer, so they get exactly what they need. Unless, that is, they're in a rush. "The express deli is there for people who want the same quality products without the wait," explains Lorna. "We pre-weigh, package and price it in store so it's

ready for you to take to the till." According to Lorna, it's the "amazing displays, brilliant service and massive choice" that makes Morrisons deli special. The huge range of cheese demonstrates this.

There are more than 50 varieties of fish available at the counter, none of which have been previously frozen. "When we say fresh, we really mean fresh," explains Kurtis. "What we sell depends on what the fisherman's caught recently." Occasionally this means customers might not find a particular variety they're looking for. "If someone's looking for a specific type of fish for a recipe and it's not available – because we don't accept anything that's not straight out of the sea – we'll suggest alternatives that will work just as well."

"We have lots of regulars," explains Liz. "One woman comes in every morning to buy her lunch and frequently tells us how much she loves the takeaway food because 'it's so fresh'. That kind of comment makes my job worthwhile."



Financial review

Income statement

The Group's sales and operating profit performance has been dealt with in the Operating review section of the Chief Executive's business review. This section deals with other aspects of the Group's income statement and its balance sheet and cash flow.

a) Property

There was a small number of individual divestments of surplus, non-retail property, which generated proceeds of £94m and provided a profit on disposal of £32m.

b) Finance income and costs

	2008 £m	2007 £m
Interest payable on short term loans and bank overdrafts	(1)	(5)
Interest payable on bonds	(53)	(60)
Interest capitalised	8	6
Total interest payable	(46)	(59)
Fair value movement of derivative instruments	(7)	(12)
Other finance costs	(7)	(11)
Finance costs	(60)	(82)
Bank interest received	28	8
Amortisation of bonds	8	8
Other finance income	7	5
Net pension interest income	17	7
Finance income	60	28
Net finance cost	-	(54)

The interest payable on bonds dropped to £53m from £60m following the maturity of one bond totalling £250m in August 2007.

Interest receivable increased significantly to £28m, largely as a result of tight capital controls on the business, strong cash flows from improved profitability and the property proceeds.

In addition, the notional interest income on the pension liability increased by £10m reflecting the continued improvement in the schemes' asset position.

c) Taxation

The tax charge in the year of £58m represents a tax rate of 9.5%, which is below a normal rate for the following reasons:

>> The current corporation tax charge of £142m was lower than the charge expected at a 'normal' tax rate, which would have been £184m. This was largely as a result of a tax deduction in respect of a £100m special cash contribution to the Group's pension schemes and also the benefit of final agreement with respect to the brought forward tax position for Safeway.

>> During the period, the Group successfully concluded lengthy negotiations with HM Revenue and Customs (HMRC) over a number of open issues relating to the Safeway Group prior to its acquisition by Morrisons in 2004. The closure of these negotiations has resulted in the Group being able to release prior period corporation tax and deferred tax provisions.

>> An additional contributor to the low effective tax rate was the change of the UK corporation tax rate from 30% to 28%. This change required the Group to recalculate its deferred tax liabilities, resulting in a release of deferred tax provision.

During the year, the Group paid a net £107m of corporation tax to HMRC.

The principal objective of the in-house tax department continues to be to pay the right tax at the right time. We actively engage with the UK tax authorities and aim to be transparent in all of our activities. The Group is predominantly UK based, operates a simple business model, and does not engage in sophisticated tax planning structures.

d) Underlying earnings

Unadjusted basic earnings per share were 20.8p (2007: 9.3p). Underlying basic earnings per share of 14.4p (2007: 8.3p) has been computed by removing property gains and net pension interest income from profit before tax for the period and is adjusted for a normalised tax charge (note 1 page 59).

Balance sheet

a) Summary balance sheet

	3 February 2008 £m	4 February 2007 £m	Change £m
Property assets	6,687	6,602	85
Current assets and liabilities (excluding debt)	(1,135)	(1,082)	(53)
Deferred tax	(424)	(478)	54
Net pension liabilities	(68)	(198)	130
Provisions	(139)	(145)	6
Total before net debt	4,921	4,699	222
Net debt	(543)	(772)	229
Net assets	4,378	3,927	451

b) Net debt

During the year, the outstanding amount of net debt fell from £772m to £543m. This reduction in debt levels was a consequence of the improving profit performance of the business and lower levels of capital investment than we originally anticipated. It is stated after making an additional contribution of £100m into the Group's pension schemes.

The bonds, acquired with the Safeway acquisition in 2004, constitute the major component of borrowings within net debt. The next bond repayment is due in April 2010. Outstanding loan notes amounting to £2m will mature in 2008 and will be repaid from operational cash flow.

The Group entered into a new revolving credit facility in September 2007 with eight banks providing committed facilities of £1.1bn for five years. At the balance sheet date the facility was undrawn. With this facility and the bonds the Group now has available committed facilities of £1,800m (2007: £1,450m) maturing between 2010 and 2018.

There are financial covenants in relation to the revolving credit facility, based on the level of consolidated net borrowings to EBITDA, and interest cover. The Group continues to comply with these financial covenants.

c) Pensions

Pension deficit bridge

	£m
Net pension deficit at 4 February 2007	(198)
Funding above annual service cost	148
Interest cost greater than asset return	(95)
Strengthening longevity assumptions	(127)
Higher discount factor	122
Impact of triennial valuation	70
Other	12
Net pension deficit at 3 February 2008	(68)

During the year, a review of the two defined benefit pension schemes was completed. The review also incorporated the triennial Safeway actuarial valuation of 1 April 2007. Among the principles agreed between the Group and the Trustees of both schemes were funding, actuarial assumptions and investment strategy. These principles are:

- >> two additional contributions of £100m each (£75m Safeway and £25m Morrisons) to be made – one in 2007/08 and one intended to be made in 2008/09 to eliminate the IAS 19 deficit,
- >> funding will be set on an IAS 19 basis,
- >> prudent longevity assumptions based on most recent actuarial evidence,
- >> over exposure to equity will be reduced and investment management fees reduced through moving to passive investment management,
- >> disposal of certain investments inconsistent with the Group's view of balance sheet risk.

The funding contributions during the year were those agreed as part of previous funding plans, which gave contributions over service cost of £48m, plus the additional contribution of £100m (split £75m Safeway scheme and £25m Morrisons scheme) being the first of two instalments designed to eliminate the deficit.

Volatility in the capital markets caused changes to the IAS 19 asset and liability measurements. The implied real discount rate (the difference between inflation and the discount rate) has increased by 20 basis points, reducing the liability by £122m. Offsetting this, the return on assets would normally more than cover the unwinding of interest in the present value calculation. This year, with the downturn of the equity markets at the end of 2007 and early 2008, any gains or returns on assets were eliminated, leaving a net interest cost of £95m.

In agreeing the valuation assumptions for both schemes, the Trustees and the Group agreed that the long cohort adjustment to the mortality tables used was the most appropriate to ensure a period of improvement consistent with a liability of a long duration. This is consistent with the latest views expressed by the Pension Regulator in a recent discussion paper. The effect is to assume an additional 3.6 years' life for a male currently aged 45, compared with the assumption made in the prior year.

The key financial risks to the pension schemes are:

- >> investment risk – changes in bond yield rates and fluctuations in the equity markets,
- >> further longevity risk which ultimately rests with the Group to fund.

The Group Treasurer attends the Investment Sub-committee of the pension schemes and represents the views of the Group to the Trustees.

d) Provisions

The property provision of £110m (note 22 page 74) includes £73m for onerous leases relating to sublet properties to cover the shortfall between expected rent received and the rent payable, taking into account the vacant tenancy periods during the terms of the lease. The provision assumptions were reviewed in the last quarter in the light of worsening economic conditions, and the prospective Government legislation which will reduce rates relief on vacant properties from April 2008, to establish the best estimate of liability. This resulted in increases to the provision of £8m and £6m to address each of these respective issues.

The restructuring provision of £29m (note 22) includes £20m for ongoing activity associated with the 2007/08 rebranding initiative described in the Chief Executive's business review. This programme will be complete by July 2008.

Financial review continued

Cash flow

a) Summary cash flow statement

	2008 £m	2007 £m	Change £m
Cash generated from operations	756	704	52
Interest and tax	(127)	(109)	(18)
Disposal and divestment proceeds	94	158	(64)
Capital expenditure	(402)	(257)	(145)
Share issues and dividend	(91)	(93)	2
long term cash on deposit	(74)	-	(74)
Repayment of loans	(269)	(263)	(6)
Net (decrease)/increase in cash	(113)	140	(253)

b) Operating cash flow

The Group generated an increasing level of cash flow from operations of £756m driven from improved operational efficiency and after funding additional contributions of £100m to the two pension funds. The overall working capital cash impact was neutral as the business required an increased level of stock to support higher sales in the last quarter, along with a commensurate increase in trade creditors.

The Group adheres strictly to the payment terms agreed with its suppliers, and at the year end the average creditor days outstanding was 34, compared to 31 days in the prior year.

c) Disposals and divestment proceeds

Proceeds of £94m on disposal of properties were lower than in the previous year as the process of disposing of stores acquired with Safeway that did not fit Morrisons operating model largely completed in 2006/07. In the year under review the proceeds were realised from a surplus depot, surplus land and two replaced stores.

The capital expenditure programme was fully funded from cash flow. It included the opening of eight new stores, compared with four in the previous year, as well as the fitting out of the new Swindon depot and the acquisition and development costs of the new Spalding abattoir planned to open in the second half of 2008.

Principal risks and uncertainties

Like all businesses, our business faces risks and uncertainties that could impact on the Group's achievement of its objectives. Risk is accepted as being a part of doing business and within the Group, responsibility for risk management and internal control lies with the Board. Through the application of reasoned judgement and consideration of the likelihood and consequence of events, the Board believes a successful risk management framework will balance risk and reward.

The list below sets out the most significant risks to the achievement of the Group's business goals. The list does not include all risks that the Group faces and it does not list the risks in any order of priority.

Business strategy

In the long term, effectively managing the strategic risks that the Group faces will deliver benefits to all our stakeholders. The Board understands that if the strategy and vision are not properly formulated or communicated then the business may suffer.

The CEO has led the development of the strategy with other senior executives, and this is detailed in the Operating review on page 24. The Board has considered and approved the strategy, takes time each year to review it, and continues to monitor its delivery.

To ensure that our strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, employees, suppliers and other groups. This continual process helps to ensure that the strategy remains relevant and improves the likelihood of success.

Financial and Treasury

The Group's financial results may be subject to volatility arising from movements in commodity prices, foreign currencies, interest rates and the availability of sources of funding. See note 19 on page 68.

Product quality and safety

We recognise that the quality and safety of our products is of critical importance to us and that any failure in this regard would affect the confidence of our customers in us. We work with our suppliers to ensure the integrity of the products supplied. Also, as a manufacturer of food products, we have established strict standards and monitoring processes to manage the risks associated with food safety throughout our Group and its supply chain. Food hygiene practices are taken very seriously throughout our Group, and are monitored both through internal audit procedures and external bodies such as environmental health departments. We have well prepared procedures for crisis management in order to act quickly when required.

In March 2007, Morrisons and other supermarkets were supplied with contaminated fuel that was subsequently sold to customers through our petrol forecourts. Once we became aware of this we moved quickly to replace the contaminated fuel, compensate the 4,500 affected customers and resume normal business.

In August 2007, a number of cases of E. coli were detected in the Paisley area of Scotland, and circumstantial evidence suggested that the source may have been the delicatessen counter of one of our stores. As a precautionary measure, the counter was closed and stringent checks of products, equipment and personal

hygiene were undertaken. These tests revealed no evidence of contamination.

We are aware that if we fail or are perceived to fail to deliver, to our customers' satisfaction, the expected standards of quality and safety in our products this has the potential to impact on their loyalty to us. This in turn could adversely impact on our market share and our financial results.

Regulation

The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, staff and other stakeholders and the operation of an open and competitive market. These regulations include food hygiene, health and safety, the handling of hazardous materials, data protection, the rules of the stock exchange and competition law. In all cases, the Board takes its responsibilities very seriously, and recognises that breach of regulation can lead to reputational and financial damage to the Group. There is clear, ultimate accountability with Directors for compliance with all areas of regulation.

In September 2007, the Office of Fair Trading (OFT) issued a Statement of Objections concerning the pricing of milk and other dairy products during 2002 and 2003. It accused a number of the largest grocers at that time, and a number of producers, of colluding to increase the prices paid by consumers for such products. One of the accused companies was Safeway, which at the time of the alleged collusion was an independent company. Based on the evidence available, we concluded that Safeway, now owned by Morrisons, had infringed the Competition Act along with others at that time. We therefore agreed to co-operate fully with the OFT and to settle the liability in respect of Safeway at £10.7m. In its Statement of Objections the OFT also accused Morrisons of colluding to increase milk prices in 2002, and in this case the Board has objected strongly to this accusation. The evidence put forward by the OFT is, in our view, weak and contains a number of basic factual inaccuracies. We also regret that the OFT made these and other accusations publicly and in doing so generated misleading, inaccurate and sensationalist publicity that has damaged Morrisons reputation. For this reason, not only have we submitted a robust defence but also, with regret, we have commenced proceedings in the High Court for a judicial review of the OFT's actions and for defamation. Given the strength of our case, the Directors do not consider it appropriate to accrue for any potential fine which the OFT may have proposed to levy.

Corporate Social Responsibility

In line with our commercial objectives we have identified three areas, Environment, Society and Business where by 'doing the right thing', we protect valuable resources, meet demand for sustainable products and make our business more efficient. Morrisons is committed to taking good care and if we fail to

meet our commitments this could damage our reputation and potentially lose the trust of our stakeholders.

Therefore, reporting to the Board is a cross functional steering group of senior executives that ensure that the appropriate management, evaluation and verification systems are integrated into operational management activities. Delivery against targets and key performance indicators is regularly monitored and reported. Further information is available in our Corporate Social Responsibility summary on page 18.

Business interruption

Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading in our stores. If a major incident occurred to this infrastructure or another key facility this would have a detrimental impact on the business's ability to operate effectively.

To reduce the chances of this happening and also to reduce the impact of such an event if it were to happen, we have developed recovery plans and invested in the creation of a remote IT disaster recovery site. In addition, to further minimise any possible disruption to our business the Group Finance Director is leading a project to increase the resilience and readiness of our critical processes.

Stores

The business is growing the size of its retail space, modernising and extending existing stores and facilities. In this context there is a possibility that the business fails to deliver an acceptable return on this investment or that there is damage to the business's reputation if this is not done in a safe and timely manner. The business mitigates against these risks through:

- >> a property strategy that develops stores to a well proven format,
- >> the application of a formal capital approval process,
- >> long-standing relationships and agreements with contractors known to achieve required quality, safety and cost standards.

Systems and infrastructure

The acquisition of Safeway in 2004 and its subsequent integration with the core business has been a challenge for the business. The Board has identified that existing systems do not provide the level of reporting or control that is required and has approved plans for a significant investment in new IT systems.

As with all similar organisations, the business has a capacity to absorb a level of change without this having a detrimental impact on continuing business operations.

There are significant change programmes within the Group. These have been structured and are governed in a manner that allows the Board to monitor the change occurring within the Group and to deliver successful outcomes.

Board of Directors

- 1 Sir Ken Morrison CBE
- 2 Marc Bolland
- 3 Mark Gunter
- 4 Martyn Jones
- 5 Roger Owen
- 6 Richard Pennycook
- 7 Sir Ian Gibson
- 8 Brian Flanagan
- 9 Paul Manduca
- 10 Susan Murray
- 11 Nigel Robertson



Executive Directors

1 Sir Ken Morrison CBE

Chairman (retired 13 March 2008)

Sir Ken Morrison CBE (aged 76) has been with the Group, which bears the name of his father, since finishing national service in 1952 and was Chairman and Managing Director from 1956 to 1997 at which time he relinquished the Managing Director's role. During his period in charge, the Group has grown from a small market trader to one of the leading superstore operators in the country. Sir Ken was awarded the CBE in 1990 and knighted in the 2000 New Year's honours list for services to the food retailing industry. He is the Chair of the Nomination Committee.

2 Marc Bolland

Chief Executive

Marc Bolland (aged 49) joined the Group on 1 September 2006 as Chief Executive Officer from Heineken NV, based in the Netherlands, where he was most recently Chief Operating Officer and executive board member. He held a number of senior roles at Heineken over the last 20 years, including having responsibility for the brand and marketing strategies. He is also currently a Non-Executive Director of Manpower Inc.



3 Mark Gunter**Group Store Operations Director**

Mark Gunter (aged 49) joined the Group in 1986 as a Store General Manager. In 1993 he was appointed Regional Director and subsequently Stores Director in 1999. He was appointed to the Board of the Group in 2000 as Store Operations Director with additional responsibility for retail operations, retail fuel, retail projects and Company-wide security. Prior to joining Morrisons, he gained wide experience in UK food retailing, which included working at Iceland, Fine Fare, Tesco, Argyll Foods and Asda.

4 Martyn Jones**Group Trading Director**

Martyn Jones (aged 49) joined the Group in 1990 as Trading Manager for frozen foods before being promoted to Trading Operations Director in 1993. He was appointed Grocery Director in 1997 and then Senior Trading Director in 2002. He was appointed to the Board of the Group on 8 March 2007.

5 Roger Owen**Group Property Director**

Roger Owen (aged 59) has been with the Group since 1975 and was appointed Building and Services Director in 1979. He joined the Board in 1987 as Property Director and has full responsibility for site acquisition, construction and estate management.

6 Richard Pennycook**Group Finance Director**

Richard Pennycook (aged 44) joined the Group as Group Finance Director in October 2005. He is a qualified accountant and a member of the Society of Turnaround Professionals. Prior to joining the Group, he was the Group Finance Director of RAC Plc, the quoted specialist motoring and vehicle management company. He has been involved as Finance Director in turnarounds of H P Bulmer Holdings PLC, Welcome Break Holdings Ltd and Laura Ashley Plc. Other previous roles include Finance Director of J D Wetherspoon plc and various senior positions in Allders plc.

Non-Executive Directors**7 Sir Ian Gibson****Deputy Chairman (appointed Chairman 14 March 2008)**

Sir Ian Gibson (aged 61) joined Morrisons as Non-Executive Deputy Chairman in September 2007. He is also Non-Executive Chairman of Trinity Mirror PLC. Previous Board appointments include Chairman of BPB PLC, Deputy Chairman of Asda Group PLC, and a Director of Chelys Limited, GKN PLC, Greggs Plc, Northern Rock Plc, and a member of the Court of the Bank of England. Sir Ian enjoyed a distinguished 30-year career in the motor industry, most recently as President of Nissan Europe.

8 Brian Flanagan

Brian Flanagan (aged 55) was appointed to the Board as a Non-Executive Director in July 2005. He is a member of the Audit, Nomination and Remuneration Committees. He is also a Non-Executive Director of The Financial Services Authority and Personal Navigation Systems Limited. Previously he has worked for the Mars Corporation for 26 years and possesses a broad international business experience. He has held senior management positions in finance, information systems, manufacturing, purchasing and was, most recently, the global Vice President of Business Transformation for Mars inc.

9 Paul Manduca**Senior Independent Director**

Paul Manduca (aged 56) was appointed as a Non-Executive Director in September 2005. He is a member of the Audit, Nomination and Remuneration Committees and is the Chair of the Audit Committee. He is also a Director of Aon UK Limited, Development Securities PLC, JPMF European Fledgling Investment Trust Plc, JSC KazMunaiGas Exploration Production Plc, Henderson Diversified Income plc as well as other companies. Until recently he was the Chairman of Bridgewell Group plc. Prior to that, he was the Global CEO of Rothschild Asset Management Limited and a Director of Deutsche Asset Management Limited.

10 Susan Murray

Susan Murray (aged 51) was appointed as a Non-Executive Director in July 2005. She is a member of the Audit, Nomination and Remuneration Committees and became the Chair of the Remuneration Committee from 20 October 2005. Currently, she is a Non-Executive Director of Compass Group plc, SSL International plc, Enterprise Inns plc, Imperial Tobacco Group Limited and Littlewoods Stores Limited.

11 Nigel Robertson

Nigel Robertson (aged 48) joined the Group as a Non-Executive Director in July 2005. He is a member of the Audit, Nomination and Remuneration Committees. Most recently he was the Chief Executive Officer of Chelsea Stores Holdings Ltd. He was previously the Managing Director of Ocado, the online grocery shopping business set up in partnership with Waitrose. Prior to this he held senior positions in Marks and Spencer Group PLC both in the UK and USA.

Corporate governance report

Combined code

The Board has prepared this report with reference to the UK Combined Code of Corporate Governance issued by the Financial Reporting Council as revised in June 2006. Throughout 2007/08 the Group has complied with the provisions set out in Section 1 of the Combined Code, with exceptions noted below, and applied the principles of the Code as described below.

In recent years, there have been significant developments in the Group's corporate governance structure. Since the acquisition of Safeway in 2004 the composition of the Board has changed significantly. Progress in the establishment of principles of best practice relating to governance has been and continues to be made.

During the year:

- >> membership to and the roles of the Executive Board, Property Board and Manufacturing & Distribution Boards were revised and formalised,
- >> the Group Marketing and Communications Director and Group HR Director were recruited to the top team,
- >> the Audit Committee has had regular reports on the status of internal control across the Group from the newly formed internal audit function.

Throughout 2007/08 the Group has complied with the Combined Code, except in the following areas:

Combined code provisions	Status	Explanation
A.3.2 – at least half the Board, excluding the Chairman, comprise independent Non-Executive Directors	At the beginning of the year there was one more Executive Director than Non-Executive Directors	As reported last year, the Board is committed to ensuring that independent Non-Executive Directors comprise at least half the Board during 2008
C.3.1 – at least one member of the Audit Committee has recent relevant financial experience	The current Audit Committee does not have a member with recent relevant financial experience	This is being addressed as part of overall Board composition and the previously reported arrangements remain in place to ensure the satisfactory operation of the Audit Committee.
C.3.4 – there are arrangements in place for the staff to raise concerns in confidence	Comprehensive whistle-blowing procedures did not exist throughout the period	Whistle-blowing procedures that include adequate reporting to the Audit Committee were introduced in February 2008

The Board

a) Membership

On 3 February 2008 the Board comprised a Chairman, five Executive Directors and five Non-Executive Directors. With the retirement of the Chairman and the planned recruitment of an additional Non-Executive Director, at least half of the Board will ultimately comprise of independent Non-Executive Directors. Details of appointments, roles and backgrounds are provided on page 34.

On 1 September 2007, Sir Ian Gibson joined the Group as Non-Executive Deputy Chairman. With the assistance of the Chairman and Company Secretary he has completed a period of induction where he met with the Directors and senior executives from across the Group, and visited stores and other operations across the business.

The role of the Deputy Chairman is a temporary role prior to succeeding Sir Ken Morrison as Chairman of the Group. The division of responsibilities between the Chairman and the CEO has been set out in writing by the Board.

b) Performance evaluation

In February 2007, an independent assessment was conducted to evaluate the performance of the Board, its committees and its Directors. The results of this were presented to the Board in March 2007. This confirmed that Board members felt that good progress had been made, and that the Board was embracing the right

programme of work to ensure further improvements in its effectiveness.

This assessment was followed up with another evaluation carried out in December 2007. The Board conducted this evaluation without external assistance through the use of a questionnaire, based on the independent assessment. The questionnaires were sent to all Directors and the responses were reviewed by the Chairman and the Company Secretary, and a report of findings was discussed by the Board. The Board was satisfied with its performance and it was agreed that action would be taken in those areas for which it believed improved processes could be introduced.

c) Senior Independent Director

Paul Manduca as the Senior Independent Director (SID) is available to shareholders as an alternative to the Chairman, CEO and the Group Finance Director. The SID ensures that he is available to meet shareholders during the year and reports any relevant findings to the Board or Chairman. He also chaired the Nomination Committee when it was considering the recruitment of the Deputy Chairman.

d) Non-Executive Directors

The Non-Executive Directors provide a varied range of skills and experience to the Group. The Board is satisfied that Sir Ian Gibson was independent at the time of appointment and all other Non-Executive Directors remain independent as defined by the Combined Code.

- >> has been employed by the Group within the last five years,
- >> has had a material business relationship with the Group within the last three years,
- >> receives remuneration other than Directors' fees,
- >> has close family ties with any of the Group's advisors, Directors or senior employees,
- >> holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies,
- >> represents a significant shareholder,
- >> has served on the Board for more than nine years.

All Non-Executive Directors fulfilled the commitment of their engagement letters to provide a minimum time commitment based on one day per month attendance of meetings, attendance at the Annual General Meeting (AGM), Board away days and site visits, plus adequate preparation time. No Non-Executive Directors hold other positions that mean that they will not be able to fulfil these commitments or contribute to the governance and operations of the Group.

e) Board responsibilities

The Board is responsible for setting and approving the strategy and key policies of the Group, and for monitoring the progress towards achieving these objectives. It monitors financial performance, critical operational issues and risks. The Board also approves all circulars, listing particulars, resolutions and correspondence to the shareholders including the Annual report, half yearly financial report and interim management statements. The formal schedule of matters reserved for the Board remains unaltered and further details are available in the Investor Relations section of the Group's website www.morrisons.co.uk.

Operating Boards

The CEO has restructured the previous Executive Board and other Operating Boards into three bodies. The CEO and the Group Finance Director are members of all the following:

a) Executive Board

The Executive Board comprises four Executive Directors who oversee the day-to-day direction of the retail business. The Executive Board has met 16 times through the year. Examples of the matters brought to the Executive Board include store and product performance, brand management, food safety, marketing initiatives and the Group's corporate social responsibilities.

b) Property Board

The Property Board consists of four Executive Directors and has met monthly since its formation. This Board has oversight of the strategic development and operational management of the Group's property. Matters brought to this Board include development of new stores and facilities, refurbishments and extensions.

c) Manufacturing & Distribution Board

The Manufacturing & Distribution Board comprises two Executive Directors, the Manufacturing Director, the Distribution Director plus three other senior executives. This body has met monthly and

considers the strategic development of the Group's manufacturing and distribution functions.

Committees of the Board

The principal committees of the Board are the Audit, Remuneration and Nomination Committees.

Name	Committee membership		
	Nomination	Audit	Remuneration
Marc Bolland	X		
Brian Flanagan	X	X	X
Sir Ian Gibson	X		X
Paul Manduca	X	X	X
Sir Ken Morrison	X		
Susan Murray	X	X	X
Nigel Robertson	X	X	X

The Directors attended the following numbers of Board and Committee meetings:

	Board	Nomination	Audit	Remuneration
Number of meetings	16	5	6	12
Marc Bolland	16/16	5/5		
Brian Flanagan	15/16	5/5	5/6	11/12
Sir Ian Gibson	4/5	1/1		3/4
Mark Gunter	16/16			
David Hutchinson	7/8			
Martyn Jones	13/14			
Paul Manduca	15/16	5/5	6/6	9/12
Sir Ken Morrison	15/16	4/5		
Susan Murray	16/16	5/5	6/6	12/12
Roger Owen	15/16			
Richard Pennycook	16/16			
Nigel Robertson	14/16	5/5	4/6	10/12

The Company Secretary organises the appropriate level of insurance cover for Directors to defend themselves against legal claims and civil actions. The level of cover is currently £50m in aggregate.

a) Nomination Committee

The current membership of the Nomination Committee is shown in the table above detailing Board and Board committee membership. Sir Ian Gibson was appointed as a member on 17 September 2007.

During the year, the Committee put forward, for approval by the Board, the appointment of Martyn Jones as Group Trading Director and Sir Ian Gibson as Non-Executive Deputy Chairman. Martyn Jones was appointed to the Board on 8 March 2007, and Sir Ian Gibson on 1 September 2007.

The activities of the Committee are focused on recruiting a Non-Executive Director with recent and relevant financial experience. The executive search agency, Egon Zehnder, is employed to identify candidates which the Nomination Committee shortlists. Interviews are conducted by the Nomination Committee and meetings organised with other Executive Directors if appropriate, before a recommendation is made to the Board.

The Committee's terms of reference are subject to an annual review and are available on request, and on the Group's website www.morrisons.co.uk.

Corporate governance report continued

b) Remuneration Committee

The current membership of the Remuneration Committee is shown in the table above detailing Board and Board committee membership. Sir Ian Gibson was appointed as a member on 17 September 2007. The Committee's terms of reference are subject to an annual review and are available on request and on the Group's website www.morrisons.co.uk.

During the year, the Committee has continued to reshape remuneration packages to make them more performance related and to ensure the Group's ability to recruit, retain and motivate high calibre senior executives. This has included the introduction of a competitive suite of annual and long term incentives. The Long Term Incentive Plan 'LTIP' was granted approval at the AGM in May 2007. The initial grant under the LTIP was made on 24 May 2007.

During the year, the Committee received advice from its appointed advisers New Bridge Street Consultants LLP (NBSC) on all remuneration related matters, Jardine Lloyd Thompson in respect of pensions, and Ashurst in respect of Executive Directors' contracts. Since his appointment in June 2007, the Group Human Resources Director has also materially assisted the Committee in its deliberations.

During the year, NBSC and Hay Group provided advice on incentive arrangements for staff.

c) Audit Committee

The Board has delegated, to the Audit Committee, the responsibility for reviewing on its behalf:

- >> the integrity of financial reports,
- >> the effectiveness of the Group's internal control and risk management systems,
- >> the independence of the external auditors.

The Audit Committee's remit has not changed during the year. Full terms of reference are available on request and on the Group's website www.morrisons.co.uk.

The Audit Committee regularly considers the professional development needs of its members, and whether adequate technical information is being provided. Where necessary it will seek independent external advice at the Group's expense, with such arrangements made through the Company Secretary. Whilst the Audit Committee remains short of a member with recent and relevant financial experience, the Company Secretary has retained, at the request of the Audit Committee Chairman, the services of PricewaterhouseCoopers LLP to advise the Audit Committee at relevant times during the year.

There has been no change in the composition of the Audit Committee during the year and the roles of the members also remain unchanged. The Chairman, the CEO, the Group Finance Director, the Head of Risk and Internal Audit and other finance department representatives have attended meetings by invitation.

i) Overview of actions taken by the Audit Committee in discharging its duties

The Committee has received and reviewed reports and presentations from senior management to fulfil its terms of reference. To meet its responsibilities in this respect the Committee considered:

- >> interim and preliminary results announcements and interim management statements,
- >> the accounting principles, policies and practices adopted in the Group's financial statements,
- >> the potential effects of tax and pensions accounting and other significant judgmental and complex accounting issues dealt within the accounts,
- >> the impact of litigation and contingent liabilities on the Group.

The Audit Committee oversees the Group's relationship with the external auditors. To fulfil its responsibilities in respect of the independence and effectiveness of the external auditors, the Committee reviewed:

- >> the terms, areas of responsibility, duties and scope of the external auditors as set out in the engagement letter,
- >> the external auditors work plan for the Group and its subsidiaries,
- >> the audit fee and the extent of non-audit services provided by the external auditors.

The Committee reviewed the letter from KPMG Audit Plc confirming its independence and objectivity. The Board has a policy on the engagement of the external auditors to supply non-audit services, and the Committee reviewed the scope of non-audit services provided by the external auditors to ensure that there was no impairment of objectivity. Private meetings are held with the external auditors, without management present. The purpose of these meetings is to understand their views on the control and governance environment and management's effectiveness within it.

ii) Internal control

The Board is responsible for setting a system of internal control for the Group and reviewing its effectiveness. The control system is intended to manage rather than eliminate the risk of not meeting the Group's strategic objectives. Any such system can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board delegates to the Audit Committee the review of the effectiveness of the Group's internal controls and risk management systems. During the year the Committee did this by:

- >> receiving and considering regular reports from the internal audit function on the status of internal control and risk management systems across the Group. The Committee also reviewed the department's findings, annual plan and the resources available to it to perform its work,
- >> reviewing the external auditor's management letters on internal financial control,
- >> seeking reports from senior management on the effectiveness of the management of key risk areas,

- » monitoring the adequacy and timeliness of management's response to identified audit issues.

Specific matters that were considered by the Committee or the Board included the supply of contaminated fuel, and the temporary closure in Paisley of one store's delicatessen counter. In both cases the business moved quickly to reduce the effect on our customers and to resume normal business.

During the year, the Head of Risk and Internal Audit made recommendations to the Board that introduced a regular process of formal risk assessment as an integral part of planning and review for business operations and major projects. These recommendations were accepted by the Board. To support the Board's review, the Head of Risk and Internal Audit is introducing to the Group a new, formal and continual process for identifying, evaluating and managing the significant risks faced by the business.

The Board is satisfied that a continual process for identifying, evaluating and managing significant risks has been in place for the financial year and up to the date of this Annual report. To date, no material financial problems have been identified that would affect the results reported in these financial statements. The Board confirms that if significant failings or weaknesses had been identified during this review the Board would have taken the necessary steps to remedy them.

Shareholder relations

The CEO and the Group Finance Director meet regularly with analysts and institutional shareholders. The Investor Relations Director also maintains a programme of work that reports to the Board the requirements and information needs of institutional and major investors. This is part of the regular contact that the Group maintains with its institutional shareholders. All Directors, Executive and Non-Executive attend the AGM. The Chairs of the Audit, Nomination and Remuneration Committees are available to answer any questions. Additionally, the Group's brokers sought independent feedback from investors following the annual and interim results in 2007. This feedback was reported to the Board.

Directors' remuneration report

The Group is required by the Companies Act 1985 to prepare a Directors' remuneration report for the 52 weeks ended 3 February 2008 and put that report to a shareholder vote. A resolution to approve this report will be proposed at the Annual General Meeting (AGM) of the Company to be held on 5 June 2008.

The auditors are required to report on part of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

The members of, and advisors to the Remuneration Committee are laid out on pages 37 and 38 of the Corporate governance report in the section titled Remuneration Committee.

Remuneration policy

Two years ago, the Remuneration Committee decided that it wished to reshape remuneration packages to make them more performance-related and to ensure that the Group is able to recruit, retain and motivate high calibre senior executives that are key to the long term growth of the business. Since then, this has been progressively achieved by:

- >> positioning base salaries around the mid-market,
- >> operating a competitive suite of annual and long term incentives, so that a substantial proportion of total remuneration is now subject to performance and so that total remuneration packages are competitive against the market,
- >> replacing contracts incorporating a two times annual compensation entitlement with new one year service agreements,
- >> limiting pensionable pay to base salary only. Whilst profit share payments are currently pensionable for all pension scheme members, Executive Directors are no longer eligible to participate in the profit share arrangements.

Fixed versus variable remuneration

A substantial proportion of the Executive Directors' pay is now performance related. The table below demonstrates the balance between fixed and performance-related pay for the Chief Executive at target and maximum performance levels. Maximum performance assumes the achievement of maximum bonus and full vesting of shares under the LTIP.

Performance related versus fixed remuneration

%



Base salary and benefits

Base salary is a fixed cash sum payable monthly in arrears. Mindful of the need to set the right balance in Executive Directors' packages, the policy has continued to move towards setting mid-market

salaries in the context of fully competitive total packages with a substantial proportion being subject to the performance of the business and individuals. The Remuneration Committee will continue to have regard to the following when reviewing salary levels:

- >> the rates for similar roles in comparator companies, both direct retail competitors and more generally in UK-based companies of a similar size and complexity,
- >> the performance of the individual concerned, together with any change in responsibilities that may have occurred,
- >> avoiding the automatic ratcheting effects of following 'median' or 'upper quartile' levels of salary derived from comparator company analyses,
- >> pay quantum and structure throughout the Company.

Executive Director base salary levels, with effect from 1 February 2008, are as follows:

Marc Bolland	£757,050
Mark Gunter	£540,750
Martyn Jones	£425,000
Roger Owen	£494,400
Richard Pennycook	£519,120

On 1 February 2008, Marc Bolland, Mark Gunter and Richard Pennycook each received an increase of 5% and Martyn Jones received an increase of 6.25%. Roger Owen did not receive an increase in base salary given that he had announced his retirement at the time of the salary review date.

Benefits include health insurance, transport costs and telephone expenses.

Annual bonus

The Remuneration Committee operated an Annual bonus plan for Executive Directors and other senior managers during 2007/08.

For 2007/08 the maximum bonus was 100% of base salary, with measurement based upon profit before taxation (excluding exceptionals) and personal objectives, as set out below:

Measures	% of bonus potential
Profit before tax, excluding exceptionals	80%
Personal objectives	20%

No bonus was payable for the achievement of personal objectives unless the minimum profit targets had been achieved.

Details of the actual amounts paid for 2007/08 are set out in the Directors' emoluments table on page 43.

The 2008/09 Annual bonus plan for the Executive Directors will be similar in design to the plan for 2007/08. It will be based upon a combination of profit before exceptionals and tax and personal objectives in the ratio of 80:20. The maximum bonus for Executive Directors will remain at 100% of base salary. The plan will continue to be operated for other senior managers at reduced levels. Specific targets have not been disclosed as they are considered to be commercially confidential but they will be demanding and require performance significantly better than plan for full payout.

Executive Directors are no longer eligible to participate in profit-sharing arrangements.

All Employee Sharesave Scheme

The Group operates a Sharesave Scheme approved by HM Revenue & Customs under which all eligible employees, including Executive Directors, may be invited to participate on similar terms. The Scheme allows participants to save up to a maximum of £250 each month for a fixed period of three or five years. At the end of the savings period, individuals may use their savings plus a tax-free bonus to buy ordinary shares in the Group at a discount capped at up to 20% of the market price, set at the launch of each Scheme.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was approved at the AGM in May 2007. The plan was designed to reward management for achieving the Group's strategic objectives and to provide an appropriate level of long term performance pay.

Each year, participants receive conditional awards of shares in the Group which will normally vest three years after they are awarded, subject to the satisfaction of performance conditions measured over a three year period and continued service. The plan's individual annual limit is 300% of salary (face value of shares).

Initial awards were made shortly after the 2007 AGM to 644 participants, including Executive Directors, their direct reports and management tiers below (including supermarket store managers). An award of shares worth 250% of salary was made to the Chief Executive, with 200% of salary for the other Executive Directors. For tiers below Executive Director, awards were made at the 100% or lower levels, dependant upon seniority. It is intended that the next awards will be granted in April 2008 shortly after the 2007/08 Preliminary announcement.

Performance under the plan is measured over three years. Performance measures are 75% based on earnings per share (EPS) and 25% based on like-for-like non-fuel sales growth. These performance metrics were selected for the following reasons:

- » they are directly linked to the objectives set out in the Group's strategy – improving EPS and sales performance reflects the need for basic profit growth and should flow through to increased shareholder value,
- » there is a clear line of sight between performance and reward,
- » they are relatively easy to understand and communicate.

To guard against the possibility of individuals receiving value from the LTIP as a result of sales targets being hit but EPS targets being missed, no awards can vest under the sales targets unless threshold EPS targets have been met.

For the awards intended to be granted in April 2008, the following targets will apply. 25% of the EPS related component of the award will vest if the Group's EPS in 2010/11 is 19.6p per share rising on a pro rata basis until 100% vests for an EPS of 23.5p per share. 25% of the sales growth related component will vest if the Group's like-for-like non-fuel sales grow by 3% per annum compound rising on a pro rata basis until there is 100% vesting for growth of 5% per annum compound.

EPS will be adjusted to exclude items considered exceptional and property gains and losses. The Group will report EPS in this way in its Annual report. Like-for-like sales is defined as the reported sales from existing space (excluding VAT), less total fuel sales.

The Remuneration Committee considers that the targets set out above are demanding in the context of the Group's circumstances and take into account the prospects for growth.

Share ownership guidelines

In conjunction with the introduction of the LTIP, the Group operates share ownership guidelines for Executive Directors. Under the guidelines, Directors are expected to retain 50% of vested LTIP awards (net of tax) until such time as they own shares worth 100% of their salary after which point they will be expected to retain, as a minimum, this level of holding.

Pension arrangements

The Executive Directors, with the exception of Marc Bolland, participate in the Group's Defined Benefit Pension Scheme. Pension entitlements accrue at the rate of 1/30th for each year, with a maximum pension of 2/3rds pensionable salary at age 62. Pensionable pay is annual salary as at 6 April each year plus profit share earned in the tax year just ended, although going forward, Executive Directors no longer participate in this arrangement.

In the case of members joining the pension scheme prior to 1 June 1989, the pension payable is currently based on final pensionable pay calculated as the average of the highest three years pensionable pay in the Director's last 10 years of employment. For members joining the scheme after 31 May 1989, final pensionable pay is currently the lower of the average of the highest three years pensionable pay in the Director's last 10 years of employment and the maximum earnings limit which in 2007/08 is £112,800.

Roger Owen joined the pension scheme prior to 1 June 1989. Mark Gunter, Richard Pennycook and Martyn Jones became members subsequent to that date. Sir Ken Morrison is in receipt of a pension from the scheme, in addition to his emoluments shown on page 43. His pension amounted to £181,702 in the period.

The expected cost of providing retirement benefits to the Directors is assessed in accordance with the advice of independent qualified actuaries. The pension arrangements include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a pension for the spouse and any dependant children on death.

No contributions were paid or are payable by any Directors under the terms of the scheme. There are no enhanced early retirement rights. Post-retirement pensions increase in line with the annual increase in the retail price index or by 5% per annum compound, whichever is the lower.

Richard Pennycook, Mark Gunter and Martyn Jones, who were all subject to the earnings cap in place before April 2006 which has been retained for benefits accruing thereafter, receive a cash supplement of 10% of salary in excess of the cap. Marc Bolland is not in the pension scheme but instead receives a salary supplement of 30% of salary.

Directors' remuneration report continued

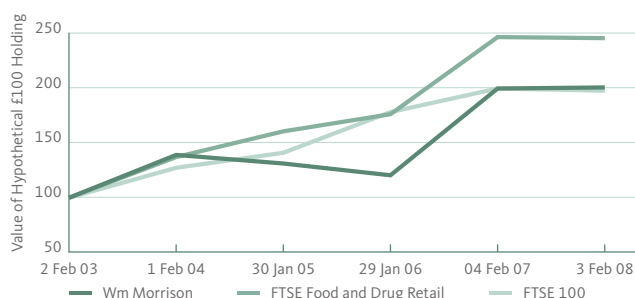
The outcome of the review of the Defined Benefit Pension Scheme is described on page 31 of the Financial review.

Performance graph

The following graph shows the Group's total shareholder return (TSR) compared against the TSR of the FTSE 100 and FTSE Food & Drug Retailers indices. These indices have been selected as being appropriate in giving a broad equity view and the Group is a constituent of both indices.

Total shareholder return

Source: Thomson Financial



Directors' contracts

a) Executive Directors

All Executive Directors have a service agreement without expiry dates. These contracts can be terminated by either the Group or Director giving 12 months' notice.

Following a review of service contracts for Executive Directors, the Remuneration Committee adopted a new model contract which provides that any compensation provisions for termination without notice will only extend to 12 months of salary, benefits and pension (which may be payable in instalments and subject to mitigation) and agreed that going forward, all new Director contracts would be on that basis. The model contract does not contain change of control provisions. This policy was applied to Marc Bolland at the time of his recruitment and was applied to Mark Gunter, Martyn Jones and Roger Owen on 5 April 2007. Richard Pennycook's contract provides that he has an obligation to mitigate his loss in the event of termination in breach of contract.

Name of Director	Date of contract	Notice period from Company (months)
M Bolland	7 Jun 2006	12
M Gunter	5 Apr 2007	12
M Jones	5 Apr 2007	12
K Morrison	1 Sep 2005 ¹	12
R Owen	5 Apr 2007	12
R Pennycook	23 May 2006	12

¹ The date of the contract for Sir Ken Morrison is collectively based on letters of appointment dated 23 January 2003, 23 June 2005 and 1 September 2005 (the latter of these dates is displayed above).

The date of contract for D Hutchinson, who resigned from the Board with effect from 30 June 2007, was collectively based on letters of appointment dated 23 January 2003, 23 June 2005 and 1 September 2005.

Sir Ken Morrison will retire from the Board on 13 March 2008.

Roger Owen tendered his resignation on 25 October 2007 and will leave the business at the end of the current financial year. On the basis that full notice will be served, there will be no termination

payments made in relation to his contract. Roger Owen will participate in the Annual bonus for 2008/09 and will receive an award under the LTIP in April 2008. In line with best practice, LTIP awards that have been granted to Roger Owen will vest three years from grant, subject to the satisfaction of performance conditions, with amounts pro-rated to reflect the period of time between grant date and leaving date.

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards or committees as long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are retained by the Executive Directors concerned.

b) Non-Executive Directors

Brian Flanagan, Paul Manduca, Susan Murray and Nigel Robertson have been appointed for a three year period from their dates of appointment, unless otherwise terminated earlier by, and at the discretion of, either party upon one month's written notice.

On 1 September 2007, Sir Ian Gibson was appointed to the Board as Non-Executive Deputy Chairman. Following the retirement of Sir Ken Morrison, Sir Ian Gibson will be appointed Non-Executive Chairman. For the period as Non-Executive Deputy Chairman, Sir Ian Gibson receives an annual equivalent fee of £125,000. Following appointment as Non-Executive Chairman, Sir Ian Gibson will receive an annual fee of £300,000. Sir Ian Gibson has been appointed for a three year period from date of appointment unless otherwise terminated earlier by, and at the discretion of, either party upon 12 months' written notice.

Name of Director	Current term commenced	Date of most recently amended letter of appointment	Expected date of expiry of current term
B Flanagan	1 Jul 2005	7 Jul 2005	1 Jul 2008
I Gibson	1 Sep 2007	1 Sep 2007	1 Sep 2010
P Manduca	6 Sep 2005	21 Oct 2005	6 Sep 2008
S Murray	1 Jul 2005	21 Oct 2005	1 Jul 2008
N Robertson	1 Jul 2005	7 Jul 2005	1 Jul 2008

The Board makes the initial appointment of Directors who are then subject to re-election by the shareholders at the first AGM following appointment and thereafter at three yearly intervals.

The remuneration of the Non-Executive Directors (other than the Chairman) is a matter for the Chairman and Executive members of the Board and is reviewed from time-to-time with regard to the time commitment required and the level of fees paid in comparable companies. Non-Executive Directors receive no benefits from their office other than fees and are not eligible to participate in the Group's pension arrangements.

The current levels are as follows:

Name of Director	Base £000	Committee Chairmanship £000	Senior Independent Director £000	Total £000
B Flanagan	45	-	-	45
I Gibson	125 ¹	-	-	125
P Manduca	45	10	10	65
S Murray	45	10	-	55
N Robertson	45	-	-	45
Total	305	20	10	335

¹ Following Sir Ian Gibson's appointment as Non-Executive Chairman from 14 March 2008, this annual fee will increase to £300,000.

Audited information

Directors' emoluments and pension entitlements

The emoluments of the Directors were as follows:

Name of Director	Directors' salaries/fees £000	Benefits in kind £000	Pension supplement £000	Profit share £000	Annual bonus £000	Integration bonus £000	Total year to 3 Feb 2008 £000	Total year to 4 Feb 2007 £000
Chairman								
K Morrison	675	40	-	21	-	-	736	736
Executive Directors								
M Bolland	721	45	217	-	706	-	1,689	871
M Gunter	515	35	41	-	502	-	1,093	990
D Hutchinson ³	256	12	-	-	-	-	268	910
M Jones ¹	355	28	23	-	380	194 ⁷	980	-
R Owen	494	35	-	-	480	-	1,009	914
R Pennycook	494	128	38	-	485	-	1,145	1,483
Non-Executive Directors								
B Flanagan	45	-	-	-	-	-	45	58
I Gibson ²	52	-	-	-	-	-	52	-
P Manduca	65	-	-	-	-	-	65	56
S Murray	55	-	-	-	-	-	55	53
N Robertson	45	-	-	-	-	-	45	43
Former Directors								
M Melnyk ⁴	-	-	-	-	-	-	-	3,614
R Stott ⁵	-	-	-	-	-	-	-	2,149
D Jones ⁶	-	-	-	-	-	-	-	29
Total	3,772	323	319	21	2,553	194	7,182	11,906

Appointed to the Board with effect from:	Resigned from the Board with effect from:
1 9 March 2007.	3 30 June 2007.
2 1 September 2007.	4 6 December 2006.
	5 29 September 2006.
	6 30 June 2006.

⁷ Following the acquisition of Safeway in March 2004, the Group implemented a one-off cash-based incentive scheme to below Board executives who would play a key role in the integration process. Martyn Jones' award, which was granted on 1 September 2004 and which vested on 1 September 2007, was subject to continued employment with the amount ultimately paid being determined by the Group's share price on the date the award vested.

In addition to the emoluments detailed above, a charge of £1.5m has been made to the income statement in respect of Directors' share-based payments.

Benefits in kind comprise relocation costs and disturbance allowances for Richard Pennycook (negotiated at the time of his recruitment), transport costs, health insurance and telephone expenses.

None of the Directors has a material interest in any contract significant to the Group's business.

The Executive Directors each received 100% of the potential annual bonus payable in respect of profit before tax. The percentage of potential bonus payable in respect of personal objectives was as follows:

Executive Director	% of bonus payable – personal objectives
M Bolland	89
M Gunter	89
M Jones	75
R Owen	86
R Pennycook	90

For the period 2007/08 Marc Bolland received cash fees from Manpower Inc. to a sterling equivalent of £9,500, and deferred and restricted stock worth a sterling equivalent of £80,000 for his role as Non-Executive Director at Manpower Inc.

Following cessation of employment on 29 September 2006, Robert Stott agreed to work on a consultancy basis for the Group from 1 November 2006 for a minimum of 156 days over the following 12 month period. During that period, he was responsible for co-ordinating the Group's response to the Competition Commission inquiry into the Grocery sector. Following completion of the initial consultancy period, Robert Stott's engagement was extended, for 10 days per month, until the Competition Commission's final report is issued. In the event that the report has not been issued by 29 September 2008, the period of engagement will once again be subject to review. Consultancy fees paid to Robert Stott amounted to £515,338 (including VAT) for the period from 4 February 2007 to 3 February 2008.

Directors' remuneration report continued

The following Directors had accrued entitlements under defined benefit schemes as follows:

Name	Accrued pension at 4 Feb 2007 £000	Increase in accrued pension (excluding inflation) in year ended 3 Feb 2008 £000	Transfer value of the increase in accrued pension during the year £000	Accrued pension at 3 Feb 2008 £000	Transfer value of accrued pension at 4 Feb 2007 £000	Transfer value of accrued pension at 3 Feb 2008 £000	Movement in transfer value during the year £000
Executive Directors							
M Gunter	42	3	36	47	505	491	(14)
D Hutchinson	180	30	459 ¹	210 ¹	2,918	3,561	643
M Jones	26	4	40	30	296	319	23
R Owen	296	14	226	321	4,856	5,278	422
R Pennycook	5	3	29	8	46	70	24
Total	549	54	790	616	8,621	9,719	1,098

¹ As at 30 June 2007.

Share awards

As at 3 February 2008, Directors' interests under LTIPs and one-off deferred share awards (Richard Pennycook) were as follows:

	Notes	Date of grant	Share price on grant	As at 4 Feb 2007	Shares granted	As at 3 Feb 2008	Vesting date
M Bolland	LTIP 1	24 May 2007	313.75p	–	294,256	294,256	1 Sep 2009
	LTIP 2	24 May 2007	313.75p	–	557,445	557,445	24 May 2010
				–	851,701	851,701	
M Gunter	LTIP 2	24 May 2007	313.75p	–	318,540	318,540	24 May 2010
M Jones	LTIP 2	24 May 2007	313.75p	–	168,857	168,857	24 May 2010
	2, 3	24 Oct 2007	296.75p	–	78,553	78,553	24 Oct 2010
					247,410	247,410	
R Owen	LTIP 2, 4	24 May 2007	313.75p	–	305,798	305,798	24 May 2010
R Pennycook	Deferred share award 5	1 Apr 2007 (notional grant date)	308.75p	–	309,073	309,073	1 Apr 2009
	LTIP 2	24 May 2007	313.75p	–	305,798	305,798	24 May 2010
				–	614,871	614,871	

1 Following shareholder approval at the 2007 AGM, Marc Bolland received a one-off LTIP reflecting the five months worked from appointment in 2006/07, with the value of shares equal to $\frac{1}{2}$ ths of 250% of £700,000 (his salary on 1 September 2006) based on the average closing share prices on the day of the announcement of the interim results for 2006/07 (declared on 21 September 2006) and the following four business days (247.80p). This award was treated as having been made on 1 September 2006 (when Marc Bolland joined the Group) and it vests, subject to performance and continued employment, on 1 September 2009 (i.e. three years after it was deemed to have been awarded). This award is not pensionable.

Vesting of the award on 1 September 2009 will be based on performance over the period ending with 2008/09, to reflect the position which would have applied had he received an award during the 2006/07 financial year. 25% of the EPS related part of the award will vest if the Group's EPS is 13.3p per share in 2008/09, rising on a pro rata basis until full vesting is achieved at 16p per share. 25% of the sales growth related part of the award will vest if the Group's like-for-like non-fuel sales grow at 3% per annum (p.a.) compound over 2007/08 and 2008/09, rising on a pro rata basis until full vesting is achieved for growth of 5% p.a. compound.

2 LTIP awards granted on 24 May 2007 and 24 October 2007 are subject to three year performance targets. Performance measures are 75% based on EPS and 25% based on like-for-like non-fuel sales growth. 25% of the EPS-related component of the award will vest if the Group's EPS in 2009/10 is 15.8p per share rising on a pro rata basis until 100% vests for an EPS of 19p per share. 25% of the sales growth-related component will vest if the Group's like-for-like non-fuel sales grow by 3% p.a. compound rising on a pro rata basis until there is 100% vesting for growth of 5% p.a. compound. No awards can vest under the sales targets unless threshold EPS targets have been met.

3 Martyn Jones received an additional LTIP award of 78,553 shares in October 2007 to reflect an increase in salary upon joining the Board.

4 Following Roger Owen tendering his resignation on 25 October 2007, LTIP awards will vest three years from grant, subject to the satisfaction of performance conditions and time pro-rating to reflect the shorter period of time between grant date and leaving date.

5 To fulfil promises made to Richard Pennycook at the time of his recruitment, as reported in last year's Remuneration Report, the annual bonus award made to him for 2006/07 included, in addition to the cash element, a deferred share award as a result of no LTIP being adopted by shareholders in the 2006/07 financial year. That award was in shares of the Group with a value equal to £950,400 (two times the amount of the cash bonus earned for the 2006/07 financial year) with the number of shares calculated by reference to the average share price over the five dealing days prior to the deemed date of the award (1 April 2007) which was 307.5p. The deferred share award will normally vest on 1 April 2009, provided Richard Pennycook is then still an employee of the Group. Upon vesting, a payment will also be made in cash or shares, as determined by the Remuneration Committee, equivalent to the dividends which would have been payable on the shares over the two year deferral period (or such shorter period if awards vest earlier). This award is not pensionable.

Share options

Options granted to Directors to acquire ordinary shares in the Group which are still outstanding on 3 February 2008 or on ceasing to be a Director are as follows:

Date of grant	At 4 Feb 2007	Number of options during the 52 weeks ended			At 3 Feb 2008	Exercise price	Market price on day of exercise	Gain on exercise £000s	Exercisable	
		Granted	Exercised	Lapsed					From	To
M Bolland										
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
M Gunter										
2 Apr 2003	260,000	-	-	-	260,000	175p	-	-	2 Apr 2006	2 Apr 2013
12 Nov 2004	220,000	-	-	-	220,000	222p	-	-	12 Nov 2007	12 Nov 2014
21 Apr 2006	5,917 ¹	-	-	-	5,917	158p	-	-	1 July 2009	1 Jan 2010
	485,917	-	-	-	485,917		-			
D Hutchinson										
2 Apr 2003	260,000 ²	-	260,000	-	-	175p	320.10p	377	2 Apr 2006	2 Apr 2013
12 Nov 2004	220,000 ²	-	220,000	-	-	222p	278.25p	124	12 Nov 2007	12 Nov 2014
	480,000	-	480,000	-	-			501		
M Jones										
5 Apr 2001	50,000	-	-	-	50,000	187p	-	-	5 Apr 2004	5 Apr 2011
2 Apr 2003	88,000	-	-	-	88,000	175p	-	-	2 Apr 2006	2 Apr 2013
21 Apr 2006	5,917 ¹	-	-	-	5,917	158p	-	-	1 July 2009	1 Jan 2010
	143,917	-	-	-	143,917		-			
K Morrison										
5 Apr 2001	200,000	-	-	-	200,000	187p	-	-	5 Apr 2004	5 Apr 2011
5 Apr 2002	150,000	-	-	-	150,000	209p	-	-	5 Apr 2005	5 Apr 2012
2 Apr 2003	260,000	-	-	-	260,000	175p	-	-	2 Apr 2006	2 Apr 2013
12 Nov 2004	500,000	-	-	-	500,000	222p	-	-	12 Nov 2007	12 Nov 2014
	1,110,000	-	-	-	1,110,000		-			
R Owen										
5 Apr 2002	150,000	-	150,000	-	-	209p	313.72p	157	5 Apr 2005	5 Apr 2012
2 Apr 2003	260,000	-	260,000	-	-	175p	313.72p	361	2 Apr 2006	2 Apr 2013
12 Nov 2004	220,000	-	220,000	-	-	222p	313.72p	202	12 Nov 2007	12 Nov 2014
	630,000	-	630,000	-	-			720		
R Pennycook										
18 May 2007	-	3,825 ¹	-	-	3,825	247p	-	-	1 July 2010	1 Jan 2011
	-	3,825	-	-	3,825		-			

1 Options granted under the Sharesave scheme.

2 Options outstanding on ceasing to be a Director.

The 1995 Executive Share Option Scheme terminated at the end of its 10-year life on 25 May 2005 and no grants have been made under it since November 2004.

The ordinary share mid-market price ranged from 246.75p to 335.25p and averaged 300.33p during the period. The price on 3 February 2008 was 299.00p compared to 300.75p on 4 February 2007.

The performance condition attached to options under the Executive Share Option Scheme (which has been satisfied) is as follows:

The operating profit of the Group, as detailed in the audited report and financial statements, must increase by at least 20% between the base year and its third or succeeding anniversary. Once an option is exercisable it will remain so until it lapses (in accordance with the rules of the Scheme) even if on a future anniversary the operating profit does not exceed the base year by 20%.

Directors' remuneration report continued

Dilution and share usage

Awards under the Group's share option and SAYE schemes are satisfied by the issue of new shares within the limits agreed by shareholders when the plans were approved. These limits comply with the Association of British Insurers' guidelines restricting dilution from employee share plans. The overall limits under the guidelines are that no more than 10% of a Group's issued share capital may be used in any 10-year period. Up to 5% may be used for executive share plans. As at 3 February 2008, the Group's share usage against these limits was 4.3% and 1.5% respectively.

It is currently intended that LTIP awards be satisfied by market purchased shares which are held in an Employee Benefit Trust.

Directors' interests

The interests of the Directors and their families in the shares of the Group (including percentages where holdings are over 3%) were as follows:

Beneficial	Ordinary shares	3 February 2008 Options to purchase ordinary shares	Ordinary shares	4 February 2007 Options to purchase ordinary shares
M Bolland	-	-	-	-
M Gunter	38,492	485,917	38,492	485,917
M Jones	18,667	143,917	18,471	143,917
K Morrison	111,719,552 (4.2%)	1,110,000	111,719,552 (4.2%)	1,110,000
R Owen	482,178	-	482,178	630,000
R Pennycook	-	3,825	-	-
B Flanagan	-	-	-	-
I Gibson	108,055	-	-	-
S Murray	5,000	-	5,000	-
P Manduca	25,000	-	25,000	-
N Robertson	-	-	-	-
Non-beneficial				
K Morrison	159,698,208 (5.9%)	-	158,542,368 (5.9%)	-

There were no changes in the above interests in the period from 3 February 2008 to 12 March 2008.

Approval

The audited section of this report was approved by the Board of Directors on 12 March 2008 and the unaudited section was approved on 11 April 2008 and signed on its behalf by

Susan Murray

Chair of the Remuneration Committee

Directors' report

The Directors have pleasure in presenting their report and the Group's audited financial statements for the 52 weeks ended 3 February 2008.

Principal activity

The principal activity of the Group is the operation of retail supermarket stores and associated activities.

Business review

The principal companies within the Morrisons Group (the Group) for the period under review are Wm Morrison Supermarkets PLC and its principal subsidiaries as disclosed in note 32. A fair review of the business and its position at the period end is required to be laid out in the Directors' report, as well as a review of the principal risks and uncertainties facing the Group. The Chief Executive's Business review (pages 4 to 33) covers a summary of the Group's strategy to become the 'food specialist for everyone', a summary of key performance indicators, market backdrop, review of the period and delivery against the Optimisation Plan and a summary of the Corporate Social Responsibility report titled 'Taking Good Care'. The Directors are satisfied that risks to the business are identified and mitigated appropriately, and a summary of the most significant risks to the achievement of the Group's goals can be found on page 32. The developments in governance during the period are covered in the Corporate governance report. This report is supported by additional commentary in the Chairman's statement (pages 1 and 2) and the Financial review (pages 30 to 32).

The Directors' report is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the Directors' report (including all the statements and reports mentioned above) includes forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements and information.

Result and dividend

The profit for the period after taxation amounted to £554m. The Directors have declared and recommended the following dividends:

	£m
Paid interim dividend of 0.675p per share (2007: 0.625p)	18
Recommended final dividend of 4.125p per share (2007: 3.375p)	111

The final dividend, if approved by shareholders at the Annual General Meeting (AGM), is to be paid on 6 June 2008 to ordinary shareholders on the register of members at close of business on 2 May 2008. If the final dividend is approved by shareholders, the total ordinary dividend for the year will be 4.8p per share.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors and to authorise the Directors to set their remuneration is to be proposed at the forthcoming AGM.

Annual General Meeting

Notice of the 2008 AGM of the Company (to be held at the Company's Head Office at Gain Lane in Bradford on 5 June 2008) is sent to shareholders with the Annual review and summary financial statement with an accompanying explanatory letter from the Chairman. The Directors believe each of the resolutions to be proposed at the AGM is in the best interests of the Group and recommend shareholders to vote in favour of each of them.

Share capital

The authorised and called up share capital of the Company, together with details of shares allotted during the year, is shown in note 23 of the financial statements.

At the AGM of the Company held in 2007, a special resolution was passed to renew the authority given at the AGM held on 25 May 2006 to purchase by the Company of up to 151,900,000 ordinary shares and 282,660 preference shares representing approximately 5.7% and 10% of the issued share capital of each class of shares respectively, at that time. This authority remained valid on 3 February 2008. The Company has not purchased any of its own shares pursuant to that authority which will expire at the close of the 2008 AGM.

In addition, 9,294,872 ordinary shares were issued during the period to employees exercising share options.

Borrowing powers

The Articles of Association of the Company restrict the borrowings of the Company and its subsidiary undertakings to a maximum amount equal to twice the share capital and consolidated reserves.

Substantial shareholdings

As at 12 March 2008, the Company was notified that the following shareholders (excluding Directors) had interests in 3% or more of the issued share capital of the Company:

	Number of shares	% of holding
Brandes Investment Partners LLC	244,843,478	9.2%
Ameriprise Financial Inc	131,284,252	4.9%
Legal & General Group Plc	108,358,823	4.0%
Walter Scott & Partners Ltd	107,775,155	4.0%
Zurich Financial Services	81,286,130	3.0%

In addition, Mr A R Wilson has an interest in 251,432,948 ordinary shares (9.36%), which is made up of a personal holding of 7,285 ordinary shares and 251,425,663 ordinary shares held as trustee.

Details of Sir Ken Morrison's interest in shares together with details of all other Directors' interests in shares are shown on page 46.

Relating to beneficial owners of shares with 'information rights'

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Group directly.

Directors' report continued

Directors

The current Directors of the Group and their biographies are shown on pages 34 and 35.

Sir Ken Morrison will retire on 13 March 2008 and he will be replaced as Chairman by Sir Ian Gibson.

David Hutchinson retired from the Board on 30 June 2007.

Richard Pennycook (aged 44) and Mark Gunter (aged 49) retire by rotation, and Sir Ian Gibson (aged 61) retire at the first AGM following his appointment. All of them have service contracts with a rolling 12 month notice period. All of them, being eligible, offer themselves for re-election at the AGM.

The interests of the Executive and Non-Executive Directors of the Company and their immediate families in the shares of the Company, along with share options, are contained in the Directors' remuneration report set out on pages 40 to 46.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries.

Political and charitable donations

During the period the Group made charitable donations amounting to £0.1m. In addition, the Group sponsored various charities and in the year over £1.6m was raised by customers and staff. No political donations were made, which is Group policy.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Going concern

After reviewing the Group's funding arrangements, Optimisation Plan and other medium term plans, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. The going concern basis has continued to be adopted in the preparation of the financial statements.

Payment to creditors

Supplier credit is an important factor in the success of the business. The Company will, as previously acknowledged, work within the spirit and letter of the supermarkets' code of practice. The Company will continue with its policy to ensure all payments are made within mutually agreed credit terms. Where disputes arise, the Company attempts to sort these out promptly and amicably to ensure delays in payment are kept to a minimum. Creditor days outstanding for the Company at 3 February 2008 were 32 (2007: 27), and for the Group creditor days were 34 (2007: 31).

Health and safety policy

The Group's intention, so far as is reasonably practicable, to ensure the health, safety and welfare of all its employees, customers, contractors and visitors to its premises. In order to achieve this, a comprehensive health and safety manual is in place for each division of the Company and subsidiary companies within the Group. Each health and safety manual contains the policy and procedures for complying with the Health and Safety at Work Act 1974, including the provision, based on risk assessment, of safe working practices for all work activities across the Group. The Group's health and safety policy is approved by the Executive Board. The Group has adopted the national targets set by the Health and Safety Commission for the reduction of workplace accidents and work-related ill health, and is on course to meet or exceed these targets. Health and safety performance is monitored to ensure continuous improvement in all areas.

Additional shareholder information

Pages 94 to 99 provide the additional information for shareholders as required by the implementation of the EU Takeover Directive into UK Law.

By the order of the Board

Jonathan Burke

Company Secretary

12 March 2008

Statement of Directors' responsibilities in respect of the Annual report and the financial statements

The Directors are responsible for preparing the Annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- >> select suitable accounting policies and then apply them consistently,
- >> make judgments and estimates that are reasonable and prudent,

- >> for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU,
- >> for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements,
- >> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- >> the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair review of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation as a whole, and
- >> the Directors' report includes a fair review of the development of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board
12 March 2008

Independent auditor's report to the members of Wm Morrison Supermarkets PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of Wm Morrison Supermarkets PLC for the 52 weeks ended 3 February 2008 which comprise the Consolidated income statement, the Consolidated and Parent Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 49.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes the information presented in the Chairman's statement, Chief Executive's business review and Financial review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal

control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- >> the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 3 February 2008 and of its profit for the year then ended,
- >> the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- >> the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 3 February 2008,
- >> the Parent Company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985,
- >> the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Leeds

12 March 2008

Consolidated financial statements

under International Financial Reporting Standards

Accounting Policies

General information

Wm Morrison Supermarkets PLC is a public limited company incorporated in the United Kingdom under the Companies Act 1985 (Registration number 358949). The Company is domiciled in the United Kingdom and its registered address is Hilmore House, Gain Lane, Bradford, BD3 7DL, United Kingdom.

Basis of preparation

These financial statements have been prepared for the 52 weeks ended 3 February 2008 (2007: 53 weeks ended 4 February 2007) in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. IFRS and IFRIC are issued by International Accounting Standards Board (IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation. Shown below are standards and interpretations that have been issued by IASB, indicating their status of endorsement.

The financial statements are presented in Pounds Sterling, rounded to the nearest million, except in some instances, where it is deemed relevant to disclose the amounts up to one decimal place. They have been prepared on the historical cost basis of accounting, except for share-based payments and derivative financial instruments, which are measured at fair value, and pension scheme liabilities that are measured using actuarial valuations.

The Group's accounting policies are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Other than IFRS 7 *Financial Instruments: Disclosures*, which has resulted in an amount of additional disclosures being made whilst not changing underlying accounting, no alterations were made to the accounting policies as a result of considering all amendments to IFRS and IFRIC interpretations that became effective during the financial period as these were considered to be immaterial to the Group's operations or were not relevant.

New IFRS and amendments to IAS and interpretations not applied

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted by the Group:

International Financial Reporting Standards		Effective for accounting periods starting on or after
IAS 1	<i>Presentation of financial statements: A revised presentation</i>	1 January 2009
IFRS 2	<i>Share-based payment: Vesting conditions and cancellations</i>	1 January 2009
IFRS 8*	<i>Operating segments</i>	1 January 2009
IAS 23	<i>Borrowing costs</i>	1 January 2009
IAS 27	<i>Consolidated and separate financial statements</i>	1 July 2009
IFRS 3	<i>Business Combinations</i>	1 July 2009

International Financial Reporting Interpretations Committee

IFRIC 11*	<i>IFRS 2: Group and Treasury share transactions</i>	1 March 2007
IFRIC 12	<i>Service Concession Arrangements</i>	1 January 2008
IFRIC 13	<i>Customer loyalty programmes</i>	1 July 2008
IFRIC 14	<i>IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction</i>	1 January 2008

* These standards and interpretations have been endorsed by the European Union.

The application of these standards and interpretations are not anticipated to have a material effect on the Group's financial statements except for additional disclosure.

The emerging GAAP around IFRIC 14 will be monitored during the year to ensure that it does not alter the Group's current view that this interpretation will not have a material impact on the Group's balance sheet.

IFRS 8 is a standard that may increase the amount of disclosure and this will be considered when preparing the financial statements for the year ending January 2010.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, being those undertakings that it controls. Control is achieved where the Company has the power to govern the financial and operating policy of an investee entity so as to obtain benefits from its activities. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting period as the Parent Company and are based on consistent accounting policies. The results of subsidiaries acquired or disposed of during the period are included in the consolidated accounts from the effective date of acquisition up to the effective date of disposal, as appropriate.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Significant accounting policies

The Directors consider the following to be the significant accounting policies in the context of the Group's operations:

Revenue recognition

Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer, there is reasonable certainty of recovery of the consideration and the amount of revenue, associated costs and possible return of goods can be estimated reliably.

a) Sale of goods in-store and fuel

Sale of goods in-store is recorded net of value added tax, staff discounts, coupons and the free element of multi-save transactions. Sale of fuel is recognised net of value added tax and Morrisons Miles award points. Revenue is recognised when transactions are completed in-store. The related cost of sales includes the cost of transportation of goods to stores.

Accounting policies continued

b) Direct manufacturing sales

Direct manufacturing sales are recognised on despatch of goods and are recorded net of value added tax and intra-group transactions.

c) Income from concessions and commissions

Income from concessions and commissions is based on the terms of the contract. Revenue collected on behalf of others is not recognised as turnover, other than the related commission.

Other operating income

Other operating income consists of income not directly related to the operating of supermarkets and mainly comprises rental income from investment properties. Other categories of income included within 'other operating income' are backhaul income and credits earned from the recycling of waste and packaging materials.

Rental income from investment property

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. Details of rental income from investment property are provided in note 11.

Segmental reporting

Based on the sources of risks and returns impacting the Group's activities, the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment being grocery and related retailing and vertically integrated manufacturing, since they are subject to similar risks and returns. The disclosures for the primary segment are therefore given by the primary financial statements and related notes.

The Group's business operations are conducted almost exclusively in the United Kingdom so a geographical segment report is not required.

Supplier income

Supplier incentives, rebates and discounts are collectively referred to as supplier income in the retail industry. Supplier income is recognised as a deduction from cost of sales on an accruals basis based on the expected entitlement which has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within prepayments and accrued income. Where amounts received are in the expectation of future business, these are recognised in line with that future business.

Property transactions

Property includes the balance sheet headings of property, plant and equipment, investment property, lease prepayments and non-current assets classified as held for sale. The results of transactions relating to disposal of property are reported in the income statement under 'Profit arising on property transactions'. Depreciation and any impairment charges or reversals are recognised in cost of sales or administrative expenses, as appropriate.

Borrowing costs

All borrowing costs are recognised in the Group's income statement on an accruals basis except for interest costs that are directly attributable to the construction of buildings which are capitalised and included within the initial cost of a building. Capitalisation of interest cost ceases when the property is ready for use.

Deferred and current tax

Current tax payable is based on the taxable profit for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years. Taxable profit differs from the profit as reported in the income statement as it is adjusted both for items that will never be taxable or deductible and temporary differences. Current tax is charged in the income statement, except when it relates to items charged or credited directly in equity in which case the current tax is reflected in equity.

Deferred tax is recognised using the balance sheet method. Provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised for temporary differences that arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that is not a business combination and that affects neither accounting nor taxable profits. Deferred tax is calculated based on tax law that is enacted or substantively enacted at the reporting date and provided at rates expected to apply when the temporary differences reverse. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity in which case the deferred tax is reflected in equity.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Deferred tax assets recognised are reviewed at each reporting date as judgement is required to estimate the availability of future taxable income. Deferred tax assets and liabilities are not discounted and are offset where amounts will be settled on a net basis as there is a legally enforceable right to offset.

Accruals for tax contingencies require management to make judgements and estimates of ultimate exposures in relation to tax compliance issues. All accruals are included in current liabilities.

Business combinations and goodwill

All business combinations are accounted for by applying the purchase method.

The assets, liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Goodwill is recognised as an asset and reviewed for impairment annually as detailed in 'Impairment of non-financial assets' below.

Property, plant and equipment

a) **Property, plant and equipment** are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs. Annual reviews are made of estimated useful lives and material residual values.

b) **Depreciation rates** used to write off cost less residual value on a straight line basis are:

Freehold land	0%
Freehold and long leasehold buildings	2.5%
Short lease buildings	Over lease period
Plant, equipment, fixtures and vehicles	14-33%
Assets held under a finance lease	Shorter of life of lease or asset
Assets under construction	0%

Impairment of non-financial assets

Goodwill has been fully written off through an impairment review that occurred in a prior year. Impairment of goodwill cannot be reversed.

Property, plant and equipment and investment property are annually reviewed for indications of impairment, or when events or changes in circumstances indicate that the carrying amount may not be recoverable. This is performed for each cash generating unit, which in the case of a supermarket is an individual retail outlet. If there are indications of possible impairment then a test is performed on the asset affected to assess its recoverable amount against carrying value. An asset impaired is written down to its recoverable amount which is the higher of value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is indication of an increase in fair value of an asset that had been previously impaired, then this is recognised by reversing the impairment, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset.

Stocks

Stocks are measured at the lower of cost and net realisable value. Cost is calculated on a weighted average basis and comprises purchase price, import duties, less rebates and other non-recoverable taxes. Stocks are primarily goods for resale.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification.

On reclassification, non-current assets held for sale are recognised at the lower of carrying amount and the fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the income statement, as are gains or losses on subsequent re-measurement. The depreciation of the asset ceases on reclassification. Assets are reclassified from non-current assets held for sale when the above criteria cease to be met.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases.

Lessor accounting

a) Operating leases

Assets acquired and held for use under operating leases are recorded as property, plant and equipment and are depreciated on a straight line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised on a straight line basis to the date of the next rent review.

b) Finance leases

The Group does not lease any assets on a finance lease basis.

Lessee accounting

a) Operating leases

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

Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases. Premiums paid for land are treated as a prepayment of an operating lease rental and recognised on a straight line basis over the life of the lease.

b) Finance leases

The present value, calculated using the interest rate implicit in the lease, of the future minimum lease payments is included within fixed assets and financial liabilities as an obligation to pay future rentals. Depreciation is provided at the same rates as for owned assets, or over the lease period, if shorter.

Rental payments are apportioned between the finance charge and the outstanding obligation so as to produce a constant rate of finance charge on the remaining balance.

Provisions

Provisions are created where the Group has a present legal or constructive obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation from the Group, and where it can be reliably measured. The nature of these provisions is:

a) Property provisions

Provisions are made in respect of individual properties where there are obligations for onerous contracts, dilapidations and certain decommissioning obligations for petrol filling stations. The amounts provided are based on the Group's best estimate of the likely committed outflow to the Group. Where material, these estimated outflows are discounted to net present value.

Accounting policies continued

b) Restructuring provisions

Provisions are established for announced and ongoing restructuring programmes planned and controlled by management where there is an obligation to make changes to the scope of the business undertaken by the Group or the manner in which business is conducted. The provision includes costs of severance to the affected employees, costs of property closure, and other direct expenditures not associated with ongoing activities.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange at the balance sheet date. Gains and losses arising on retranslation are included in the income statement for the period.

Retirement benefits

The Group operates defined benefit and defined contribution schemes. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. A defined benefit scheme is one that is not a defined contribution scheme. Pension benefits under defined benefit schemes are defined on retirement based on age at date of retirement, years of service and a formula using either the employee's compensation package or career average earnings.

The Group operates two defined benefit retirement schemes which are funded by contributions from the Group and members. The defined benefit schemes are not open to new members. Pension scheme assets, which are held in separate trustee administered funds, are valued at market rates. Pension scheme obligations are measured on a discounted present value basis using assumptions as shown in note 21. The operating and financing costs of the scheme are recognised separately in the income statement in the period in which they arise. Death-in-service costs are recognised on a straight line basis over their vesting period. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Payments by the Group to the defined contribution scheme are charged to the income statement as they arise.

Share-based payments

The Group issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period with a corresponding increase in equity. This is based on the Group's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant. The fair value of equity-settled awards granted is not subsequently revisited.

Fair value is measured by use of a binomial stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value charge of share-based payments that are settled by cash are credited to the balance sheet and are included within creditors.

The Group has applied fair values to all grants of equity instruments after 7 November 2002 which were unvested as of 1 January 2005, and cash-settled equity instruments at each balance sheet date.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Financial assets

i) Trade and other debtors

Trade debtors are carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the Group will not be able to recover balances in full, with the charge being recognised in administrative expenses in the income statement. Balances are written off when the probability of recovery is assessed as being remote.

ii) Cash and cash equivalents

Cash and cash equivalents for cash flow purposes includes cash-in-hand, cash-at-bank and bank overdrafts together with short term, highly liquid investments that are readily convertible into known amounts of cash, with an insignificant risk of a change in value, within three months from the date of acquisition. In the balance sheet, bank overdrafts are presented within current liabilities.

b) Financial liabilities

i) Trade and other creditors

Trade and other creditors are stated at cost.

ii) Borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, any difference between the redemption value and the initial carrying amount is recognised in the income statement over the period of the borrowings on an effective interest rate basis.

c) Derivative financial instruments and hedge accounting

Derivative financial instruments are initially measured at fair value, which normally equates to cost, and are remeasured at fair value.

i) Cash flow hedges

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The Group has a number of cross-currency swaps which have been designated as cash flow hedges. These derivative financial instruments are used to match or minimise risk from potential movements in foreign exchange rates inherent in the cash flows of certain financial liabilities.

Derivatives are reviewed quarterly for effectiveness. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity through SoRIE. The gain or loss on any ineffective part of the hedge is immediately recognised in the income statement within finance income/costs. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gains or losses that were recognised directly in equity are reclassified into the income statement when the transaction occurs.

Net debt

Net debt is cash and cash equivalents, long term cash on deposit, bank and other current loans, bonds and derivative financial instruments (stated at current fair value).

Investment property

Property held to earn rental income rather than for the purpose of the Group's principal activities is classified as Investment property. Investment property is recorded at cost less accumulated depreciation and any recognised impairment loss. Depreciation policy is consistent with those described for other Group properties.

Income from investment properties is disclosed in 'Other operating income' and details are shown in note 11 'Investment property'. The related operating costs are immaterial and are included within Administrative expenses.

Treasury shares

The Group has an employee trust for the granting of Group shares to executives and members of the employee share plans. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from retained earnings.

The finance and administration costs relating to the Executive Share Option Scheme are charged to the income statement. The shares are deducted for the purpose of calculating the Group's earnings per share.

Use of critical accounting assumptions and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below.

a) Property provisions

Provisions have been made for onerous leases, dilapidations and decommissioning costs. These provisions are estimates based on the condition of each property and market conditions in the relevant location. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

b) Pension scheme assumptions and mortality table

The carrying value of defined benefit pension schemes is valued using actuarial valuations. These valuations are based on assumptions including the selection of the correct mortality tables for the profile of members in each scheme. All these are estimates of future events. The mortality experience study conducted as part of the Safeway scheme triennial valuation is statistically significant and the longevity assumption is adjusted to reflect its results. As both of the Group's schemes have a similar composition and type of members, this adjustment is also made to the Morrisons scheme. The mortality assumptions, financial assumptions and mortality experience study are based on advice received from the schemes' actuaries. Where appropriate these are corroborated from time-to-time with benchmark surveys and ad-hoc analysis.

c) Assumptions relating to tax computation

The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made.

d) Determination of useful lives and residual values of property, plant and equipment, investment property and long leasehold land prepayments

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for property, plant and equipment, investment property and long leasehold land prepayments. The selection of these residual values and estimated lives requires the exercise of judgement.

Consolidated income statement

52 weeks ended 3 February 2008

	Note	2008 £m	2007 £m
Turnover	2	12,969	12,462
Cost of sales		(12,151)	(11,826)
Gross profit		818	636
Other operating income		30	21
Administrative expenses		(268)	(272)
Profits arising on property transactions		32	38
Operating profit	4	612	423
Finance costs	5	(60)	(82)
Finance income	5	60	28
Profit before taxation		612	369
Taxation	6	(58)	(121)
Profit for the financial period attributable to equity holders of the parent		554	248
Earnings per share (pence)			
– basic	7	20.79	9.32
– diluted	7	20.67	9.31
Ordinary dividend per share (pence)			
Interim – paid		0.675	0.625
Final – proposed	31	4.125	
– paid			3.375
Total dividend		4.800	4.000

Consolidated statement of recognised income and expense

52 weeks ended 3 February 2008

	Note	2008 £m	2007 £m
Actuarial (loss)/gain arising in the pension scheme (net of taxation)	21	(26)	119
Cash flow hedging movement		7	(1)
Deferred tax on share options	20	(2)	3
Net (expense)/income recognised directly in equity		(21)	121
Profit for the financial period		554	248
Total recognised income and expense for the financial period attributable to equity holders of the parent	24	533	369

Consolidated balance sheet

3 February 2008

	Note	2008 £m	2007 £m
Assets			
Non-current assets			
Property, plant and equipment	9	6,205	6,117
Lease prepayments	10	239	228
Investment property	11	239	241
Financial assets	12	43	19
		6,726	6,605
Current assets			
Stocks	13	442	368
Debtors	14	199	151
Financial assets	12	74	-
Cash and cash equivalents	15	191	231
		906	750
Non-current assets classified as held for sale	16	4	16
		910	766
Liabilities			
Current liabilities			
Creditors	17	(1,679)	(1,501)
Other financial liabilities	18	(77)	(254)
Current tax liabilities		(97)	(100)
		(1,853)	(1,855)
Non-current liabilities			
Other financial liabilities	18	(774)	(768)
Deferred tax liabilities	20	(424)	(478)
Net pension liabilities	21	(68)	(198)
Provisions	22	(139)	(145)
		(1,405)	(1,589)
Net assets		4,378	3,927
Shareholders' equity			
Called-up share capital	23	269	268
Share premium	23	57	41
Merger reserve	24	2,578	2,578
Retained earnings and hedging reserves	24	1,474	1,040
Total equity attributable to equity holders of the parent		4,378	3,927

The financial statements on pages 51 to 81 were approved by the Board of Directors on 12 March 2008 and were signed on its behalf by:

Marc Bolland
Chief Executive

Richard Pennycook
Group Finance Director

Consolidated cash flow statement

52 weeks ended 3 February 2008

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	25	756	704
Interest paid		(70)	(68)
Taxation paid		(107)	(53)
Net cash inflow from operating activities		579	583
Cash flows from investing activities			
Interest received		50	12
Proceeds from sale of property, plant and equipment		94	158
Purchase of property, plant and equipment and investment property		(402)	(257)
Net cash outflow from investing activities		(258)	(87)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		17	5
Finance lease principal payments		(3)	(2)
Repayment of borrowings		(266)	(261)
Increase in long term cash on deposit	12	(74)	-
Dividends paid to equity shareholders		(108)	(98)
Net cash outflow from financing activities		(434)	(356)
Net (decrease)/increase in cash and cash equivalents			
		(113)	140
Cash and cash equivalents at start of period		231	91
Cash and cash equivalents at end of period	15	118	231

Reconciliation of net cash flow to movement in net debt in the period

	Note	2008 £m	2007 £m
Net (decrease)/increase in cash and cash equivalents		(113)	140
Cash outflow from decrease in debt and lease financing		268	263
Long term cash on deposit	12	74	-
Other non-cash movements		-	(27)
Opening net debt		(772)	(1,148)
Closing net debt	26	(543)	(772)

Notes to the financial statements

52 weeks ended 3 February 2008

1 Underlying earnings

The Directors consider that underlying earnings and normalised adjusted earnings per share measures referred to in the Chairman's statement, CEO's review and Financial review provide additional useful information for shareholders on underlying trends and performance. The adjustments are made to reported profit to (a) remove income statement volatility within net pension interest income caused by market conditions; (b) remove profits arising on property transactions since these profits do not form part of the Group's principal activities; and (c) to apply an effective tax rate of 32%, being an estimated normalised tax rate, since the current year's effective tax rate is considerably lower due to reasons set out in note 6.

	2008 £m	2007 £m
Profit after tax	554	248
Add back: tax charge for the year ¹	58	121
Profit before tax	612	369
Adjustments for:		
– Net pension interest income (note 5) ¹	(17)	(7)
– Profits arising on property transactions ¹	(32)	(38)
Underlying earnings before tax	563	324
Normalised tax charge at 32% tax rate ¹	(180)	(104)
Underlying earnings after normalised tax charge	383	220
Adjusted earnings per share (pence)		
– basic (refer note 7(b))	19.70	8.30
– diluted (refer note 7(b))	19.59	8.30
Adjusted normalised earnings per share (pence)		
– basic (refer note 7(c))	14.38	8.28
– diluted (refer note 7(c))	14.29	8.27

1 adjustments marked 1 equal £171m (2007: £28m), as shown in the reconciliation of earnings disclosed in note 7(c).

2 Turnover (excluding VAT)

	2008 £m	2007 £m
Sale of goods in-stores	10,439	10,087
Fuel	2,443	2,301
Total store based sales	12,882	12,388
Direct manufacturing sales	27	28
Income from concessions and commission	60	46
Total turnover	12,969	12,462

3 Employees and Directors

	2008 £m	2007 £m
Employee benefit expense for the Group during the period		
Wages and salaries	1,343	1,334
Social security costs	95	94
Share-based payments (note 27)	9	20
Pension costs	48	55
Other staff costs	10	3
	1,505	1,506

	2008 No.	2007 No.
Average monthly number of people employed by business group		
Stores	104,645	105,054
Manufacturing	4,416	4,773
Distribution	4,822	4,730
Centre ²	3,571	3,247
	117,454	117,804

2 centre includes employees on maternity leave and long-term sick leave.

Notes to the financial statements continued

52 weeks ended 3 February 2008

3 Employees and Directors continued

Key management represent Directors. The aggregate remuneration paid to or accrued for the Directors for services in all capacities during the period is as follows:

	2008 £m	2007 £m
Directors		
Short term employee benefits	6.8	7.2
Pension costs	0.3	0.2
Termination payments	–	4.5
Share-based payments	1.5	1.7
	8.6	13.6

There are four Directors (2007: four) who have retirement benefits accruing under the Group's defined benefit pension scheme.

Additional information on Directors' emoluments (including the highest paid Director) can be found in the Directors' remuneration report on pages 40 to 46.

4 Operating profit

	2008 £m	2007 £m
The following items have been included in arriving at operating profit:		
Depreciation:		
– owned assets	280	276
– assets held under finance leases	2	2
Property, plant and equipment	282	278
Depreciation of investment property	7	3
Charge in the income statement	289	281
Foreign exchange differences	3	(1)
Operating lease rentals:		
– minimum lease payments	38	40
– sublease receipts	(5)	(4)
Value of stock expensed	9,739	9,364

Services provided by the Group's auditor

During the period, KPMG Audit Plc, the Group's auditor, provided the following services:

	2008 £m	2007 £m
Audit services		
– statutory Group and Company audit	0.4	0.6
– statutory audit of subsidiaries	0.2	0.2
– audit related regulatory reporting	0.2	0.2
Tax services		
– compliance services	0.3	1.1
– advisory services	0.2	–
Other		
– forecasting procedures review	–	0.2
	1.3	2.3

5 Finance costs and income

	2008 £m	2007 £m
Interest payable on short term loans and bank overdrafts	(1)	(5)
Interest payable on bonds	(53)	(60)
Interest capitalised	8	6
Total interest payable	(46)	(59)
Fair value movement of derivative instruments	(7)	(12)
Other finance costs	(7)	(11)
Finance costs	(60)	(82)
Bank interest received	28	8
Amortisation of bonds	8	8
Other finance income	7	5
Pension liability interest cost	(99)	(95)
Expected return on pension assets	116	102
Net pension interest income	17	7
Finance income	60	28
Net finance cost	-	(54)

Interest is capitalised at the bank overdraft rate incurred before taxation which varies in line with the prevailing base rate. Taxation relief is obtained on interest paid and this reduces the tax charged for the period.

6 Taxation**a) Analysis of charge in period**

	2008 £m	2007 £m
Corporation tax		
– current period	142	127
– adjustment in respect of prior period	(38)	(13)
	104	114
Deferred tax		
– current period	40	(16)
– adjustment in respect of prior period	(86)	23
	(46)	7
Tax charge for the period	58	121

b) Tax on items credited/(charged) directly to equity

	2008 £m	2007 £m
Current tax on actuarial movements	-	-
Deferred tax credit/(charge) on actuarial movements	10	(51)
Tax credit/(charge) on actuarial movements taken to SoRIE	10	(51)
Tax on share-based payments – taken to SoRIE	(2)	3

The tax for both periods is different to the standard rate of corporation tax in the UK of 30% (2007: 30%). The differences are explained below:

	2008 £m	2007 £m
Tax reconciliation		
Profit before tax	612	369
Profit before tax at 30% (2007: 30%)	184	111
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14	11
Non-qualifying depreciation	35	28
Effect of tax rate changes on deferred tax	(32)	-
Deferred tax on Safeway acquisition assets	(11)	-
Divestment profits not taxable	(11)	(31)
Overseas tax rates/dividends	-	(2)
Other	3	(6)
Prior period adjustments	(124)	10
Tax charge for the period	58	121

Notes to the financial statements continued

52 weeks ended 3 February 2008

6 Taxation continued

During the period the Group successfully concluded lengthy negotiations with HM Revenue & Customs (HMRC) over a number of open issues relating to the Safeway group prior to its acquisition by Morrisons in 2004. The closure of these negotiations has resulted in the Group being able to release prior period corporation tax and deferred tax provisions of £124m.

7 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Company as treasury shares (note 24), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has two (2007: three) classes of financial instruments that are potentially dilutive: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period and contingently issuable shares under the Group's long term incentive plan. In the prior year, the other class of potentially dilutive ordinary shares was the convertible preference shares.

a) Basic and diluted earnings per share (unadjusted)

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2008			2007		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Unadjusted EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	554	2,664.3	20.79	248	2,657.5	9.32
Effect of dilutive instruments						
Share options	–	15.7	(0.12)	–	–	–
Preference share conversion	–	–	–	–	1.2	(0.01)
Diluted EPS	554	2,680.0	20.67	248	2,658.7	9.31

b) Adjusted earnings per share

Given below is the reconciliation of the earnings adjusted for profits arising on property transactions used in the calculations of adjusted earnings per share:

	2008			2007		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Adjusted EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	554	2,664.3	20.79	248	2,657.5	9.32
Profits arising on property transactions ¹	(29)	–	(1.09)	(27)	–	(1.02)
	525	2,664.3	19.70	221	2,657.5	8.30
Effect of dilutive instruments						
Share options	–	15.7	(0.11)	–	–	–
Preference share conversion	–	–	–	–	1.2	–
Diluted EPS	525	2,680.0	19.59	221	2,658.7	8.30

¹ Profits arising on property transactions as shown in the income statement after adjusting for tax relief.

7 Earnings per share continued**c) Adjusted normalised earnings per share**

Given below is the reconciliation of the earnings used in the calculations of adjusted normalised earnings per share:

	2008			2007		
	Earnings £m	Weighted average number of shares millions	EPS pence	Earnings £m	Weighted average number of shares millions	EPS pence
Adjusted EPS						
Basic EPS						
Earnings attributable to ordinary shareholders	554	2,664.3	20.79	248	2,657.5	9.32
Adjustments to determine underlying profit (see note 1)	(171)	-	(6.41)	(28)	-	(1.04)
	383	2,664.3	14.38	220	2,657.5	8.28
Effect of dilutive instruments						
Share options	-	15.7	(0.09)	-	-	-
Preference share conversion	-	-	-	-	1.2	(0.01)
Diluted EPS	383	2,680.0	14.29	220	2,658.7	8.27

8 Goodwill

Goodwill of £103m arose on the Safeway acquisition in the period ended 30 January 2005. In the financial statements for the period ended 29 January 2006, this goodwill was fully impaired.

9 Property, plant and equipment

	Land and buildings			Plant, equipment, fixtures and vehicles £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m		
Current year					
Cost					
At 4 February 2007	6,211	417	18	919	7,565
Additions at cost	252	33	9	116	410
Interest capitalised	7	1	-	-	8
Reclassification	(205)	(69)	6	268	-
Transfer from/(to) investment properties	51	(25)	-	-	26
Transfer to long land lease premium	-	(10)	-	-	(10)
Disposals	(174)	(8)	-	(138)	(320)
At 3 February 2008	6,142	339	33	1,165	7,679
Accumulated depreciation and impairment					
At 4 February 2007	691	47	17	693	1,448
Charge for the period	98	15	4	165	282
Reclassification	(108)	(10)	-	118	-
Transfer from/(to) investment properties	18	(4)	-	-	14
Disposals	(133)	-	-	(137)	(270)
At 3 February 2008	566	48	21	839	1,474
Net book amount at 3 February 2008	5,576	291	12	326	6,205
Assets under construction included above	91	14	-	22	127

The classification of Property, plant and equipment (PPE) was reviewed as part of upgrading our systems. As a result of this review, it was deemed appropriate to reclassify certain assets that have historically been regarded intrinsic to the building structure to 'fixtures and fittings' included within plant, equipment, fixtures and vehicles.

Notes to the financial statements continued

52 weeks ended 3 February 2008

9 Property, plant and equipment continued	Land and buildings			Plant, equipment, fixtures and vehicles £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m		
Prior year					
Cost					
At 29 January 2006	6,079	379	14	816	7,288
Additions at cost	139	36	6	88	269
Interest capitalised	5	1	-	-	6
Transfer to assets held for sale	(21)	-	(6)	(4)	(31)
Transfer from assets held for sale	33	1	4	19	57
Transfer to investment properties	(17)	-	-	-	(17)
Disposals	(7)	-	-	-	(7)
At 4 February 2007	6,211	417	18	919	7,565
Accumulated depreciation and impairment					
At 29 January 2006	563	43	12	525	1,143
Charge for the period	122	3	2	151	278
Transfer to assets held for sale	-	-	-	(1)	(1)
Transfer from assets held for sale	15	1	3	18	37
Disposals	(4)	-	-	-	(4)
Impairment reversal	(5)	-	-	-	(5)
At 4 February 2007	691	47	17	693	1,448
Net book amount at 4 February 2007	5,520	370	1	226	6,117
Assets under construction included above	108	14	-	1	123

Included in plant, equipment, fixtures and vehicles are assets held under finance leases at a cost of £22m (2007: £22m). The accumulated depreciation at the end of the financial period was £19m (2007: £17m).

10 Lease prepayments

	2008 £m	2007 £m
Long lease land premiums	239	228

The current element of long lease land premiums is included within debtors (note 14). During the year, new long lease land premiums amounting to £1m were paid (2007: £15m).

11 Investment property

	2008 £m	2007 £m
Cost		
At start of period	294	261
Additions	17	-
Transfer from property, plant and equipment	-	17
Transfer to property, plant and equipment	(26)	-
Transfer from assets held for sale	-	16
At end of period	285	294
Accumulated depreciation		
At start of period	53	36
Charge for the period	7	3
Transfer to property, plant and equipment	(14)	-
Transfer from assets held for sale	-	14
At end of period	46	53
Net book amount at end of period	239	241

Included in other operating income is £20m (2007: £13m) of rental income generated from investment properties.

The fair value of investment properties at the end of the period was £328m (2007: £390m). This valuation has been determined by the Directors based on market comparable information being rent and market rental yield. This reduction in the fair value is due to an increase in market rental yield driven by deteriorating market conditions.

12 Financial assets

	2008 £m	2007 £m
Non-current asset		
Cross-currency interest swaps maturing 2010	43	19
Current asset		
Long term cash on deposit	74	-

a) Cross-currency interest swaps maturing 2010

The cross-currency interest swaps cover the Group from currency exposure arising from payments of interest and repayment of the principal in relation to Euro bonds.

The notional principal amount of the outstanding cross-currency interest swaps at 3 February 2008 was €250m (2007: €250m).

There are no contracts with embedded derivatives that have been identified to be accounted for separately as required by IAS 39 *Financial Instruments: recognition and measurement*.

b) Long term cash on deposit

These are balances deposited with the bank with maturity of over three months from the date of the deposit.

13 Stocks

	2008 £m	2007 £m
Materials and work-in-progress	8	7
Finished goods	434	361
	442	368

Notes to the financial statements continued

52 weeks ended 3 February 2008

14 Debtors

	2008 £m	2007 £m
Trade debtors	94	80
Less: Provision for impairment of trade debtors	(2)	(2)
	92	78
Lease prepayment – long lease land premiums	1	1
Other debtors	32	8
Prepayments and accrued income	74	64
	199	151

The Group has recognised a provision of £2m (2007: £2m) for impairment of its trade debtors as at 3 February 2008.

The ageing analysis of trade debtors is as follows:

	2008 £m	2007 £m
Neither past due nor impaired	70	53
Past due but not impaired:		
Not more than three months	17	24
Greater than three months	5	1
	92	78

As at 3 February 2008, trade debtors that were neither past due nor impaired related to a number of independent customers for whom there is no recent history of default.

The other classes of debtors do not contain impaired assets.

15 Cash and cash equivalents

	2008 £m	2007 £m
Cash and cash equivalents	191	231

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	2008 £m	2007 £m
Cash and cash equivalents	191	231
Bank overdraft	(73)	–
	118	231

16 Non-current assets classified as held for sale

	2008 £m	2007 £m
Property	4	16

Non-current assets classified as held for sale represents a single administration building being marketed for sale. The prior year balance represented stores, administration and distribution buildings being marketed for sale.

17 Creditors – current

	2008 £m	2007 £m
Trade creditors	1,152	1,003
Other taxes and social security payable	35	56
Other creditors	189	127
Accruals and deferred income	292	297
Interest accrual	11	18
	1,679	1,501

18 Other financial liabilities

The Group had the following current and non-current borrowings and other financial liabilities:

	2008 Coupon rate	2007 Coupon rate	2008 £m	2007 £m
Current				
Bank loans and overdrafts due within one year or on demand:				
£250m Sterling bonds August 2007	-	5.88%	-	251
Bank overdraft	-	-	73	-
Other loan notes	4.19%	-	2	-
Interest rate swaps	-	-	-	1
			75	252
Finance lease obligations	-	-	2	2
			77	254
Non-current				
£150m Sterling bonds August 2014	6.50%	6.50%	156	157
£200m Sterling bonds January 2017	6.00%	6.00%	203	203
£200m Sterling bonds December 2018	6.12%	6.12%	205	205
€250m Euro bonds April 2010	6.50%	6.50%	194	183
Total non-current Sterling and Euro bonds			758	748
Other loan notes	-	-	-	2
Other Safeway loans	9.38%	9.38%	15	15
Finance lease obligations			1	3
			774	768

a) Borrowing facilities

Borrowings are denominated in Sterling and Euros and bear fixed interest rates. All borrowings are unsecured.

In the event of default of covenants on the bank facility, the principal amounts and any interest accrued are repayable on demand.

The Group has the following undrawn floating committed borrowing facilities available in respect of which all conditions precedent had been met at that date:

	2008 £m	2007 £m
Undrawn facilities expiring:		
Between one and two years	-	500
Between four and five years	1,100	-

b) Finance lease obligations

Payments under finance lease obligations fall due as follows:

	2008 £m	2007 £m
Not later than one year	2	3
Later than one year but not more than five years	1	3
	3	6
Future finance charges on finance lease obligations	-	-
Present value of finance lease obligations	3	6

Notes to the financial statements continued

52 weeks ended 3 February 2008

19 Financial instruments

a) Financial risk management

The Group's treasury operations are controlled centrally by the Treasury Committee in accordance with clearly defined policies and procedures that have been authorised by the Board. There is an amount of delegated authority to the Treasury Committee, but all activities are summarised in half yearly treasury reports which are presented to the Audit Committee.

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, borrowings, finance leases and trade and other creditors. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade debtors and cash and short term and long term bank deposits, which arise directly from its operations.

The Group enters into derivative transactions, primarily forward currency contracts and cross-currency swaps. The purpose of these derivative instruments is to manage the currency risks arising from the Group's operations and its sources of finance. It remains the Group's policy not to engage in speculative trading of financial instruments.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk and credit risk. The objectives, policies and processes for managing these risks, which remain unchanged from the prior year are stated below:

i) Foreign currency risk

The Group incurs currency exposure in respect of overseas trade purchases made in currencies other than Sterling, primarily being Euro and US dollar. The Group objective is to reduce risk to short term profits from exchange rate fluctuations. It is Group policy that any transactional currency exposures recognised to have a material impact on short term profits will be hedged through the use of derivative financial instruments. As at the balance sheet date, the Group had entered into forward foreign exchange contracts to mitigate foreign currency exposure up to 50% of its forecasted purchases within next six months. Exposure on debt denominated in a foreign currency is hedged using cross-currency interest rate swaps.

The sensitivity to a reasonably possible change (+/- 5%) in the US dollar/Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward exchange contracts and cross-currency interest swaps) has been determined as being immaterial.

ii) Liquidity risk

The Group policy is to maintain a balance of funding with a range of maturities and a sufficient level of undrawn committed borrowing facilities to meet any unforeseen obligations and opportunities. Short term cash balances, together with undrawn committed facilities, enable the Group to manage its liquidity risk. The Group finances its operations with a combination of bank credit facilities and bonds.

The Treasury Committee monitors rolling forecasts of the Group's liquidity reserve on a quarterly basis, which comprises committed and uncommitted borrowing facilities on the basis of expected cash flow.

The table below summarises the maturity profile of the Group's primary non-current financial liabilities based on contractual undiscounted payments, which includes interest payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As the amounts included in the table are the contractual undiscounted cash flows, these amounts do not agree to the amounts disclosed on the balance sheet for borrowings.

	2008 £m	2007 £m
One to two years	46	49
Two to three years	188	46
Three to four years	35	188
Four to five years	35	35
Five+ years	703	738

19 Financial instruments continued

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	< 1 year	1-2 years	2-3 years	3-4 years
At 3 February 2008				
Cross-currency swap – cash flow hedges				
Outflow	(11)	(11)	(156)	–
Inflow	12	12	200	–
Forward contracts				
Outflow	(45)	–	–	–
Inflow	45	–	–	–
At 4 February 2007	< 1 year	1-2 years	2-3 years	3-4 years
Cross-currency swap – cash flow hedges				
Outflow	(11)	(11)	(11)	(156)
Inflow	11	11	11	175

iii) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks, as well as credit exposures to customers.

The Group maintains deposits with banks and financial institutions with an acceptable credit rating for a period not exceeding six months. Further, the Group has specified limits that can be deposited with any one bank or financial institution at any point. The maximum exposure on cash and cash equivalents and deposits is equal to the carrying amount of these instruments.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 14. There are no significant concentrations of credit risk within the Group.

iv) Other risk

Cash flow interest rate risk: The Group's long term policy is to protect itself against adverse movements in interest rates by maintaining up to 60% of its consolidated total net debt in fixed rate borrowings over a four year horizon. As at the balance sheet date all of Group's borrowings are at fixed rate, thereby substantially reducing the Group's exposure to adverse movements in interest rate.

Cash and cash equivalents is a significant interest-bearing asset held by the Group. At year end, a 1% movement in the interest rate would have had a £5m (2007: £2m) impact on the Group's finance income. There are no other significant interest-bearing assets held by the Group.

b) Capital management

A key objective of the Group's capital management is to maintain compliance with the covenants set out in the revolving credit facility.

The Group's policy is to maintain both a gearing ratio and interest cover, which represents headroom of at least 10% over and above the requirements laid down in the revolving credit facility. Throughout the year, the Group has comfortably complied with this policy.

There have been no changes in the objectives, policies or processes with regards to capital management during the years ended 3 February 2008 and 4 February 2007.

c) Fair values

All financial liabilities are carried at amortised cost. The Euro bonds are retranslated at balance sheet date spot rates. The fair value of the Sterling and Euro Bonds are measured using closing market prices. These compare to carrying values as follows:

	2008		2007	
	Amortised cost £m	Fair value £m	Amortised cost £m	Fair value £m
Bonds – current	–	–	251	250
Bonds – non-current	758	693	748	711
Total Sterling and Euro bonds	758	693	999	961

The fair value of other items within current and non-current borrowing equals their carrying amount, as the impact of discounting is not significant.

Notes to the financial statements continued

52 weeks ended 3 February 2008

19 Financial instruments continued

d) Hedging activities

i) Cash flow hedge

At 3 February 2008, the Company held a number of cross-currency swaps which have been designated as cash flow hedges. These derivative financial instruments are used to minimise risk from potential movements in foreign exchange rates inherent in cash flow of certain liabilities.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates over the next two years. Gains and losses recognised in the hedging reserve in equity (note 24) on cross-currency swaps as at 3 February 2008 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement, which is generally once every year over the course of the next three (2007: four) years.

ii) Forward contracts

The Group uses forward foreign exchange contracts to hedge the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. The hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged will occur within one year of the balance sheet date.

At 3 February 2008, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed was £45m (2007: £nil). The fair value of these outstanding forward exchange contracts at the balance sheet date was £0.2m.

20 Deferred tax

	2008 £m	2007 £m
Deferred tax liability	554	629
Deferred tax asset	(130)	(151)
Net deferred tax liability	424	478

IAS 12 *Income Taxes* permits the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets were available for offset against deferred tax liabilities.

The movements in deferred tax assets/(liabilities) during the period are shown below.

	Property, plant and equipment £m	Pensions £m	Share-based payments £m	Other short term temporary differences £m	Total £m
Current year					
At 4 February 2007	(629)	59	6	86	(478)
Credited/(charged) to income statement	75	(50)	1	20	46
Credited/(charged) directly to equity	-	10	(2)	-	8
At 3 February 2008	(554)	19	5	106	(424)
Prior year					
At 29 January 2006	(609)	125	3	59	(422)
(Charged)/credited to income statement	(20)	(15)	-	27	(8)
(Charged)/credited directly to equity	-	(51)	3	-	(48)
At 4 February 2007	(629)	59	6	86	(478)

Other short term temporary differences include £31m (2007: £nil) of unused tax losses.

The deferred income tax credited/(charged) through the SoRIE during the period was as follows:

	2008 £m	2007 £m
Actuarial gains/(losses)	10	(51)
Share options	(2)	3

21 Pension liabilities

a) Defined benefit pension scheme

The Group operates two pension schemes, the 'Morrison' and 'Safeway' schemes, providing benefits based on pensionable pay of the final years of membership. The assets of the schemes are held in separate trustee administered funds; no part of the schemes is wholly unfunded. The latest full provisional actuarial valuations, which were carried out at 6 April 2007 and 1 April 2007 for the Morrison and Safeway schemes respectively, were updated for IAS 19 purposes for the periods to 3 February 2008, 4 February 2007 and 29 January 2006 by a qualified independent actuary.

The Deed and Rules of the Morrison Pension Scheme gives the trustees power to set the level of contributions. In the Safeway Scheme this power is given to the Group, subject to regulatory override.

The current best estimate of employer contributions to be paid for the year commencing 4 February 2008 is £138m, including a special contribution of £100m.

b) Assumptions

The major assumptions used in this valuation to determine the present value of the schemes' defined benefit obligation were as follows:

i) Financial

	2008	2007	2006
Rate of increases in salaries	5.00-6.00%	4.45-5.45%	4.25-5.25%
Rate of increase in pensions in payment and deferred pensions	3.75%	3.20%	3.00%
Discount rate applied to scheme liabilities	5.75%	5.00%	4.75%
Inflation assumption	3.75%	3.20%	3.00%

ii) Longevity

The average life expectancy in years of a member who reaches normal retirement age of 65 and is currently aged 45 is as follows:

	2008	2007	2006
Male	23.5	19.9	19.9
Female	25.8	22.8	22.8

The average life expectancy in years of a member retiring at the age of 65 at balance sheet date is as follows:

	2008	2007	2006
Male	22.2	19.9	19.9
Female	24.7	22.8	22.8

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with published statistics. The longevity assumption considers how long a member will live when they reach the age of retirement. Amongst the UK population there is a continuing trend for a generation to live longer than the preceding generation, and this has been reflected in the longevity assumption. This means that a 45 year old today is assumed to live on average longer than a 65 year old today. This particular adjustment, described in the mortality tables below, is known as 'Long Cohort' and is in line with the latest advice from the Pension Regulator.

In calculating the present value of the liabilities the actuary selects the appropriate mortality table that reflects the longevity assumption. The most up to date tables are used in each period. The current mortality table used is PNX00 YOB LC (2007 and 2006: PA92 C2020). As disclosed in the Critical accounting assumptions on page 55, the results of the experience study conducted for the Safeway scheme have been used to adjust the longevity assumption for both schemes, no such adjustment was made for the comparative periods.

iii) Expected return on assets

The major assumptions used to determine the expected future return on the schemes' assets, were as follows:

	2008	2007	2006
Long term rate of return on:			
Equities	7.00%	7.00%	7.00%
Corporate bonds	6.00%	5.00%	4.25%
Gilts	4.25-4.50%	-	-
Property related funds	6.00%	6.00%	7.00%
Active currency management assets	-	5.25%	4.50%
Cash	5.50%	5.25%	4.50%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

Notes to the financial statements continued

52 weeks ended 3 February 2008

21 Pension liabilities continued

c) Valuations

Assets of the schemes are held in order to generate cash to be used to satisfy the schemes' obligations, and are not necessarily intended to be realised in the short term. The allocation of assets between category is governed by the Investment Principles of each scheme and is the responsibility of the trustees of each respective scheme. The trustees should take due consideration of the Group's views and a representative of the Group attends Trustee Investment Committees. The fair values of the schemes' assets, which may be subject to significant change before they are realised, and the present value of the schemes' liabilities which are derived from cash flow projections over long periods and are inherently uncertain, are as follows:

	2008 £m	2007 £m	2006 £m
Equities	1,040	1,208	1,190
Corporate bonds	237	221	211
Gilts	531	-	-
Property and property related funds	104	260	54
Active currency management assets	-	66	22
Cash	27	19	59
Total fair value of schemes' assets	1,939	1,774	1,536
Present value of defined benefit funded obligation	(2,007)	(1,972)	(1,952)
Net pension liability recognised in the balance sheet	(68)	(198)	(416)
Related deferred tax asset (note 20)	19	59	125
Net deficit	(49)	(139)	(291)

The movement in the fair value of the schemes' assets over the year was as follows:

	2008 £m	2007 £m	2006 £m
Fair value of scheme assets at start of period	1,774	1,536	1,217
Expected return on scheme assets	116	102	83
Actuarial (losses)/gains	(113)	78	165
Employer contributions	193	94	92
Employee contributions	10	11	13
Benefits paid	(41)	(47)	(34)
Fair value of scheme assets at end of period	1,939	1,774	1,536

The above pension scheme assets do not include any investments in the Parent Company's own shares or property occupied by any member of the Group.

The movement in the present value of the defined benefit obligation during the period was as follows:

	2008 £m	2007 £m	2006 £m
Defined benefit obligation at start of period	(1,972)	(1,952)	(1,625)
Current service cost	(44)	(53)	(55)
Past service cost	-	-	(2)
Employee contributions	(10)	(11)	(13)
Interest on defined benefit obligation	(99)	(95)	(86)
Actuarial gain/(loss) recognised in the SoRIE	77	92	(206)
Benefits paid	41	47	35
Defined benefit obligation at end of period	(2,007)	(1,972)	(1,952)

The cost of buying out pension benefits with an insurer was estimated in the recent provisional actuarial valuations to be £2,300m at April 2007, versus assets of £1,939m. This is a deficit of £361m or solvency funding ratio of 84%.

The cost of providing pensions equivalent to the level of compensation paid by the Pension Protection Fund was estimated to be £1,633m at April 2007, compared with assets of £1,939m. This is a Pension Protection Fund surplus of £306m or a funding ratio of 119%.

21 Pension liabilities continued**d) Sensitivities**

Below is listed the impact on the liabilities at 3 February 2008 of changing key assumptions whilst holding other assumptions constant:

Discount factor	+/- 0.1%	£47m
Longevity	+/- 1 year	£55m

e) Income statement

The following amounts have been charged in employee benefits as set out in note 3 in arriving at operating profit:

	2008 £m	2007 £m	2006 £m
Current service cost	44	53	55
Past service cost	-	-	2
	44	53	57

The amounts for current and past service cost have been charged to the following income statement lines:

	2008 £m	2007 £m	2006 £m
Cost of sales	35	42	46
Administrative expenses	9	11	11
	44	53	57

The following amounts have been included in finance income:

	2008 £m	2007 £m	2006 £m
Expected return on pension scheme assets	116	102	83
Interest on pension scheme liabilities	(99)	(95)	(86)
	17	7	(3)

f) Actuarial gains and losses recognised in the statement of recognised income and expense (SoRIE)

The amounts included in the statement of recognised income and expense were:

	2008 £m	2007 £m	2006 £m
Actual return less expected return on scheme assets	(113)	78	165
Experience gains and losses arising on scheme obligation	83	37	14
Changes in demographic and financial assumptions underlying the present value of scheme obligations	(6)	55	(219)
Actuarial movement recognised in the SoRIE	(36)	170	(40)
Taxation on actuarial movement in the SoRIE	10	(51)	12
Net actuarial movement recognised in the SoRIE	(26)	119	(28)
	2008 £m	2007 £m	2006 £m
Cumulative gross actuarial movement recognised in the SoRIE	13	49	(121)
Taxation on cumulative actuarial movement recognised in the SoRIE	(5)	(15)	36
Cumulative net actuarial movement recognised in the SoRIE	8	34	(85)

The actual return on schemes' assets can therefore be summarised as follows:

	2008 £m	2007 £m	2006 £m
Expected return on schemes' assets	116	102	83
Actuarial movement recognised in the SoRIE reflecting the difference between expected and actual return on assets	(113)	78	165
Actual return on scheme's assets	3	180	248

The expected return on schemes' assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long term real rates of return experienced in the respective markets.

Notes to the financial statements continued

52 weeks ended 3 February 2008

21 Pension liabilities continued

g) History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m
Difference between the expected and actual return on scheme assets:				
– Amount	(113)	78	165	60
– Percentage of scheme assets	(5.8%)	4.4%	10.8%	4.9%
Experience gains and losses arising on scheme liabilities:				
– Amount	83	37	14	(33)
– Percentage of present value of scheme obligation	4.1%	1.9%	0.7%	(2.1%)
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:				
– Amount	(6)	55	(219)	(107)
– Percentage of present value of scheme obligation	(0.3%)	2.8%	(11.2%)	(6.6%)
Total amount recognised in the SoRIE:				
– Amount	(36)	170	(40)	(81)
– Percentage of present value of scheme obligation	(1.8%)	8.6%	(2.1%)	(5.0%)
Total value of schemes' assets	1,939	1,774	1,536	1,217
Present value of defined benefit obligation	(2,007)	(1,972)	(1,952)	(1,625)
Net pension liability recognised in the balance sheet	(68)	(198)	(416)	(408)

h) Defined contribution pension scheme

Employees joining the Company after September 2000 are no longer eligible to gain automatic entry into the final salary pension scheme. In June 2001 the Company established a stakeholder pension scheme, open to all employees, to which the Company makes matching contributions of a maximum of 5% of eligible earnings. Pension costs for the defined contribution scheme are as follows:

	2008 £m	2007 £m	2006 £m
Stakeholder pension scheme	(3)	(1)	(1)
Life assurance scheme	(1)	(1)	(1)
Total costs	(4)	(2)	(2)

22 Provisions

	Restructuring £m	Property provisions £m	Total £m
At 4 February 2007	50	95	145
Charged to the income statement	–	17	17
Unused amounts reversed during the period	(8)	–	(8)
Utilised in period	(13)	(8)	(21)
Unwinding of discount	–	6	6
At 3 February 2008	29	110	139

a) Restructuring

The change of the corporate logo and associated freshening of sections of the stores is well under way and progress is discussed in the CEO's Review. The provision covers the cost of conclusion on the work already started, and other direct expenditure not associated with the ongoing activities of the Group. The ongoing restructuring programme in the distribution centres is also included in this balance. This provision is expected to be utilised within the next financial year.

b) Property provisions

Property provisions comprise onerous leases provision, petrol filling station decommissioning reserve and provisions for dilapidations on leased buildings.

Onerous leases relate to sublet and vacant properties. Where the rent receivable on the properties is less than the rent payable, a provision based on present value of the net cost is made to cover the expected shortfall. The lease commitments range from 1 to 65 years. Market conditions have a significant impact and hence the assumptions on future cash flows are reviewed regularly and revisions to the provision made where necessary. As noted in the financial review, adjustments have been made to reflect the change in market conditions and the legislative changes in respect of rates charges for empty properties.

Others comprise petrol filling station decommissioning reserve and dilapidations cost. Provision is made for decommissioning when the petrol filling station tanks have reached the end of their useful life or when they become redundant and is based on the present value of costs to be incurred to decommission the petrol tanks. Dilapidation costs are incurred to bring a leased building back to the condition it was originally leased. Provision is made for these costs, which are incurred on termination of the lease.

23 Called up share capital

	Number of shares millions	Share capital £m	Share premium £m	Total £m
Current year				
At 4 February 2007	2,677	268	41	309
Share options exercised	9	1	16	17
At 3 February 2008	2,686	269	57	326
Prior year				
At 29 January 2006	2,673	267	37	304
Share options exercised	4	1	4	5
At 4 February 2007	2,677	268	41	309

The total authorised number of ordinary shares is 4,000 million shares (2007: 4,000 million shares) with a par value of 10p per share (2007: 10p per share). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company.

a) Potential issues of ordinary shares

Certain eligible employees hold options to subscribe for shares in the Company at prices ranging from 0p to 247p under the share option schemes approved by Shareholders. Options on nine million shares (2007: four million) were exercised in the current financial year.

b) Preference shares

The 5¼% cumulative 282,666 preference shares with nominal amount of £1, amounting to £0.3m have been classified as a current financial liability in accordance with IFRS 7 *Financial Instruments: Disclosure*. These preference shares do not carry any voting rights.

24 Reconciliation of movements in capital and reserves

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Current year						
At 4 February 2007	268	41	2,578	(1)	1,041	3,927
Total recognised income and expense	-	-	-	7	526	533
Share issues	1	16	-	-	-	17
Share option charge	-	-	-	-	9	9
Dividends	-	-	-	-	(108)	(108)
At 3 February 2008	269	57	2,578	6	1,468	4,378
Prior year						
At 29 January 2006	267	37	2,578	-	766	3,648
Total recognised income and expense	-	-	-	(1)	370	369
Share issues	1	4	-	-	-	5
Share option charge	-	-	-	-	3	3
Dividends	-	-	-	-	(98)	(98)
At 4 February 2007	268	41	2,578	(1)	1,041	3,927

Included in retained earnings is a deduction of £44m (2007: £44m) in respect of treasury shares held at balance sheet date. This represents the cost of 17,641,448 (2007: 17,641,448) of the Company's ordinary shares (nominal value of £1.8m). These shares are held by a trust using funds provided by the Group and were acquired to meet obligations under the share option schemes. The costs of funding and administering the schemes are charged to the income statement of the Company in the period to which they relate. The market value of the shares at 3 February 2008 was £53m (2007: £53m). The trust has waived its rights to dividends. These shares are not treasury shares as defined by the London Stock Exchange.

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52 weeks ended 3 February 2008

25 Cash flow from operating activities

	2008 £m	2007 £m
Profit for the period	554	248
Adjustments for:		
Taxation	58	121
Depreciation and amortisation	289	281
Profit on disposal of property, plant and equipment	(32)	(38)
Net finance cost (note 5)	–	54
Other non-cash changes	6	3
Excess of contributions over pension service cost	(148)	(42)
(Increase)/decrease in stocks	(74)	31
Increase in debtors	(60)	(3)
Increase in creditors	169	37
(Decrease)/increase in provisions	(6)	12
Cash generated from operations	756	704

26 Analysis of net debt

	2008 £m	2007 £m
Cash and cash equivalents (note 15)	191	231
Bank overdraft (note 18)	(73)	–
Cash and cash equivalents per cash flow	118	231
Long term cash on deposit	74	–
Interest and cross-currency swaps	43	19
Financial assets (note 12)	117	19
Bonds	–	(251)
Swaps	–	(1)
Other loans (note 18)	(2)	–
Finance lease obligations (note 18)	(2)	(2)
Current financial liabilities	(4)	(254)
Bonds	(758)	(748)
Other unsecured loans	(15)	(17)
Finance lease obligations	(1)	(3)
Non-current financial liabilities (note 18)	(774)	(768)
Net debt	(543)	(772)

27 Share-based payments

The Group operates a number of share-based payments schemes: (i) the Executive share option scheme, (ii) the Sharesave scheme, (iii) the Safeway Customer Care Performance Share Ownership Plan (CCPSOP), (iv) a cash-settled Long Term Incentive Plan (CLTIP), and (v) an equity-settled Long Term Incentive Plan (LTIP). In line with IFRS 2 *Share-based payment*, the Group has fair valued all grants of equity instruments issued after 7 November 2002 which were unvested as of 1 January 2005 and all shadow equity instruments which were unvested as of 1 January 2005.

The total charge for the period relating to employee share-based payment plans was £9m (2007: £20m), all of which (2007: £3m) related to equity-settled share-based payment transactions. After corporation and deferred tax, the total charge in the income statement was £7m (2007: £15m).

27 Share-based payments continued**a) Share option schemes****i) Executive share option scheme**

In May 1995, the Group adopted the 1995 Senior Executive Share Option Scheme which was made available to Directors and other senior employees. The scheme was terminated on 25 May 2005. The scheme offered options at the market price two weeks prior to the date of the grant which are normally exercisable between three and ten years from the date of grant. The maximum exercise value of the ordinary shares subject to options held by an individual must not exceed the greater of four times earnings and £100,000. The exercise of options under the scheme is subject to performance criteria broadly requiring an increase in Group operating profits of at least 20% between the year prior to the date of the grant and its third or any succeeding anniversary. The scheme is equity-settled.

Those options which have been granted after 7 November 2002 have been fair valued using the Binomial stochastic option pricing model. The fair value per option granted and the assumptions were as follows:

Grant date	12 Nov 2004	2 Apr 2003
Share price at grant date	£2.33	£1.81
Fair value of options granted	£1.4m	£1.9m
Exercise price	£2.22	£1.75
Dividend yield	1.43%	1.49%
Annual risk free interest rate	4.61%	4.12%
Expected volatility*	29.4%	29.4%

* The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the last six years.

The fair value calculations do not incorporate the effects of non-market vesting conditions, but the charge is adjusted to reflect an estimate of the number of options which vest.

	2008		2007	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	1.91	5,901	1.89	8,151
Exercised	1.92	(2,678)	1.79	(1,690)
Expired	–	–	2.00	(560)
Outstanding at end of period	1.90	3,223	1.91	5,901
Exercisable at end of period	1.90	3,223	1.81	4,441

	2008		2007	
	Weighted average share price at date of exercise	Number of shares	Weighted average share price at date of exercise	Number of shares
Share options exercised in the financial period	£3.10	2,678,000	£2.64	1,690,000

	2008	2007
	Share options outstanding at the end of the period	
Range of exercise prices	£1.75-£2.22	£1.75-£2.22
Weighted average remaining contractual file	5.0 years	6.1 years

Notes to the financial statements continued

52 weeks ended 3 February 2008

27 Share-based payments continued

ii) Sharesave scheme

The Sharesave scheme has been in operation since 18 May 2000 and all employees (including Executive Directors) are eligible once the necessary service requirements have been met. The scheme allows participants to save up to a maximum of £250 each month for a fixed period of three to five years. Options are offered at a discount of 20% to the mid-market closing price on the day prior to the offer and are exercisable for a period of six months commencing after the end of the fixed period of the contract. The exercise of options under this scheme is not subject to any performance conditions and is equity-settled.

Options granted before 7 November 2002

The Group has not fair valued the Sharesave plan since the grants of the options were all made before 7 November 2002 and remained unvested as at 1 January 2005.

	2008		2007	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	1.80	7,681	1.74	11,879
Exercised	1.74	(6,570)	1.33	(1,332)
Expired	2.20	(932)	1.76	(2,866)
Outstanding at end of period	1.79	179	1.80	7,681
Exercisable at end of period	1.73	21	2.39	690

	2008		2007	
	Weighted average share price at date of exercise	Number of shares	Weighted average share price at date of exercise	Number of shares
Share options exercised in the financial period	£2.97	6,570,000	£2.04	1,332,000

	2008		2007	
	Weighted average remaining contractual file		Weighted average remaining contractual file	
Share options outstanding at the end of the period				
Range of exercise prices	£1.73-£1.79		£1.73-£2.39	
Weighted average remaining contractual file	0.1 years		0.8 years	

Options granted after 7 November 2002

Those options which have been granted after 7 November 2002 to those eligible employees, including Directors, who chose to participate in the scheme have been fair valued using the Binomial stochastic option pricing model. The fair value per option granted and the assumptions were as follows:

	18 May 2007	24 Apr 2006
Grant date		
Share price at grant date	£3.26	£1.94
Fair value of options granted	£12.3 m	£16.2m
Exercise price	£2.47	£1.58
Dividend yield	1.23%	1.91%
Annual risk-free interest rate	5.58%	4.57%
Expected volatility*	23.5%	25.6%

* The volatility measured at the standard deviation of expected share price returns is based on statistical analysis on weekly share prices over the past 3.25 years prior to the date of grant.

The fair value calculations do not incorporate the effects of non-market vesting conditions.

27 Share-based payments continued

	2008		2007	
	Weighted average exercise price in £ per share	Options thousands	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options				
Outstanding at start of period	1.58	25,754	-	-
Granted	2.47	10,617	1.58	28,222
Exercised	1.59	(46)	-	-
Expired	1.81	(3,990)	1.58	(2,468)
Outstanding at end of period	1.84	32,335	1.58	25,754
Exercisable at end of period	-	-	-	-

	2008		2007	
	Weighted average share price at date of exercise	Number of shares	Weighted average share price at date of exercise	Number of shares
Share options exercised in the financial period	£3.02	46,000	-	-

	2008		2007	
	Weighted average remaining contractual file		Weighted average remaining contractual file	
Share options outstanding at the end of the period				
Range of exercise prices	£1.58-£2.47		£1.58	
Weighted average remaining contractual file	2.3 years		2.9 years	

iii) Safeway Customer Care Performance Share Ownership Plan (CCPSOP)

Awards under the Safeway Customer Care Performance Share Ownership Plan (CCPSOP) were made between 1997 and 1999. Options granted to employees under the plan were normally exercisable between three and six and a half years after the date of the grant and were equity-settled. Following the acquisition of Safeway plc by the Group, options under CCPSOP were rolled over into options over shares in the Company. The Group has not fair valued the CCPSOP since the grants of the options were all made before 7 November 2002 and remained unvested as at 1 January 2005.

	2007	
	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding options		
Outstanding at start of period	1.66	632
Exercised	1.66	(120)
Expired	1.66	(512)
Outstanding at end of period	-	-
Exercisable at end of period	-	-

All of the outstanding share options were exercised last year and the scheme has been terminated. The weighted average share price at the date of the exercise last year was £1.97.

b) Long Term Incentive Plans**i) Cash-based Long Term Incentive Plan (CLTIP)**

The Group's CLTIP scheme was made available to certain employees prior to the Safeway integration. Shadow shares were awarded to 684 employees as at 1 September 2004. The cash payment was made on 1 September 2007 based on the number of shares multiplied by the average share price of the preceding week. The scheme was cash-settled.

Options were valued using the Binomial stochastic option pricing model. The fair value per option granted and the assumptions were as follows:

	4 Feb 2007	29 Jan 2006	30 Jan 2005
Remeasurement date			
Share price at re-measurement date	£3.01	£1.87	£2.03
Fair value of options granted	£22.0m	£14.6m	£19.7m
Exercise price	£nil	£nil	£nil
Dividend yield	1.23%	1.96%	1.64%

The fair value calculations do not incorporate the effects of non-market vesting conditions.

The total charge for the period relating to the CLTIP was £nil (2007: £17m) and after deferred and corporation tax, the total charge was £nil (2007: £12m). The total amount of the liability included within creditors at 3 February 2008 was £nil (2007: £22m). No amount was vested at the end of either period.

Notes to the financial statements continued

52 weeks ended 3 February 2008

27 Share-based payments continued

ii) Equity-based Long Term Incentive Plan (LTIP)

At the AGM held on 24 May 2007, the Shareholders and the Board approved the introduction of a discretionary Long Term Incentive Plan for the benefit of certain employees as approved by the Remuneration Committee. The awards are free share-based awards, with non-market vesting conditions attached, that accrue the value of dividends over the vesting period.

The maximum total market value of shares over which awards may be granted to any employee during any financial year of the Company is 300% of salary. Awards normally vest three years after the original grant date providing the relevant performance criteria have been met. Employees have six months from the vesting date to exercise their options after which they lapse.

The fair value at the date of grant, which is being charged to the income statement over the three-year vesting period, has been calculated based on the following assumptions:

Grant date	24 Oct 2007	6 Jun 2007	24 May 2007
Share price at grant date	£2.88	£3.13	£3.23
Assumed leavers	5%	5%	5%
Performance criteria achieved	90%	90%	90%
Exercise price	£nil	£nil	£nil
Fair value of options granted	£0.4m	£0.1m	£10.5m

	2008	
	Weighted average exercise price in £ per share	Options thousands
Movement in outstanding share awards		
Outstanding at start of period	-	-
Granted	-	4,470
Expired	-	-
Outstanding at end of period	-	4,470
Exercisable at end of period	-	-

	2008
Share awards outstanding at the end of the period	
Weighted average remaining contractual file	2.4 years

28 Operating lease arrangements

a) Lessee arrangements

The Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008		2007	
	Property £m	Vehicles, plant and equipment £m	Property £m	Vehicles, plant and equipment £m
Within one year	34	10	27	12
More than one year and less than five years	127	26	110	15
After five years	427	-	448	3
	588	36	585	30

The Group leases various offices, stores and warehouses under non-cancellable operating lease agreements. The leases have various terms ranging from 4 to 11 years for vehicles, plant and equipment and 25 to over 100 years for property (including land), with varying escalation clauses and renewal rights. Generally all property leases are reviewed every five years to align them with market rentals.

28 Operating lease arrangements continued**b) Lessor arrangements**

The Group has non-cancellable agreements with tenants and the future minimum lease income is as follows:

	2008 £m	2007 £m
Within one year	28	19
More than one year and less than five years	93	67
After five years	154	120
	275	206

The Group sub-lets buildings of various nature under non-cancellable agreements. The leases have various terms, escalation clauses and renewal rights.

29 Capital commitments

	2008 £m	2007 £m
Contracts placed for future capital expenditure not provided in the financial statements	102	102

Included above are capital commitments for investment property of £7m (2007: £17m).

30 Contingent liabilities

In September 2007 the Office of Fair Trading issued a Statement of Objections to a number of grocery retailers and milk producers, alleging collusion in the setting of prices for certain dairy products in 2002 and 2003. Morrison's was accused in relation to one infringement in 2002, and has vigorously denied this. Based on the evidence put forward, the Board does not consider it probable that the Group will ultimately incur a fine, and accordingly have made no provision for any such liability.

31 Post-balance sheet events

The Directors are proposing a final dividend in respect of the financial period ending 3 February 2008 of 4.125p per share which will absorb an estimated £111m of Shareholders' funds. Subject to approval at the AGM, it will be paid on 6 June 2008 to Shareholders who are on the register of members on 2 May 2008.

As described in the Chief Executive strategy review, the Group intends to return £500m to shareholders through a share buyback programme in the financial year ended February 2009.

32 Principal subsidiaries

Wholly-owned subsidiaries of Wm Morrison Supermarkets PLC	Principal activity
Bos Brothers Fruit and Vegetables BV	Produce wholesaler
Farmers Boy Limited	Manufacturer and distributor of fresh food products
Farock Insurance Company Limited	Captive insurer
Holsa Limited	Packing manufacturer
Neerock Limited	Fresh meat processor
Wm Morrison Produce Limited	Produce packer
Safeway Limited	Holding company
Rathbone Kear Limited	Baker
Wholly-owned subsidiaries of Safeway Limited	
Safeway Overseas Limited	Grocery retailer
Safeway Stores Limited	Grocery retailer

All the above companies are registered in England and Wales except Bos Brothers Fruit and Vegetables BV which is incorporated in The Netherlands and Farock Insurance Company Limited which is incorporated in the Isle of Man.

The principal area of trading for all the above companies is the United Kingdom apart from Bos Brothers Fruit and Vegetables BV and Safeway Overseas Limited who also trade in the rest of Europe.

At the end of last year the Group owned 80% of the share capital of Rathbone Kear Limited, the other 20% being owned by Mr H Kear. The Group purchased the remaining 20% of the company on 25 September 2007 for a cash consideration of £0.6m which was equal to the book value of the assets acquired.

In addition to the above, the Company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return.

Wm Morrison Supermarkets PLC Company financial statements under UK GAAP

Company accounting policies

Basis of preparation

These separate financial statements of Wm Morrison Supermarkets PLC (the Company) have been prepared under the historic cost convention, except for share-based payments, which is measured at fair value and in accordance with applicable accounting standards under UK GAAP and the Companies Act 1985.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Accounting reference date

The accounting period of the Company ends on the Sunday falling between 29 January and 4 February each year.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include directly attributable costs. Annual reviews are made of estimated useful lives and material residual values.

Depreciation

The policy of the Company is to provide depreciation at rates which are calculated to write off the cost less residual value of tangible fixed assets on a straight line basis. The rates applied are:

Freehold land	0%
Freehold and long leasehold buildings	2.5%
Short leasehold improvements	Over lease period
Plant, equipment, fixtures and vehicles	14-33%
Assets under construction	0%

Fixed assets are reviewed for indications of impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. This is performed for each income generating unit, which in the case of a supermarket is an individual retail outlet. If there are indications of possible impairment then a test is performed on the asset affected to assess its recoverable amount against carrying value. An asset impaired is written down to its recoverable amount which is the higher of value in use or its net realisable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If there is indication of an increase in fair value of an asset that had been previously impaired, then this is recognised by reversing the impairment, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset.

Borrowing costs

All borrowing costs are recognised in the Company's profit and loss account on an accruals basis except for interest costs that are directly attributable to the construction of buildings which are capitalised and included within the initial cost of a building. Capitalisation of interest cost ceases when the property is ready for use.

Pension costs

The Company operates defined benefit and defined contribution schemes. The defined benefit scheme is no longer open to new members. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. A defined benefit scheme is one that is not a defined contribution scheme. Pension benefits under defined benefit schemes are defined on retirement based on age at the date of retirement, years of service and employee's final compensation package.

The Company's defined benefit retirement scheme is funded by contributions from the Company and members. Pension scheme assets, which are held in separate trustee administered funds, are valued at market rates. Pension scheme obligations are measured on a discounted present value basis using assumptions set out in note 40. The operating and financing costs of the scheme are recognised in the profit and loss account in the period in which they arise.

Death-in-service costs are recognised on a straight line basis over their vesting period. Actuarial gains and losses are recognised immediately in the statement of recognised gains and losses.

The Company also operates a stakeholder pension scheme and contributions are charged to the profit and loss account as they arise.

Provisions

Provisions are created where the Company has a present legal or constructive obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation from the Company, and where it can be reliably measured. The nature of these provisions are:

a) Property provisions

Provisions made in respect of individual properties where there are obligations for onerous contracts, dilapidations and certain decommissioning obligations for petrol filling stations. The amounts provided are based on the Company's best estimate of the likely committed outflow to the Company. Where material, these estimated outflows are discounted to net present value.

b) Restructuring provisions

Provisions are established for announced and ongoing restructuring programmes planned and controlled by management where there is an obligation to make changes to the scope of the business undertaken by the Company or the manner in which business is conducted. The provision includes costs of severance to the affected employees, costs of property closure, and other direct expenditures not associated with ongoing activities.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases; all other leases are classified as finance leases.

Lessor accounting – operating leases

Assets acquired and held for use under operating leases are recorded as fixed assets and are depreciated on a straight line basis to their estimated residual values over their estimated useful lives.

Operating lease income is recognised on a straight line basis to the date of the next rent review.

Lessee accounting – operating leases

Rental payments are taken to the profit and loss account on a straight line basis over the life of the lease.

Property leases are analysed into separate components for land and buildings and tested to establish whether the components are operating leases or finance leases.

Deferred and current taxation

Current tax payable is based on the taxable profit for the year using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from the profit as reported in the profit and loss account as it is adjusted both for items that will never be taxable or deductible and timing differences.

Deferred tax is provided in full on timing differences between the accounting and tax cost bases that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. Deferred tax is calculated based on tax law enacted or substantially enacted by the balance sheet date and is provided at rates that are expected to apply when the timing differences reverse. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Stocks

Stocks are measured at the lower of cost and net realisable value. Cost is calculated at weighted average basis and comprises purchase price, import duties, less rebates and other non-recoverable taxes. Stocks are primarily goods for resale.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Share-based payments

The Company issues equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of grant and is expensed on a straight line basis over the vesting period with a corresponding increase in equity. This is based on the Company's estimate of share options that will eventually vest. This takes into account movement of non-market conditions, being service conditions and financial performance, if relevant. The fair value of equity-settled awards granted is not subsequently revisited.

Fair value is measured by use of a binomial stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value charge of share-based payments that are settled by cash are credited to the balance sheet and are included within creditors.

Financial contracts

Where the Company enters into financial contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Exemptions

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statement'. The cash flows of the Company are included in the consolidated financial statements.

The Company is also exempt under the terms of FRS 8 'Related Parties' from disclosing related party transactions with entities that are part of the Wm Morrison Supermarkets PLC Group.

Company balance sheet

3 February 2008

	Note	2008 £m	2007 £m
Fixed assets			
Tangible assets	35	2,233	2,053
Investments	36	3,366	3,366
		5,599	5,419
Current assets			
Stocks – goods for resale		325	242
Debtors	37	620	575
Cash-in-hand		169	151
		1,114	968
Creditors – amounts falling due within one year	38	(2,413)	(2,022)
Net current liabilities		(1,299)	(1,054)
Total assets less current liabilities		4,300	4,365
Provisions for liabilities and charges	39	(41)	(58)
Net assets – excluding pension liability		4,259	4,307
Net pension liabilities	40	(22)	(27)
Net assets – including pension liability		4,237	4,280
Capital and reserve			
Called up share capital	42	269	268
Share premium	43	57	41
Merger reserve	43	2,578	2,578
Profit and loss account	43	1,333	1,393
Equity shareholders' funds		4,237	4,280

The accounting policies on pages 82 and 83 and notes on pages 85 to 90 form part of these financial statements.

The financial statements on pages 82 to 90 were approved by the Board of Directors on 12 March 2008 and signed on its behalf by:

Marc Bolland
Chief Executive

Richard Pennycook
Group Finance Director

Notes to the financial statements

52 weeks ended 3 February 2008

33 Profit and loss account

A profit of £63m (2007: £125m) is dealt with in the accounts of Wm Morrison Supermarkets PLC. The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone. Audit fees and expenses paid to the Group's auditor were £0.6m (2007: £0.6m).

34 Employees and Directors

	2008 £m	2007 £m
Employee benefit expense for the Company during the period		
Wages and salaries	662	662
Social security costs	40	47
Share-based payments (note 27)	7	19
Pension costs	23	27
Other staff costs	5	2
	737	757
	2008 No.	2007 No.
Average monthly number of people employed	54,502	56,030

Key management represent Directors. The aggregate remuneration paid to or accrued for the Directors for services in all capacities during the period is the same as the Group and is shown in note 3.

There are four Directors (2007: four) who have retirement benefits accruing under the Company's defined benefit pension scheme.

	Land and buildings			Plant equipment, fixtures and vehicles £m	Total £m
	Freehold £m	Long lease £m	Short leasehold improvements £m		
35 Tangible fixed assets					
Cost					
At 4 February 2007	2,179	298	3	431	2,911
Additions at cost	182	25	8	81	296
Interest capitalised	7	1	–	–	8
Reclassification	(206)	(51)	–	257	–
Disposals	(9)	(1)	–	(1)	(11)
At 3 February 2008	2,153	272	11	768	3,204
Accumulated depreciation					
At 4 February 2007	477	47	3	331	858
Charged in the period	53	7	–	53	113
Reclassification	(111)	(10)	–	121	–
Disposals	–	–	–	–	–
At 3 February 2008	419	44	3	505	971
Net book value					
At 3 February 2008	1,734	228	8	263	2,233
At 4 February 2007	1,702	251	–	100	2,053
Assets under construction included above					
At 3 February 2008	64	15	–	21	100
At 4 February 2007	94	14	–	1	109

Included above is an amount of £661m (2007: £604m) relating to non-depreciable land.

The cost of property assets held as lessor included in the above figures is £219m at 3 February 2008 (2007: £203m). The related accumulated depreciation is £42m (2007: £38m).

Since 3 February 1985, the cost of financing property developments prior to their opening date has been included in the cost of the project. Accumulated interest capitalised is £86m (2007: £78m).

The classification of tangible fixed assets was reviewed as part of upgrading our systems. As a result of this review, it was deemed appropriate to reclassify certain assets that have historically been regarded as intrinsic to the building structure to 'fixtures and fittings' included within plant, equipment, fixtures and vehicles.

Notes to the financial statements continued

52 weeks ended 3 February 2008

	Investment in subsidiary undertakings £m
36 Investments	
Cost	
At 4 February 2007 and 3 February 2008	3,367
Provision for impairment	
At 4 February 2007 and 3 February 2008	(1)
Net book value	
At 4 February 2007 and 3 February 2008	3,366

A list of the Company's principal subsidiaries is shown in note 32.

37 Debtors – amounts falling due within one year	2008 £m	2007 £m
Trade debtors	68	76
Amounts owed by subsidiary undertakings	486	452
Other debtors	7	7
Prepayments	59	40
	620	575

38 Creditors – amounts falling due within one year	2008 £m	2007 £m
Trade creditors	1,091	906
Amounts owed to subsidiary undertakings	863	701
Bank overdrafts	73	–
Other taxes	20	56
Other creditors	100	88
Accruals and deferred income	236	203
Corporation tax	30	68
	2,413	2,022

39 Provisions for liabilities and charges	Deferred taxation £m	Restructuring provision £m	Property provisions £m	Total £m
At 4 February 2007	14	36	8	58
Unused amounts reversed during the period	(5)	(8)	–	(13)
Charge for period	–	–	3	3
Unwinding of discount	–	–	1	1
Utilisation of provisions	–	(8)	–	(8)
At 3 February 2008	9	20	12	41

Further details of property and restructuring provisions are provided in note 22.

The potential deferred taxation on timing differences, calculated at 28% (2007: 30%), is set out below and has been provided for in full.

	2008 £m	2007 £m
Excess of capital allowances over depreciation	83	78
Provisions and short term timing differences	(69)	(58)
Share-based payments	(5)	(6)
	9	14

40 Pension liabilities

a) Defined benefit pension scheme

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund. The latest full provisional actuarial valuations were carried out at 6 April 2007 and were updated for FRS 17 purposes for the periods to 3 February 2008 by a qualified independent actuary.

b) Assumptions

The major assumptions used in this valuation to determine the present value of the scheme's liabilities were as follows:

	2008	2007	2006
Rate of increases in salaries	5.00-6.00%	4.25-5.45%	4.25-5.25%
Rate of increase in pensions in payment and deferred pensions	3.75%	3.20%	3.00%
Discount rate applied to scheme liabilities	5.75%	5.00%	4.75%
Inflation assumption	3.75%	3.20%	3.00%

i) Longevity

The average life expectancy in years of a member who reaches normal retirement age of 65 and is currently aged 45 is as follows:

	2008	2007	2006
Male	23.5	19.9	19.9
Female	25.8	22.8	22.8

The average life expectancy in years of a member retiring at the age of 65 at balance sheet date is as follows:

	2008	2007	2006
Male	22.2	19.9	19.9
Female	24.7	22.8	22.8

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics. The current mortality table used is PNX00 YOB LC (2007: PA92 C2020).

The major assumptions used to determine the expected future return on the scheme's assets, were as follows:

	2008	2007	2006
Long term rate of return on:			
Equities	7.00%	7.00%	7.00%
Bonds	6.00%	5.00%	4.25%
Property	6.00%	6.00%	7.00%
Cash	5.50%	5.25%	4.50%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

c) Valuations

The fair values of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities which are derived from cash flow projections over long periods and are inherently uncertain, were as follows:

	2008 £m	2007 £m	2006 £m
Equities	252	288	252
Bonds	57	43	34
Gilts	60	-	-
Property	31	36	1
Cash	7	1	19
Total market value of assets	407	368	306
Present value of scheme liabilities	(438)	(406)	(381)
Deficit in the scheme – pension liability	(31)	(38)	(75)
Related deferred tax asset	9	11	23
Net pension liability in the balance sheet	(22)	(27)	(52)

Notes to the financial statements continued

52 weeks ended 3 February 2008

40 Pension liabilities continued

The movement in the deficit during the period was as follows:

	2008 £m	2007 £m	2006 £m
Deficit in the scheme at the beginning of the period	(38)	(75)	(72)
Current service cost	(21)	(24)	(22)
Contributions	50	25	25
Other finance income	4	2	1
Actuarial (loss)/gain	(26)	34	(7)
Deficit in the scheme at the end of the period	(31)	(38)	(75)

d) Profit and loss account impact

The following amounts have been charged in arriving at operating profit in respect of pension costs:

	2008 £m	2007 £m	2006 £m
Current service cost	21	24	22

The following amounts have been included in other finance income:

	2008 £m	2007 £m	2006 £m
Expected return on pension scheme assets	25	21	17
Interest on pension scheme liabilities	(21)	(19)	(16)
	4	2	1

e) Amounts recognised in statement of total recognised gains and losses

The amounts included in the statement of total recognised gains and losses were:

	2008 £m	2007 £m	2006 £m
Actual return less expected return on scheme assets	(32)	16	35
Experience gains and losses arising on scheme liabilities	12	6	4
Changes in assumptions underlying the present value of scheme liabilities	(6)	12	(46)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(26)	34	(7)

f) History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Difference between the expected and actual return on scheme assets:					
Amount	(32)	16	35	7.5	25
Percentage of scheme assets	(7.9%)	4.4%	11.6%	3.3%	13.9%
Experience gains and losses arising on scheme liabilities:					
Amount	12	6	4	2	(3)
Percentage of present value of scheme liabilities	2.9%	1.6%	1.1%	0.6%	(1.4%)
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
Amount	(6)	12	(46.6)	(16.9)	(71)
Percentage of present value of scheme liabilities	(1.4%)	2.9%	(12.2%)	(5.6%)	(28.6%)
Total amount recognised in statement of total recognised gains and losses					
Amount	(26)	34	(7)	(7.6)	(49)
Percentage of present value of scheme liabilities	(5.9%)	8.4%	(1.8%)	(2.5%)	(19.9%)

40 Pension liabilities continued**g) Defined contribution pension scheme**

Employees joining the Company after September 2000 are no longer eligible to gain automatic entry into the final salary pension scheme. In June 2001 the Company established a stakeholder pension scheme, open to all employees, to which the Company makes matching contributions of a maximum of 5% of eligible earnings. Pension costs for the defined contribution scheme are as follows:

	2008 £m	2007 £m
Stakeholder pension scheme	(1)	(1)
Life assurance scheme	(1)	(1)
Total costs	(2)	(2)

41 Reconciliation of movements in equity shareholders' funds

	2008 £m	2007 £m
Profit for the financial period	63	125
Dividends	(108)	(98)
Retained (loss)/profit for the financial period	(45)	27
Share-based payment charge	6	3
Deferred tax on share options	(2)	3
Actuarial (loss)/gain on pension scheme	(26)	34
Movement in deferred tax relating to pension scheme	7	(10)
Share options exercised	16	-
New share capital subscribed	1	5
Net addition to equity shareholders' funds	(43)	62
Opening shareholders' funds	4,280	4,218
Closing equity shareholders' funds	4,237	4,280

42 Share capital**a) Equity**

	2008 £m	2007 £m
Authorised		
Equity share capital		
4,000,000,000 ordinary shares of 10p each (2007: 4,000,000,000)	400	400
Issued and fully paid		
Equity share capital		
2,686,071,130 ordinary shares of 10p each (2007: 2,676,776,258)	269	268

i) Ordinary shares

	2008 £m	2007 £m
At start of period	268	267
Share options exercised	1	1
At end of period	269	268

Details on new share capital subscribed are provided in note 23 above.

b) Non-equity

The authorised and issued preference share capital of the Company is as follows:

	2008 £m	2007 £m
5¼% cumulative redeemable convertible preference shares of £1 each		
Authorised 50,000,000 (2007: 50,000,000)	50.0	50.0
Issued and fully paid 282,666 (2007: 282,666)	0.3	0.3

The 5¼% cumulative preference shares, which are classified as a current liability in accordance with FRS 25 *Financial instruments: Disclosure*, do not carry any voting rights, and were issued in 1987 at £1 per share.

Notes to the financial statements continued

52 weeks ended 3 February 2008

	Share premium account £m	Merger reserve £m	Profit and loss account £m
43 Reserves			
At start of period	41	2,578	1,393
Retained in the period	-	-	(45)
Share-based payment charge	-	-	6
Deferred tax on share options	-	-	(2)
Actuarial loss recognised	-	-	(26)
Tax arising on actuarial loss	-	-	7
Share options exercised	16	-	-
At end of period	57	2,578	1,333
Net pension liability			22
Profit and loss account excluding pension liability			1,355

44 Share-based payments

The disclosure requirements for FRS 20 *Share-based payment* are identical to that of IFRS 2 *Share-based payment* and share-based payments included in the Company are the same as the Group. Full IFRS 2 disclosures are provided in note 27.

45 Capital commitments

	2008 £m	2007 £m
Contracts placed for future capital expenditure not provided in the financial statements	86	92

46 Operating lease commitments

Annual commitments under non-cancellable operation leases:

	2008		2007	
	Land and buildings £m	Plant, equipment, fixtures and vehicles £m	Land and buildings £m	Plant, equipment, fixtures and vehicles £m
Expiring within one year	-	1	-	3
Expiring within two to five years inclusive	-	8	-	7
Expiring over five years	3	2	3	3
	3	11	3	13

47 Contingent liabilities

The Company has given an unlimited guarantee in respect of the overdraft of all the subsidiary undertakings. At 3 February 2008, there was a credit balance of £0.4m including uncleared banking items (2007: £0.2m).

The Company has also provided a guarantee in respect of Sterling and Euro Bonds, amounting to £758m (2007: £999m) in respect of a subsidiary undertaking.

In September 2007 the Office of Fair Trading issued a Statement of Objections to a number of grocery retailers and milk producers, alleging collusion in the setting of prices for certain dairy products in 2002 and 2003. Morrisons was accused in relation to one infringement in 2002, and has vigorously denied this. Based on the evidence put forward, the Board do not consider it probable that the Company will ultimately incur a fine, and accordingly have made no provision for any such liability.

48 Post balance sheet events

The Directors are proposing a final dividend in respect of the financial period ending 3 February 2008 of 4.125p per share which will absorb an estimated £111m of shareholders' funds. Subject to approval at the AGM, it will be paid on 6 June 2008 to shareholders who are on the register of members on 2 May 2008.

As described in the Chief Executive strategy review, the Company intends to return £500m to shareholders through a share buyback programme in the financial year ended February 2009.

Seven year summary of results

52 weeks ended January

Consolidated income statement

	New format*			Previous format					
	IFRS GAAP			IFRS GAAP		UK GAAP			
	2008 £m	2007 ¹ £m	2006 £m	2006 £m	2005 ² £m	2005 ^{2,3} £m	2004 £m	2003 £m	2002 £m
Turnover	12,969	12,462	12,115	12,115	12,104	12,116	4,944	4,290	3,915
Cost of sales ⁵	(12,151)	(11,826)	(11,793)						
Other operating income				19	18	6	1	2	1
Raw materials and consumables				(9,156)	(9,110)	(9,110)	(3,682)	(3,186)	(2,944)
Gross profit	818	636	322	2,978	3,012	3,012	1,263	1,106	972
Other operating income	30	21	19						
Administrative expenses	(268)	(272)	(237)						
Profits arising on property transactions	32	38	8	8	15	18	1	1	0
Staff costs				(1,631)	(1,537)	(1,533)	(571)	(498)	(445)
Depreciation				(257)	(259)	(265)	(120)	(111)	(99)
Other operating charges				(986)	(836)	(834)	(256)	(227)	(198)
Operating profit before one-off costs	612	423	112	112	395	398	317	271	230
One-off costs	-	-	(375)	(375)	(139)	(99)	(11)	(3)	-
Operating profit/(loss)	612	423	(263)	(263)	256	299	306	268	230
Amortisation of negative goodwill	-	-	-	-	-	58	-	-	-
Net finance (costs)/income	-	(54)	(52)	(52)	(65)	(64)	14	15	13
Share of joint venture operating profit	-	-	2	2	2	4			
Profit/(loss) before taxation	612	369	(313)	(313)	193	297	320	283	243
Taxation	(58)	(121)	63	63	(88)	(91)	(122)	(97)	(88)
Profit/(loss) after taxation	554	248	(250)	(250)	105	206	198	186	155
Minority interest equity	-	-	-	-	-	-	-	(2)	-
Profit/(loss) for the period	554	248	(250)	(250)	105	206	198	184	155
Dividends ⁴	(108)	(98)	(99)	(98)	(88)	(88)	(44)	(36)	(29)
Profit/(loss) retained	446	149	(348)	(348)	17	118	154	148	126
Basic earnings per share (p)	20.79	9.32	(9.46)	(9.46)	4.14	8.10	12.59	11.79	10.02
Diluted earnings per share (p)	20.67	9.31	(9.46)	(9.46)	4.12	8.07	12.48	11.61	9.79
Diluted earnings excluding property transactions per share (p)	19.70	8.30	(9.21)	(9.21)	3.72	7.58	12.44	11.56	9.78
Underlying earnings per share (p)	14.38	8.28	(7.91)	(7.91)	4.93	7.60	13.91	12.51	10.88
Dividend per ordinary share (p)	4.80	4.00	3.70	3.70	3.70	3.70	3.25	2.70	2.20

1 53 weeks.

2 The results for 2005 include the acquired results of Safeway Limited.

3 Reclassification under UK GAAP to reallocate distribution costs.

4 Restated for FRS 25 *Financial instruments: Disclosure* for preference share dividends and FRS 21 *Events after balance sheet date* for dividends.

5 New category 2007 and Restated 2006.

* The income statement has been changed to that of a functional style.

Seven year summary of results continued

52 weeks ended January

Balance sheet

	IFRS GAAP				UK GAAP			
	2008 £m	2007 ¹ £m	2006 £m	2005 ^{2,3} £m	2005 ^{2,3} £m	2004 £m	2003 £m	2002 £m
Assets								
Goodwill and other intangibles		-	-	103	(263)	-	-	-
Property, plant and equipment	6,205	6,117	6,144	5,708	6,824	1,739	1,609	1,453
Lease prepayments	239	228	218	231	-	-	-	-
Investment property	239	241	225	219	-	-	-	-
Investment in joint venture	-	-	-	78	68	-	-	-
Financial assets	43	19	36	37	-	-	-	-
Non-current assets	6,726	6,605	6,623	6,376	6,629	1,739	1,609	1,453
Current assets	910	766	821	1,325	741	492	384	328
Liabilities								
Current liabilities	(1,853)	(1,855)	(1,807)	(1,713)	(1,732)	(743)	(656)	(587)
Other financial liabilities	(774)	(769)	(1,023)	(1,017)	(990)	(1)	(5)	(12)
Deferred tax liabilities	(424)	(478)	(422)	(501)	(207)	(38)	(37)	(39)
Net pension liabilities	(68)	(198)	(416)	(408)	(264)	(48)	(20)	-
Provisions	(139)	(144)	(127)	(56)	(80)	(13)	(12)	(10)
Non-current liabilities	(1,405)	(1,589)	(1,989)	(1,982)	(1,540)	(100)	(74)	(61)
Net assets	4,378	3,927	3,649	4,006	4,097	1,388	1,263	1,133
Shareholders' equity								
Called up share capital	269	268	267	266	266	157	156	154
Share premium	57	42	37	20	20	16	13	8
Merger reserve	2,578	2,578	2,578	2,578	2,578	-	-	-
Retained earnings and other reserves	1,474	1,039	767	1,142	1,233	1,215	1,094	971
Total equity	4,378	3,927	3,649	4,006	4,097	1,388	1,263	1,133

1 53 weeks.

2 The results for 2005 include the acquired results of Safeway Limited.

3 Restated for FRS 25 *Financial instruments – disclosure and measurement* for preference share dividends and FRS 21 *Events after balance sheet date* for dividends.

Supplementary information

	IFRS GAAP				UK GAAP			
	2008 £m	2007 ¹ £m	2006 £m	2005 ^{2,3} £m	2005 ^{2,3} £m	2004 £m	2003 £m	2002 £m
Increase/(decrease) on previous year %								
Turnover	4.07	2.86	0.09	144.81	145.06	15.25	9.58	11.98
Operating profit	44.57	260.97	(202.62)	(16.25)	(2.26)	14.31	16.25	9.78
Profit before taxation	65.89	217.93	(262.12)	(39.67)	(7.13)	13.24	16.26	10.91
Profit after taxation	123.67	198.90	(338.38)	(46.86)	4.10	6.07	20.04	8.00
Diluted earnings per share	122.13	198.37	329.61	(66.99)	(35.34)	7.49	18.59	8.18
Dividend per ordinary share	20.00	8.11	-	13.85	13.85	20.37	22.73	22.22
Shareholder funds	11.49	7.63	(8.92)	188.69	195.24	9.83	11.53	13.03
% of turnover								
Operating profit	4.72	3.40	(2.17)	2.12	2.47	6.19	6.24	5.88
Profit/(loss) before taxation	4.72	2.96	(2.58)	1.59	2.45	6.47	6.59	6.21
Profit/(loss) after taxation	4.27	1.99	(2.07)	0.87	1.70	4.00	4.34	3.96
Retail portfolio								
Size 000s sq ft (net sales area)								
0-15	12	13	14	78	78	-	-	-
15-25	141	143	158	186	186	8	9	9
25-40	180	173	167	197	197	93	86	83
40+	42	39	39	37	37	24	24	21
Total	375	368	378	498	498	125	119	113
Petrol filling stations	284	278	275	283	283	112	98	89
Total sales area (000s sq ft)	10,837	10,505	10,633	12,468	12,468	4,526	4,241	4,039
Average store size (000s sq ft)	28.9	28.5	28.1	25.0	25.0	36.2	35.6	35.7
Average sales area (000s sq ft) ⁴	10,656	10,762	11,539	12,705	12,705	4,399	4,113	3,964
Total supermarket takings ex-fuel (gross) £m	11,238	10,841	10,541	10,929	10,929	4,550	3,988	3,644
Average per sq ft per week (£)	20.18	19.34	17.69	16.80	16.80	19.94	18.65	17.68
Average per store per week (£000s)	576	541	477	400	400	716	666	629
Average number of customers per store per week	24,411	24,343	25,818	18,712	18,712	29,242	28,277	27,645
Average take per customer (£)	23.10	22.53	20.92	21.36	21.36	24.48	23.57	22.77
Employees								
Full time	50,018	51,502	57,501	56,005	56,005	23,296	21,136	18,931
Part time	67,436	66,302	76,836	84,896	84,896	29,088	25,642	24,028
Total	117,454	117,804	134,337	140,901	140,901	52,384	46,778	42,959
Full time equivalent	83,736	84,653	93,041	95,340	95,340	35,395	31,961	29,141
Average per FTE employee:								
Turnover (£000s)	155	147	130	127	127	140	134	134
Operating profit before one-off costs (£)	7,307	4,999	1,198	4,147	4,177	8,950	8,482	7,899
Staff costs (£)	17,973	17,787	17,528	16,120	16,081	16,124	15,585	15,257
No. of participants in profit-related pay scheme	82,194	86,745	81,819	45,583	45,583	30,943	28,570	26,399
Average profit-related pay received (£)	369	501 ⁵	409	432	432	517	498	472

1 53 weeks.

2 Includes Safeway Limited.

3 Reclassification under UK GAAP to reallocate distribution costs.

4 Includes sales area of divested stores.

5 Includes loyalty bonus.

Additional shareholder information

The following sections provide the additional information for shareholders required following the implementation in the UK of the EU Takeover Directive if not provided elsewhere in this Annual Report.

Share capital

The Company (Wm Morrison Supermarkets PLC) has two classes of shares: ordinary shares of 10p each (ordinary shares) and 5¼% cumulative redeemable preference shares of £1 per share (preference shares).

As at 5 February 2007, the Company had 2,676,776,258 ordinary shares in issue. During the year ended 3 February 2008, 9,294,872 ordinary shares were issued to its Directors and staff in respect of share options. As at 3 February 2008, the Company had 2,686,071,130 ordinary shares in issue.

Details of the options outstanding under each of the Company's share option schemes at the end of the year are set out in note 27 to the Group's consolidated financial statements.

As at 5 February 2007, the Company had 282,666 preference shares in issue. The preference shares ceased to be convertible into ordinary shares in 2006 and the number of preference shares at 3 February 2008 remained at 282,666. The Company may redeem preference shares at any time at par and shall redeem all of the preference shares in issue at par on 31 December 2009. The holders of preference shares are entitled to a fixed cumulative preferential dividend of 5¼% per annum payable on 15 March and 15 September in each year until redemption.

Each ordinary share carries one vote and the preference shares do not carry voting rights unless the vote is on a winding up, a resolution varying or abrogating the rights of the preference shareholders or the preference dividend is six months in arrears. At 3 February 2008, the total number of voting rights in the Company was 2,686,071,130.

The authorised share capital of the Company as at this date was £4,050m, comprising 4,000 million ordinary shares and 50 million preference shares.

The issued ordinary share capital represents 99.99% and the issued preference share capital represents 0.01% of the total issued share capital.

No share in the capital of the Company may be allotted at a discount and, save as permitted by the Companies Act 1985 (the '1985 Act') and the Companies Act 2006 (the '2006 Act') (together the 'Acts'), no share may be allotted except as paid up at least as to one-quarter of its nominal value and the whole of any premium on it.

Voting

Subject as set out above:

- i) on a show of hands, every shareholder present in person shall have one vote, and
- ii) on a poll every shareholder present in person or by proxy shall have one vote for every share of which they are the holder.

No shareholder shall be entitled to vote in relation to shares held by them unless all moneys presently payable by them in respect of those shares have been paid. Currently, all issued shares are fully paid.

The Company has the right to apply for an order that the voting rights of shareholders may be restricted where a notice pursuant to section 793 of the 2006 Act (which has replaced section 212 of the 1985 Act) has been given in respect of shares held by such shareholder and the information required by such notice has not been given to the Company.

Transfer of shares

A shareholder may transfer all or any of his/her certificated shares by an instrument of transfer in any usual form or in any other form which the Board of Directors (each a 'Director') of the Company (the 'Board') may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. An instrument of transfer need not be under seal.

Subject to the Uncertificated Securities Regulations 2001 (CREST Regulations) the Board may refuse to register the transfer of a certificated share which:

- i) is not a fully paid share, provided that the refusal does not prevent dealings in shares of that class in the Company from taking place on an open and proper basis,
- ii) is in respect of more than one class of shares,
- iii) is not lodged, duly stamped (if stampable) with the Company and (except where the shares are registered in the name of a recognised person) accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may require; or
- iv) is in favour of more than four persons except in the case of executors or trustees of a deceased member.

Notice of refusal to register a transfer (together with reasons for refusal) must be sent to the transferee as soon as practicable and in any event within two months after the date on which the instrument of transfer was lodged with the Company or the instruction to transfer shares was received by the Company from the operator of a relevant system (in each case, as defined in the CREST Regulations), as the case may be.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share. Every transfer of shares which are in uncertificated form must be made by means of a relevant system, including the relevant system of which CREST Co Limited is the operator (in each case, as defined in the CREST Regulations).

Other than as provided by Part 28, Chapter 3 of the 2006 Act (which restates sections 428 to 430 of the 1985 Act and implements the Takeovers Directive (Interim Implementation) Regulations 2006 (SI 1183/2006) (the Regulations)) and the City Code on Takeovers and Mergers there are no rules or provisions relating to mandatory takeover bids and/or squeeze-out and sellout rules in relation to the ordinary shares.

Variation of rights

Rights attached to any class of shares may be varied or abrogated in such manner (if any) as may be provided by those rights, or in the absence of any provision, either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding shares of that class held by the Company as treasury shares), or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares.

Alteration of share capital

The Company may from time-to-time by ordinary resolution increase, consolidate and divide or, subject to the Acts, subdivide all or any part of its share capital. The Company may by ordinary resolution also cancel any shares that have not, at the date of passing the resolution, been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled. Subject to the provisions of the Acts, the Company may by special resolution reduce its share capital, capital redemption reserve and share premium account.

Allotment and issue of shares

Subject to the provisions of the Acts and the Articles and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in the default of such determination, as the Board shall determine. Subject to the provisions of the Acts and the Articles, the unissued shares of the Company (whether forming part of the original or any increased capital) are at the disposal of the Board.

The Directors are, by shareholder resolution passed at the Company's AGM on 24 May 2007, generally and unconditionally authorised, pursuant to section 80 of the 1985 Act to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the 1985 Act) up to a maximum nominal amount of £80,300,000. This authority expires on the earlier of 30 June 2008 or on the conclusion of the 2008 AGM of the Company (unless previously revoked, varied or renewed). A resolution to renew this authority is to be proposed at the 2008 AGM.

The Directors are, by shareholder resolution also passed at the Company's AGM on 24 May 2007, generally empowered to allot equity securities (within the meaning of section 94(2) of the 1985 Act) of the Company for cash as if section 89(1) of the 1985 Act or any pre-emption provisions contained in the Articles did not apply. This power is limited to (i) any allotment where equity securities have been offered to holders of equity securities in proportion (as nearly as may be) to their then holdings of such securities; and (ii) any other allotment of equity securities up to an aggregate nominal value of £13,387,561. Such authorities and powers expire on the earlier of 30 June 2008 or on the conclusion of the next AGM of the Company (unless previously revoked, varied or renewed). A resolution to renew this authority is to be proposed at the 2008 AGM.

Redeemable shares and purchase of own shares

Subject to the Acts, and without prejudice to any rights attaching to any existing shares or class of shares, in such manner as is provided in the Articles, shares may be issued that are to be redeemed or which at the option of the Company or the holder are liable to be redeemed.

Subject to the Acts and to Chapter 12 of the Rules relating to Admission to the Official List in accordance with section 73A(2) of the Financial Services and Markets Act 2000 (the 'Listing Rules') and the Company may purchase any of its own shares of any class in any way and at any price (whether at par or above or below par) subject, in the case of the preference shares to the prior approval by extraordinary resolution of the preference shareholders at a separate meeting.

The Directors are, by shareholder resolution passed at the Company's AGM on 24 May 2007, generally and unconditionally authorised to make market purchases of ordinary shares and preference shares provided that:

- i) the maximum aggregate numbers of ordinary shares and preference shares authorised to be purchased were 151,900,000 ordinary shares and 28,266 preference shares;
- ii) the minimum prices to be paid were the respective par values and the maximum prices to be paid were amounts equal to 105% of the average of the values of such shares in the five business days before purchase.

The authority expires at the conclusion of the next AGM of the Company. A resolution to renew and extend this authority is to be proposed at the 2008 AGM.

Distribution of assets on winding up

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under general law be entitled to share in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Insolvency Act 1986, divide among the shareholders in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and except as aforesaid determine how the division shall be carried out as between the shareholders or different classes of shareholders.

Substantial shareholders

As at 12 March 2008, the Company had been notified, in accordance with DTR 5 of the Financial Service Authority's Disclosure and Transparency Rules, of the interests in the Company's ordinary share capital. This detail of substantial shareholders and indirect shareholdings as at 12 March 2008 are disclosed in the Directors' Report are disclosed inside the back cover.

The Company is not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or on voting rights.

Additional shareholder information continued

Significant agreements

Other than disclosed below there are no agreements that the Company considers significant and to which the Company is party that would take effect, alter or terminate upon change of control of the Company following a takeover bid.

The terms of the LTIP state that upon change of control occurring that the Board will notify every participant within seven days of the change of control that, subject to certain conditions, that every Award shall vest, and that any Option may be exercised within one month of the date of notification.

Compensation for loss of office

The Articles provide that the Board may resolve to exercise any power conferred on the Company by the Acts to make provision as may seem appropriate for the benefit of any persons employed or formerly employed by the Company or any of its subsidiaries (or any member of their family, including a spouse or any person who is or was dependent on them). Such provisions would apply in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the Company or any subsidiary.

Following a review of service contracts for the Executive Directors, the Remuneration Committee adopted a new model contract which provides that any compensation provisions for termination without notice will only extend to 12 months of salary, benefits and pension (which may be payable in instalments and subject to mitigation) and has agreed that going forward, all new Director contracts would be on that basis. The model contract does not contain change of control provisions. This policy was applied to Marc Bolland at the time of his recruitment and was applied to Mark Gunter, Martyn Jones and Roger Owen on 5 April 2007. Richard Pennycook's contract provides that he has an obligation to mitigate his loss in the event of termination.

Appointment and retirement of Directors

Unless otherwise determined by ordinary resolution, the number of Directors may not be less than two and is not subject to any maximum. Directors may be appointed by the Company by an ordinary resolution of shareholders. The Board may appoint a Director either to fill a vacancy or as an additional Director. Any Director so appointed will hold office only until the next following AGM. If not reappointed at such meeting, such a Director will vacate office at its conclusion. A Director is not required to hold shares in the capital of the Company.

On joining the Board, the Directors are provided with documentation on the Company and its activities. New Directors are provided with an appropriate induction programme and where appropriate visits are arranged to stores and other business facilities. Ongoing training is provided as necessary.

Appointment of Alternate Directors

Any Director (other than an alternate Director) may, by notice delivered to the registered office of the Company, or in any other manner approved by the Board, appoint any other Director or any other person who is approved by the Board be his/her alternate. No appointment of an alternate Director who is not already a Director may be effective until his/her appointment has been approved by the Board.

Retirement by rotation

Subject to the Articles all of the Directors shall retire from office at the AGM at least once in every three year period. The Directors to retire will be those who have been longest in office since their last appointment or reappointment.

Replacement of Directors

Section 168 of the 2006 Act provides that a Company may remove a Director by ordinary resolution but requires that it be at a meeting (and not by written resolution) so as to ensure the Director's right to be heard. Special notice is required.

Without prejudice to the provisions of the Acts, the Articles provide that the Company may by ordinary resolution remove any Director before the expiration of his/her period of office. The Company may by ordinary resolution appoint a person to be a Director either to fill a vacancy or as an additional member of the Board.

Subject to the provisions of the Acts, the Board may appoint a person to be a Director either to fill a vacancy or as an additional member of the Board.

The Company may by ordinary resolution subject the number of Directors to a maximum.

Directors' interests

Subject to the provisions of the Acts, and provided that he/she has disclosed to the Board the nature and extent of any material interest of his/her, a Director notwithstanding his/her office:

- i) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested,
- ii) may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested,
- iii) shall not, by reason of his/her office, be accountable to the Company for any benefit which he/she derives from any such office or employment or from any such transaction or arrangement or from any interests in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

Votes

Questions arising at a meeting of the Board shall be decided by a majority of votes. In the case of an equality of votes, the Chairman shall have a second or casting vote.

Voting restrictions

A Director shall not vote at a meeting of the Board or a committee of the Board on any resolution of the Board concerning his/her appointment or concerning a matter in which he/she has a material interest (other than by virtue of his/her interests in shares or debentures or other securities of, or otherwise in or through, the Company) which (together with any interest of any person connected with him/her) save for any resolution which:

- i) relates to the giving of a security, guarantee or indemnity in respect of money lent or obligations incurred by him or by another person at the request of or for the benefit of the Company or a subsidiary undertaking, or a debt or obligation of the Company or a subsidiary undertaking for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security,
- ii) relates to an offering of securities by the Company for a subsidiary undertaking in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate,
- iii) relates to another company in which he and persons connected with him do not to his knowledge hold an interest in shares (within the meaning of sections 198–215 of the 1985 Act which has now been replaced by Part 6 of the Financial Services & Markets Act 2000) representing 1% or more either of its equity share capital or of its voting rights,
- iv) relates to a contract, arrangement or proposal for the benefit of the employees of the Company or a subsidiary undertaking which does not award him a privilege or benefit not generally awarded to the employees to whom the contract, arrangement or proposal relates; or
- v) concerns insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors, unless the Company has suspended or relaxed the above provisions by ordinary resolution.

Indemnification

Subject to the Acts but without prejudice to any indemnity to which he/she may otherwise be entitled, every Director or other officer of the Company is entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his office or otherwise in relation to the affairs of the Company.

Remuneration and expenses

Unless otherwise determined by the Company by ordinary resolution, a Director shall be paid for his/her services as a Director fees at such rate as may from time-to-time be determined by the Board. The maximum aggregate level of fees is £1m or such other sum as the Company may from time-to-time determine by ordinary resolution. Any fee payable shall be deemed to accrue from day-to-day and shall be distinct from any salary, remuneration or other amounts payable to a Director pursuant to other provisions of the Articles.

Any Director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs any services on behalf of the Company or its business which, in the opinion of the Board, are outside the scope of the ordinary duties of a Director, may be paid such additional remuneration for such services, whether by way of salary, participation in profits or otherwise, as the Board may from time-to-time determine.

The salary or remuneration of any Executive Director of the Group shall be such as the Directors may from time-to-time determine and may either be a fixed sum of money or may altogether or in part be governed by the business done or profits made, or may include the making of provisions for the payment to him, his widow and other dependents, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance benefits, or may be upon such other terms as the Directors determine.

The Directors shall be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Group, or in attending and returning from meetings of the Directors or of committees of the Directors or general meetings of the Company.

The Board may provide pensions or other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities by insurance or otherwise, for any person who is or has been at any time a Director or employed by or in the service of the Company or any subsidiary of the Company, or is allied to or associated with the Company or any such subsidiary, or any predecessor in business of the Company or any such subsidiary. These arrangements may be extended to any family member or any person who is, or was, dependent on such Director.

Directors' powers – general

Subject to the provisions of the Acts, to the Memorandum of Association of the Company (the 'Memorandum') and the Articles, and to any directions given by special resolution of the Company, the business of the Company shall be managed by the Board which may exercise all the powers of the Company.

Reserves

The Board may, before recommending any dividend (whether preferential or otherwise), set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which may, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied. The Board may also, without placing the same to reserve, carry forward any profits which it may think prudent not to distribute.

General meetings

The Board may convene a general meeting of the Company whenever it thinks fit.

In compliance with the Combined Code, notice of the AGM is sent to shareholders at least 20 working days before the meeting. This ensures that the Company meets its requirement under the Articles of giving 21 clear days' notice before the meeting. The Company may conduct the vote at the AGM by show of hands or if a poll is demanded, by manual count.

Directors' right to attend and speak

A Director is entitled, even though he/she is not a shareholder, to attend and speak at any general meeting and at any separate meeting of the holders of any class of shares of the Company.

Additional shareholder information continued

Chairman's power to adjourn

The Chairman may, with the consent of a meeting at which a quorum is present (and may, if so directed by the meeting), adjourn any meeting to another date, time and/or place for an indefinite period. No business shall be transacted at any adjourned meeting except business which might have been lawfully transacted at the previously unfinished meeting.

Exercise of voting rights

The Board may exercise or cause to be exercised the voting rights conferred by shares in any other Company held or owned by the Company, or any power of appointment to be exercised by the Company, in such manner and in all respects as it thinks fit (including the exercise of the voting rights or power of appointment in favour of the appointment of any Director as a Director or other officer or employee of such Company or in favour of the payment of remuneration to the Directors, officers or employees of such Company).

Delegation of powers to the Executive Directors

The Board may from time-to-time delegate or entrust to and confer upon any Director holding executive office (including a Managing Director) such of its powers (other than the power to make calls or forfeit shares) for such time, on such terms and subject to such conditions as it thinks fit. It may confer such powers either collaterally with, or to the exclusion of their own powers and may from time-to-time revoke, withdraw, alter or vary all or any of such powers.

Delegation to committees

The Directors may delegate any of their powers to committees consisting of such members or member of their body as they think fit. Any committee so formed shall in the exercise of the powers so delegate it conform to any regulations that may be imposed on it by the Directors.

Appointment of agent

The Board may appoint any corporation, firm or person to be the agent of the Company and may delegate to any such person or persons any of its powers, authorities and discretions (not exceeding those vested in the Board but with power to sub-delegate), in each case for such purposes and for such time, on such terms (including, but not limited to the protection and convenience of persons dealing with the agent) and subject to such conditions as it thinks fit. The Board may from time-to-time revoke, withdraw, alter or vary all or any of such powers.

Minutes

The Directors shall cause minutes to be made of all appointments of officers, of the names of the Directors present at each meeting of Directors and of any committee of Directors and of all resolutions and proceedings at all meetings of the Company and of the Directors and of committees of Directors. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were held or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

Cheques, bills and notes

The Directors may draw, make, accept or endorse, or authorise any other person or persons to draw, make, accept or endorse, any cheques, bills of exchange, promissory notes or other negotiable instruments, provided that every cheque, bill of exchange, promissory note or other negotiable instrument drawn, made, accepted or endorsed may be signed by such person or persons as the Directors may appoint for the purpose.

Dividend reinvestment

The Board, with the authority of an ordinary resolution of the Company, may implement and maintain one or more share dividend or distribution reinvestment plans, including or instead of offering scrip dividends.

Capitalisation

The Board may, with the authority of an ordinary resolution of the Company, resolve to capitalise any amount:

- i) standing to the credit of the Company's reserves (including any share premium account, capital redemption reserve or other undistributable reserve); or
- ii) standing to the credit of the profit and loss account which is not required for paying any fixed preferential dividend (whether or not such amount is available for distribution).

Powers to issue shares

Subject to the provisions of the Acts, the Board have unconditional authority to allot, grant options over or otherwise deal with or dispose of any unissued shares of the Company to such persons at such times and on such terms as the Board may decide.

Power to pay dividends

Subject to the provisions of the Acts, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the shareholders, but no dividend shall exceed the amount recommended by the Board. Subject to the provisions of the Acts, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution. The Board may also pay, at intervals determined by it, any dividend at a fixed rate if it appears to the Board that the profits available for distribution justify the payment. If the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights. No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

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

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares by way of scrip dividend instead of cash in respect of the whole (or some part, to be determined by the Board) of any dividend. Any dividend which has remained unclaimed for 12 years from the date when it becomes due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

Borrowing powers

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and subject to the provisions of the Act other securities and to give security whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board is required to restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure that the aggregate principal amount outstanding at any time in respect of all borrowings by the Company and its subsidiary undertakings will not, without the previous authority of the Company in general meeting, exceed an amount equal to twice the share capital and consolidated reserves of the Company.

Alteration of Articles

Section 21 of the 2006 Act provides that the articles of association of a Company may be altered by special resolution and section 22 of the 2006 Act provides that companies may entrench provisions of their articles of association, either on formation or subsequently by unanimous agreement of the shareholders, the result of which is that such entrenched articles may only be altered by the unanimous consent of its shareholders.

Investor relations and financial calendar

Annual General Meeting

The AGM will be held at 11am on Thursday 5 June 2008 at Wm Morrison Supermarkets PLC Head Office, Gain Lane, Bradford, BD3 7DL. A separate notice convening the meeting is sent to shareholders, which includes an explanation of the items of special business to be considered at the meeting.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specifically arranged share dealing service. Full details of the plan and its charges, together with mandate forms, are available from the Registrars.

Morrisons website

Shareholders are encouraged to visit our website, www.morrisons.co.uk to obtain information on company history, stores and services, latest offers, press information and a local store finder.

Share price information

The Investor Information section of our website provides our current and historical share price data and other share price tools. Share price information can also be found in the financial press and the Cityline service operated by the Financial Times (telephone 0906 843 3545).

Online reports and accounts

Our Annual and Interim Group accounts are available to download from the website along with Corporate Social Responsibility reports and other financial announcements. The information in the Annual report and financial statements, Annual review and summary financial statement and the Interim reports are exactly the same as in the printed version.

Environmental matters

The effect of our business on the environment is something that Morrisons takes very seriously. In the production of the 2008 Annual reports and accounts, we have contributed to the reduction in environmental damage in the following ways:

a) Website

Morrison shareholders receive a printed copy of the Annual review and summary financial statement. The full Annual report is available for viewing or downloading from the corporate website www.morrisons.co.uk. Shareholders are encouraged to view the report on the website which is exactly the same as the printed version, but using the internet has clear advantages such as lowering costs and reducing the environmental impact.

b) Carbon offset

The Annual report and financial statements, the Annual review and summary financial statement and the Corporate social responsibility report have been assessed with the assistance of the Carbon Trust for the amount of carbon emissions that will be generated in their preparation, printing and delivery. To offset these carbon emissions a donation has been made to PURE, The Clean Planet Trust, the first UK registered charity dedicated to combating climate change by offsetting. More information about PURE can be found on their website www.puretrust.org.uk



c) Recycled paper

This document has been printed by The Midas Press on recycled paper that is manufactured in mills with ISO 14001 accreditation from 100% recycled fibre. It is totally chlorine free and is a NAPM certified recycled product.

d) Photography

All people featured were either customers, colleagues or suppliers – no actors or models were used. Permission to publish these photographs was received from each individual. Where minors appear, parental approval was granted.

e) Design

The Annual report and financial statements, the Annual review and summary financial statement in both paper and HTML format, and the Corporate social responsibility report were designed and produced by Likemind 0207 855 5888.

Further information about other ways in which the Group is helping with environmental change can be found in the Corporate social responsibility report 2008 which can be viewed on the Morrisons website.

Financial calendar 2008/09

Financial events and dividends

Final dividend record date	02/05/08
Annual General Meeting	05/06/08
Q1 Quarterly management statement	05/06/08
Final dividend payment date	06/06/08
Half year end	27/07/08
Interim results announcement and Interim management statement	11/09/08
Interim dividend record date	10/10/08
Interim dividend payment date	10/11/08
Q3 Quarterly management statement	04/12/08
Financial year end	01/02/09
Preliminary results announcement	12/03/09

Company Secretary

Jonathan Burke

Registered office


Wm Morrison Supermarkets PLC

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Gain Lane

Bradford


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 Telephone: 0845 611 5000

 www.morrisons.co.uk

Investor Relations

 Telephone: 0845 611 5710

 Email: accinvr@morrisonsplc.co.uk

Corporate Social Responsibility enquiries

 Telephone: 0845 611 5000

Registrars and Shareholding enquiries

Administrative enquiries about the holding of Morrisons shares, such as change of address, change of ownership, dividend payments and the Dividend Reinvestment Plan should be directed to:

Capita Registrars

Northern House

Woodsome Park

Fenay Bridge

Huddersfield

HD8 0LA

 Telephone: 0871 664 0300 Overseas: +44 208 639 3399

Calls cost 10p per minute plus network extras.

 www.capitaregistrars.com

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London, EC2A 2KA

Wragge & Co LLP

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Birmingham, B3 2AS

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KPMG Audit Plc

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Leeds, LS1 4DW

Stockbrokers

Hoare Govett Limited

250 Bishopsgate

London, EC2M 4AA

Citigroup Smith Barney

33 Canada Square, Canary Wharf

London, E14 5LB

Investment Bankers

NM Rothschild & Sons Limited

New Court, 1 St. Swithin's Lane

London, EC4P 4DU

Shareholder information

The number of shareholders at 3 February 2008 were 44,384 (4 February 2007: 45,415) and the number of shares in issue was 2,686,071,130 (4 February 2007: 2,676,776,258).

Analysis by Shareholder	Number of holders	% holders	Balance at 3 February 2008	% capital
Private Shareholder	39,159	88.23	534,202,107	19.9%
Nominee companies	4,571	10.29	2,107,745,100	78.5%
Limited companies	262	0.60	19,760,543	0.7%
Deceased accounts	213	0.48	1,997,830	0.1%
Other institutions	83	0.19	7,328,446	0.3%
Pension funds	37	0.08	5,407,391	0.2%
Investment trusts	33	0.07	320,782	0.0%
Bank and bank nominees	20	0.05	9,234,385	0.3%
Insurance companies	6	0.01	74,546	0.0%

Analysis of size by Shareholder	Number of holders	% holders	Balance at 3 February 2008	% capital
1-1,000	23,501	52.95	10,467,200	0.39%
1,001-10,000	17,947	40.44	52,348,299	1.95%
10,001-1,000,000	2,638	5.94	245,396,509	9.14%
Above 1,000,001	298	0.67	2,377,859,122	88.53%



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Fully recyclable and biodegradable



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TCF
Totally Chlorine Free



100% recyclable

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